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University of Oradea, Faculty of Economics
University Street, no. 1 - 3410087, Oradea – România

Phone: 040259/408.109 – Dean Faculty of Economics; Phone: 040259/408.247 – Journal of Faculty of Economics;
Fax: 040259/408.409

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**SECTION: INTERNATIONAL BUSINESS AND EUROPEAN
INTEGRATION**

SUB-SECTION: INTERNATIONAL BUSINESS

FIGHTING ECONOMIC CRIME IN THE EUROPEAN ARENA

Anghel Cristian

Academy of Economic Studies, Bucharest

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

Key words

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

JEL classification

K42 Illegal behaviour and enforcement of law

F53 International agreements and observance; international organisations

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

1.Fight against fraud

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

1.1.Protecting the financial interests of the European Union

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

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

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

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

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

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

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

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

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

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

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

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

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

1.2 Institutional development

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

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

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

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

2.Fight against counterfeiting and piracy

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

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

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

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

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

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

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

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

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

3.Fight against corruption

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

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

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

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

4.Fight against money laundering

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

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

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

5.Fight against organised crime

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

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

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

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

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

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

Conclusions

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

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

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

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CONSIDERATIONS ON THE BANKING PRODUCTS AND SERVICES IN THE GLOBALISATION CONDITIONS

Avram Costin Daniel

University of Craiova, Romania

Avram Veronel

University of Craiova, Romania

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

Key words: globalisation, banking products, banking services

JEL code: A1, E5, G00

Everywhere in the world the card industry is revolutionised constantly. In Holland, the banks are in full process of massive introduction of the electronic wallets, while in Romania, on Sept. 30th, 2008, the number of cards issued exceeded the number of the population (21.8 million cards issued). The application of the "smart cards" technology for the transfer of funds creates the premises for the substantial reduction of the quantity of paper and metal money in circulation.

The extension of the payments through the cards has increased in the West, and lately in other parts of the world, fact that determined the reduction of the cash circulation, not exceeding 20% from the transactions volumes. The passing to the Euro currency offers the smart cards the great chance of fulfilling the central place in the fund transfers. The more electronic money is used, the easier the new currency introduction will be. The beginning of the third millennium has meant the début of a new process which will lead, in only a few years, to the total replacement of the magnetic stripe cards with the smart cards, this type of cards offering a higher degree of safety for the users, the information stored on them being impossible to alter or copy. It is designed with a chip and the card will operate as a "bag" previously loaded with money that can be used for payments, and the balance will be reduced in proportion with the purchases.

The cards can be funded at the automatic banking desks or at the special terminals within the banks. The microchip technology will continue to become more and more popular. The high degree of safety - the well-known reason of the migration towards the chip cards, is placed into the shade by the optical card performances. The optical card is formed of two layers between which the optical stripe is introduced, based on the CD-ROM technology. This card can be scratched, pierced, but the stored information can still be read. The safety is conferred by the impossibility of data alteration and by the possibility of confronting the card holder's identity with the user's one. Moreover, the optical card disposes of a memory capacity far larger than the one of the chip card. The very large memory of the optical card allows the storage, for example,

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

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

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

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

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

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

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

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

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

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

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

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

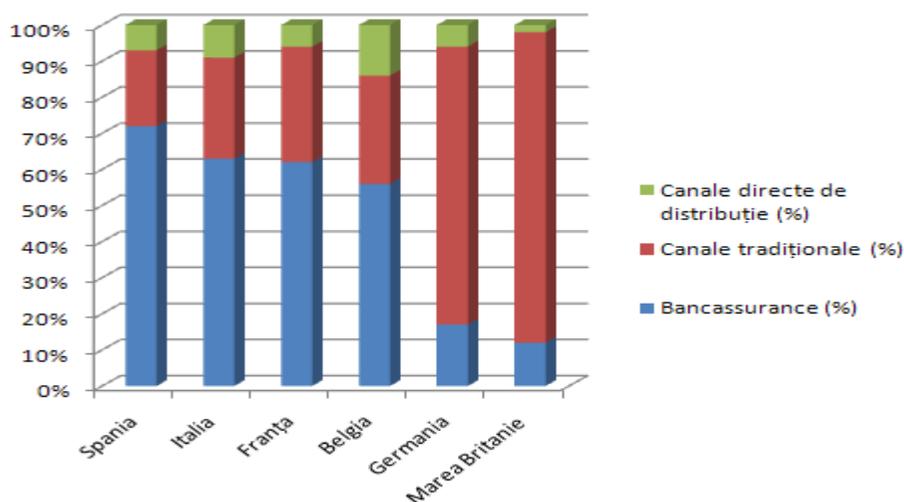
The market rate of the distribution channels within the bancassurance system

Table 2

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

Source: www.bis.org

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



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

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

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

Conclusions

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

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

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RUSSIA AND ITS PIPELINE WEAPON

Benea Ciprian-Beniamin

University of Oradea, Faculty of Economics

Fodor Cosmin

University of Oradea, Faculty of Economics, MAs

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

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

Cod JEL: F51, L95, N74

Very few people could say that in their life time they could see a collapsing empire without war. Of course, in the second part of 20-th century there was a war, a Cold War, which had as centerpieces Washington and Moscow; but during the last years of '80s, there could be observed a constant decline in Eastern bloc, precipitated by Chernobyl accident in 1986. The Gorbachev's Glasnost and Perestroika policies² had played a big role in the disintegration of the Eastern bloc, the fall of Berlin Wall, and which ended with USSR collapse in December 1991. The most important heir of USSR was Russia; but during '90s, it had hardly overcome its domestic problems and crises, the biggest one taking place in 1997. So there disappeared a contender from the "game" without any military contest between him and the other one.

But as it is a well known fact that states never forget, the imperial memories of Moscow couldn't have been erased from collective memory of Russians, and especially, from political leaders incumbent in Moscow. During this period Moscow has shed its empire's loosing, but the biggest problem lays in the fact that Moscow hasn't yet found a new role for it in the world.³ In terms of foreign policy, Russia's leaders have failed to forget the legacy of the lost Soviet empire.⁴ Even the Moscow's behavior provides kinships: he who looks at war in Georgia in August 2008 could see resemblances with what happened in Budapest in 1956, or in Prague in 1968, but which had the peculiarity of instigations of ethnic minorities from different republics against the Georgian state's structure.⁵

But what was a constant peculiarity of Russian politics after 1997 crises was the recurrence of Moscow's direct interference in Russia's energy policy, especially regarding control over gas pipelines. And the democracy – even that weak democracy – in Russia slipped into recession; this is partly due to disillusioned and disenfranchised voters, which choose to embrace an authoritarian strongman.⁶ Of course, this is a special peculiarity of Russian society: "the central

² Mikhail Gorbachev, *Perestroika. New Thinking for Our Contry and the World*, New York, Harper & Row, Publishers, 1987, pp. 69-84.

³ Dmitri Trenin, "Russia Reborn. Reimagining Moscow's Foreign Policy", *Foreign Affairs*, vol. 88, No. 6, p. 64.

⁴ *Ibidem*, p. 64.

⁵ Jean Francois Drevet, "Le Caucase et l'Europe", *Futuribles*, Novembre 2008, No. 346, pp. 61-66.

⁶ Larry Diamond, "The Democratic Rollback. The Resurgence of the Predatory State", *Foreign Affairs*, vol. 87, No. 2, p. 38.

and significant reality of Russian politics has been its predominantly autocratic character.”⁷ As such, there has been perceived in Russia a deep-seated insecurity and – its antidote – willing acceptance of an all-controlling leader, and respect for power and certainty of goals.⁸

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

This is a noteworthy aspect, because already in 1919 at Peace Conference in Versailles, President Wilson asserted that there could be identified “three crucial elements in international relations – international transport, international communications, and oil”, and the influence which a country would have in international affairs would be directly influenced by the position which that country had in these three key areas.⁹ As the time passed, there appeared another key-element: the natural gas. It is a source of energy and heating, and what is important, it is much friendlier with the environment in comparison with oil and coal; burning gas instead of oil, and especially coal for electricity, means lower greenhouse gas emissions.

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

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

Taking these aspects into account, there it could be observed that Russia has a unique position. Due to logistic consideration, in the medium and long term, the oil will be traded globally, while gas will be traded regionally; coal due to its large spread, will be traded locally. The special place of Russia is due to its well endowment of oil and gas resources; Russia has almost 30% of the world’s proven gas reserves, and sits *astride* the transport network by which energy flows from the entire post-Soviet zone to the rest of the world.¹⁰ In the same time, Russia has proven reserves of oil of 80 billion barrels, almost 7% in world total.¹¹ And it is possible in the future that Russia will size the control over great parts of untapped reserves in the Arctic, where are about 13-20% of world’s total resources;¹² this is because of the aggressive way in which it has claimed control over great part of them, aspect which could bring intense tensions with USA, and other riparian states. Already the Russian state-controlled oil company Gazprom has approximately 113000 billion cubic feet of gas under development in the fields it owns in the Barents Sea;¹³ and the

⁷ Zbigniew K. Brzezinski, “Soviet Politics: From the Future to the Past?”, in Paul Cocks, Robert V. Daniels, and Nancy Whittier Heer (eds.), *The Dynamics of Soviet Politics*, Cambridge, MA., Harvard University Press, 1976, p. 337.

⁸ Jerrold L. Schecter, *Russian Negotiating Behavior. Continuity and Transition*, Washington DC, USIP Press, 1998, p. 5.

⁹ Gleason L. Archer, *History of Radio to 1926*, New York, American Historical Society, 1938, p. 164.

¹⁰ Robert Legvold, “The Russia File. How to Move Toward a Strategic Partnership”, *Foreign Affairs*, vol. 88, No. 4, p. 79.

¹¹ Michael T. Klare, *Rising Powers, Shrinking Planet. The New Geopolitics of Energy*, New York, Metropolitan Books, 2008, p. 90.

¹² Robert Legvold, *op. cit.*, p. 79

¹³ Scott G. Borgerson “Arctic Meltdown. The Economic and security Implications of Global Warming”, *Foreign Affairs*, vol. 87, No. 2, p. 67.

resources which could be found in the territory claimed by Moscow could contain as much as 586 billion barrels of oil (bbl).¹⁴ If this is real, then it is opportune to mention that Saudi Arabia has only 260 bbl. proven reserves.

Only from Caspian Russian region Russian Federation produced in 2005 for example 1008,2 mil. tones oil equivalent.¹⁵

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

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

The nationalization of oil and gas industry was one of the pillars of this process. In 1996 Vladimir Putin couldn't even dream that four years later it would be the president of Russian Federation; but immediately he took the office, he engaged to create national champions in Russia – these national champions would put promotion of the state's interest over profit maximization.¹⁶ But even in June 1997 he, in a dissertation submitted to St. Petersburg Institute, and in an article "*Mineral'no-syr'evye resursy v strategii razvitiia Russiiskoi ekonomiki*" published in 1999 in Zapsiki Gornogo Instituta, presented a plan for Russia's recovery and return to economic and political influence. The main theme was the calling on the Russian government to reassert control over the country's natural resources and raw materials.¹⁷ The effect of such a policy would be a low energy price in Russia, while outside it means suspending deliveries to countries which refuse to support Moscow's foreign policy.¹⁸ And in the case that a private company operating in Russia in oil or gas sectors doesn't support the Russian line of policy, it would be denied for it the access to Russia's oil and gas *pipeline monopolies*.¹⁹

In the same time, the "friendly persuasion" from Moscow hindered Yukos and Sibneft in their business and while preventing their acquisition by foreign companies (especially by American ones); furthermore, through the process, Moscow gained control of 41% of Russia's oil output.²⁰ Before the end of second term of Putin's presidency, the most important industries in Russia – the strategic ones – went under state's control through *renationalization*.²¹

But what is more important is the fact that these companies are controlled by *siloviki*; these men are economic nationalists and seek to restore Russia's international greatness.²² They are prone to promote the consolidation of political and economic power within an extremely centralized state, well-financed security and defense structures: they sustain a strong state – over the importance of social and economic freedoms – which had to have a strong voice in country's economic life.²³ In order to attain their goal – taking account of Russia's economic profile – these peoples pretend themselves to be economic nationalists, arguing that country's natural resources belong to Russian people, and that state must control them for that reason; the argument of bad years before

¹⁴ *Ibidem*, p. 68.

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

¹⁶ Marshall I. Goldman, *Putin, Power, and the New Russia. Petrostate*, New York, Oxford University Press, 2008, pp.98-99.

¹⁷ *Ibidem*, p. 97.

¹⁸ *Ibidem*, p. 99.

¹⁹ *Ibidem*, p. 99.

²⁰ *Ibidem*, pp. 105-123.

²¹ *Ibidem*, pp. 133-135.

²² Ian Bremmer and Samuel Charap, "The Siloviki in Putin's Russia: Who They Are and What They Want", *The Washington Quarterly*, Winter 2006-2007, p. 87.

²³ *Ibidem*, pp. 88-89.

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

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

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

Moscow monopoly over gas pipelines has a powerful meaning: pipelines are the cheapest and most practical way for delivering gas, but this situation makes Europe extremely vulnerable, European countries being dependent on imported gas from Russia, a dependence that is set to increase.²⁴ And if Russia prevents the fulfilling of projects which would create alternative ways for gas deliveries from Central Asian states, than the Moscow's clout in Europe would increase even bigger. It even took steps to prevent such possibilities: in summer of 2007 President Putin succeeded in promoting future collaboration among Turkmenistan, Kazakhstan, and Russia, aiming to sell gas from those two countries in European countries, which would pass as before through Russian build pipelines.

Another aspect which hints at Russian pipeline politics is that which regards the construction of a pipeline under the Baltic Sea – the so called Nord Stream – which would avoid the territory of some states which could create problems for Moscow. For the moment Germany buys 40% of its consumed gas from Russia,²⁵ while Italy 32%;²⁶ and through dealings with these two countries Moscow hopes to prevent the diversification of gas supply in Europe. The means are pipelines and the instrument in Moscow's hand is Gazprom. This could be easy identified from Putin's statement: "The gas pipeline system is the creation of the Soviet Union. We intend to retain state control over the gas transport system and over Gazprom. We will not split Gazprom up. And the European Commission should not have any illusions. In the gas sector, they will have to deal with the state."²⁷

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

²⁴ Edward Lucas, *The New Cold War. Putin's Russia and the threat to the West*, New York, Palgrave Macmillan, 2008, p. 164.

²⁵ Marshall I. Goldman, *op. cit.*, p. 166.

²⁶ *Ibidem*, p. 166.

²⁷ Putin's statement quoted in Michael Fredholm, *Gazprom in Crisis: Putin's Quest for State Planning and Russia's Growing Natural Gas Deficit*, Swindon, Conflict Studies Research Centre, 2006.

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

Regarding the Southern part of Europe, there Russia intends to prevent the construction of Nabucco project, which would increase energy security through Europe. The Moscow's countermeasure could be given by South Stream project. Even the route for gas pipeline in the Western part of Black Sea is almost similar, the great difference lies in the fact that Nabucco is a European project, backed by EU, which would be constructed and operated by Europeans, which in the same time would bring out from isolationism and dependency on Moscow the Central Asian states, while South Stream would be an extension of the already finished Blue Stream pipeline, which carries gas from Russia to Turkey, and which would be filled, maintained, and operated by Russia, while its building would be realized by Gazprom and ENI from Italy. One spur would go via Greece into Southern Italy, while the other to the Northern Italy, through Romania, Hungary, and Slovenia.²⁸

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

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

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

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

Mada Florin Manuel

Universitatea Babeș-Bolyai Cluj-Napoca

Facultatea de Științe Economice și Gestiunea Afacerilor

Florea Georgiana Rodica

Universitatea Babeș-Bolyai Cluj-Napoca

Facultatea de Științe Economice și Gestiunea Afacerilor

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

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

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

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

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

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

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

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

As an European Union member, Romania has developed a legal framework on foreign direct investments that is based on transparency and non-discrimination. Romania's investment policies encourage capital transfer and the entry of well trained personnel in support for the foreign direct investments. Romania has a wide network of treaties that concern investments with neighbour countries and OECD countries. Romania is the single economy of the South Eastern Europe which is a member of OECD's Declaration on International Investment. Regarding investment promotion, Romania is reviewing all operations of the national investment promotion agency (ARIS). Romania could try improving the facilitation services at the pre-and post-entry phase of an investment, as it should consider implementing a strategy to facilitate greater commercial linkages between foreign investors and local firms. ARIS could also consider improving the quality of aftercare services it offers to foreign investors, such as obtaining business registration, licenses and work permits²⁹.

When deciding to invest, there are some facts that have to be taken into consideration: first, brings to front the fact that a decision to invest in a foreign country is influenced by those background facts that would either verify or not this simple mathematical equation (expected profits / risks investing in foreign country) > normal profit that can be obtained in own economy. If we would consider all economic risks that can emerge in home economy being equal to 1, normal profits being equal to 3, for instance, and if we conclude that emerging markets have an increased level of risks that concern capital investment in comparison with developed economies, then, it is certain that the only real attraction would be those profits that can be obtained. So, the equation into question would have to be $7/2 > 3/1$, and it is obvious that if business risks double, profits have to be more than double to make that emerging economy interesting for those who want to invest. Then, investments can be done in the single interest of imposing monopoly on some resources so, on a certain time extent, as resources become scarce and their price explodes, having a high demand and few that are capable of filling the demand means that profits will not take long to emerge. Of course there are other needs that could lead to foreign direct investment as the need to launch operations on certain markets, to obtain the desired market share, to relocate harmful and old industries, and so on³⁰.

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

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

²⁹ OECD, *Investment Reform Index 2010 Monitoring Policies and Institutions for direct investment in South - East Europe*, pag. 308

³⁰ Postelnicu Cătălin, *Economie Internațională*, Universitatea "Babeș-Bolyai" Cluj-Napoca, Editura Presa Universitară Clujeană, 1999, pag. 107-108

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

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

A long disputed investment, one that shows all positive and negative sides of an investment is that desired by Gabriel Resources Ltd. Canada in the area of Roșia Montană, a renowned mining camp since ancient times. In this respect a new company emerged, Roșia Montană Gold Corporation, having as major stock holder Gabriel Resources Canada (80 %), Minvest S.A. Deva (19,3 %), this being the company that ran operations here until the possibility of an investment became a real fact, and 0,7 % other minor stock holders³¹. This new enterprise (RMGC) obtained an agreement to exploit an area of 4282 hectares, the intended goal being to build and operate the largest gold digging site in Europe for extracting a quantity of about 300 metric tones of gold and 1600 metric tones of silver, using the method of surface excavations in four opened quarries estimated being the equivalent of 100 hectares each, excavations that would result in over 220 million metric tones of displaced ore³².

The business plan extends for 17 to 20 years, and over, because the site will enter after the mining field will not be viable anymore in a preservation stage, one that is going to last for many years. Romanian economy would benefit, as stated by officials of RMGC, of a total sum of about 4 billion dollars (3 billion euro) as follows: 1.8 billion dollars as dividends, for being a stockholder with a share of 19,3 %, tax and royalties paid towards local, regional and national budgets, and the rest of 2.4 billion dollars³³, investments in human resource, infrastructure, spare parts, maintenance, etc. Other benefits consist in translation of service and operations to Romanian entrepreneurs and enterprises that would enhance local and regional economy.

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

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

³¹ Official RMGC, internet site: <http://www.rmgc.ro/despre-noi/despre-noi>, last accessed: 20.04.2010

³² From regional urban planning, Roșia Montană, industrial area, a project by Ipromin S.A., experts in project designing - S.C. „Proiect Alba” S.A., for S.C. „Roșia Montană Gold Corporation” S.A., project nr. 4729/2006

³³ <http://www.rmgc.ro/proiectul-rosia-montana/economie/planul-de-afaceri>, last accessed: 21.04.2010

where 1 % of the inhabitants live on less than a dollar a day, and 7 % on less than 2 dollars a day³⁴, and where young persons would not have any opportunity but to become miners as their forefathers. Little did people know that creating this project meant that there could no longer be a second company to exploit the gold ore here, so, the not very efficient Minvest Deva facility, having around 775 employees did close up its gates, for the people living here a true tragedy.

The technology used to extract gold is based on treating the grinded ore with a solution of sodium cyanide, a method that can seriously damage the environment and the experience of the ecological disaster that happened in a similar facility near Baia-Mare is at least relevant if not scary. Similar accidents, more than 30, just after 1990 have happened in other countries that host this kind of business, major ones in the USA (1993 and 1998), The French Guyana, Australia and The Philippines, but fortunately in less inhabited areas, so with less harmful effects. Most of them because of dam failure but some because broken pipes and other transport accidents. No one can guarantee that similar ones will not happen in the future, and finding those guilty for the unwanted event and punishing them does not serve for anything, as a lot of harm has been done. In this instance, it is not very hard to imagine what would happen if about 250 million tonnes³⁵ of contaminated water, sterile and waste would end up in one of the major romanian rivers and finally in the Danube or The Danube Delta. Still, there are other chemical compounds used for neutralising cyanide, their effects are not very well known so it would be sensible if the matter would be treated very serious.

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

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

³⁴ Giovanetti Frederic, Guelph Stantec, *Managementul impactului social, Planul de acţiune pentru strămutare și relocare* (Social impact management - The action plan for moving and relocating), Volumul 1: Raportul principal, Elaborat pentru: S.C. Roşia Montană Gold Corporation S.A., Versiunea 3 - Februarie 2006, versiunea 3 - Februarie 2006, pag. 17, taken from the article "Roşia Montană, destine confiscate" (Roşia Montană, seized destinies) published in "Idei în dialog" Magazine in march 2008 by Anghel Cătălin

³⁵ Estimated content of the used water storage dam.

of about 1/5³⁶, the most part of the benefits being directed to Gabriel Resources Canada. No one, or some few have thought about analyzing and predicting how the international gold market would fluctuate, and if now, when the index is at a certain level of 1113.34 dollars/ounce³⁷ operations potentially run by the state owned company are not viable, maybe at a future level of 1650 dollars/ounce³⁸, and having the same amount of inputs means that extraction could prove being of great benefit for the national economy, that could use profits as investments in other sectors, so that the need for foreign capital and international loans would not be that great. The mirage of foreign investors is so great that a lot of people do not realize, forget or consciously admit that when giving up an activity in favor of somebody else, you are no longer able to exploit some of the actual prosperous opportunities on the international economic scene. The business plan proposal for the RMGC operations emerged on a basis of an average gold price of 900 dollars/ounce and an average price of 12,5 dollars/ounce for silver, these figures lead to an estimated net profit of RMGC around 1,9 billion dollars, the Canadian enterprise Gabriel Resources, as a major share holder will cash in dividends of about 1,3 billion dollars, which divided for an estimated operating time of 15 years result in an average of 87 million dollars/year net profits for the Canadian counterpart.³⁹

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

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

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

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

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

³⁶ The actual rate of benefits for Romania, as it is a share holder for 19,3 % of the total shares through Minvest Deva, a state owned company.

³⁷ Average gold price of April 2010 (<http://goldinfo.net/londongold.html>, last accessed: 22.04.2010); 1 ounce equals 28.3495 grams

³⁸ Estimated price for beginning of 2011 – *Jim Sinclair Bets a Million Dollars Gold Price Will Hit \$1650 before the 2nd Week in January 2011*, an article of Wednesday 2nd of April 2009, on www.goldprice.org, last accessed: 21.04.2010

³⁹ But, as mentioned above, the average gold price rose by more than 200 \$/ounce over the initial estimates, meaning that profits would be greater than estimated.

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

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

INNOVATION – THE CORNERSTONE OF ECONOMIC SUCCESS AT EUROPEAN LEVEL

Hristea Anca Maria

Academy of Economic Studies Bucharest

Faculty of Accounting and Management Information Systems

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

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

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

1. Globalisation – a game with a positive sum?

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

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

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

2. Stimulating creativity and innovation at European level

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The conclusions that were drawn after the analysis of an area must be completed by the diagnosis of the global stakes that are characteristic of the region, through an examination of the microeconomic dynamism of the innovation systems actors, by the appreciation of their capacity to generate knowledge and to transform them into new products or services, or in “business models” (innovative), by evaluating the access to capital.

The representatives of the scientific world believe that in the modern economy the traditional advantages represented by the natural resources or by the geographical position are not the only solution for diminishing costs. The key factors of prosperity can also be the access to knowledge, talent and creativity. Innovation is a multifactor process with multiple causes, as J. Schumpeter described it in his studies regarding the approach of the new combinations of production factors and their role in the economic evolution.

Innovation means, in the opinion of OCDE, the introduction on the market of a new product (thing or service) or that is changed under the aspect of its fundamental characteristics, of technical, logistic, material or immaterial nature, that can respond to the destination it was made for. Starting from this concept one can say that innovation is not a simple and obvious process and that it means the conjoined efforts of some persons, teams, institutions, that often are not in the same location. Innovation is first of all a business of the entrepreneurs, but the big organisations, the regional environment that stimulates creativity, research and innovation has a central part in creating wealth for the nation. The regions and the vitality of the ecosystems play a determinant role in creating new value. The possibility to come into direct, informal and repeated contact with an important number of “producers of knowledge”, researchers, university professors, financial agencies allow each firm to benefit from a positive “externality”.

The most used reference today is that of the **regional innovation systems**, that are in the opinion of the specialists, a method to describe an ensemble of actors and institutions for which mutual relationships are decisive for the good functioning of the ensemble. Such a system allows the optimization of the transfers of competences and the collaboration among different actors of regional development.

The diagnosis analysis in the field of innovation at a regional level has to have three main components:

- the analysis of the global components based on the indicators of economic activity and of the innovation potential;
- the analysis of the actors and of the networks of the regional system of innovation;
- the description of the functioning of the government process of innovation and of determining the strategic priorities.
- From the studied bibliography, we can draw some conclusions regarding the position of the innovation in a strategic plan:
 - Innovation is a challenge and a reality of the contemporary world.
 - Most of the developed countries invest in innovation in the last years under all its forms.
 - There is not a unique methodology of diagnosis analysis at regional level.
 - The indicators of the evaluation of the degree of innovation are numerous and they are approached slightly different from one country to another.
 - The innovation degree is more important at the level of the activity clusters.
 - The role of the regional and research institutions is significant in developing innovation.
 - The analysis of the innovation degree is insignificant if we do not compare it with other regions.
 - The degree of innovation means an indistructable relationship between state-industry – science.
- The qualitative analysis has an essential role in researching the studied phenomenon.

- The migration of the Romanian workforce towards Occident affects on medium and long term the performances of the country.
- Innovation determines the rise of the work productivity and the emergence of new professions, but it can diminish the degree of occupation in the fields with the highest degree of innovation.
- A negative natural output affect a people's creativity.
- The constant training and formation of the employees can be found in the rise of the innovation degree.

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REGIONAL ECONOMIC GROWTH THROUGH TOURISM. THE CASE OF REGION WEST

Boldea Monica

FEAA, Universitatea de Vest, Timisoara

Lavritys Patrick

FEAA, Universitatea de Vest, Timisoara

Dragoi Ionut

FEAA, Universitatea de Vest, Timisoara

The regional development should aim to correlate and integrate tourism among the other integrative parts of the regional and local development, taking into account the fact that a region's prosperity as effect of tourism development may be shown clearly in several stages: on the spot (as a result of direct consumption of the tourist product), on short term (through continuous absorption of the work-force and encouraging the welcoming commerce) and in the long run (concentrating capital for investment in the general infrastructure and the one of tourism, in structures of reception for tourism and in the development of urban services). The analysis of intra-regional disparities as part of the economic growth at the level of Region West starts off with the idea that each component county has a different landscape, which favored or inhibited their economic growth; in the same time, each component county has its own specific, which can be promoted through tourism, inducing in time a regional income, and respectively, a socio-economic and cultural growth of less developed areas.

Keywords: tourism, regional development, intra-regional disparities, economic growth

JEL code: R11

1. Tourism – fosterage instrument of regional development

The National Strategy for Regional Development, drawn up based on the Plan for Regional Development and the National Strategic Frame of Reference 2007 – 2013, has identified the development of tourism as a priority for development, given the existing potential for tourism in every one of the eight regions for development in Romania. This potential proves the financial backing offered to rehabilitate the infrastructure of areas aimed for tourism and to turn into account the natural, historic, and cultural patrimony, to include them in tours of tourism and promote them with the purpose of attracting tourists.

The development of tourism is in complete harmony with the Communitarian Strategic Orientation 2007-2013, as the putting into practice of this axis of priority shall contribute to the improvement in the regions' degree of attractiveness and to the creation of new workplaces. The investment in tourism and culture will allow the developing regions to make use of the advantages offered by their potential for tourism and their cultural patrimony and to identify and strengthen their own identity, in order to improve their competitive advantages in sectors with high added value and high cognitive and qualitative content, on both traditional and emerging markets.

As an integrative part of the national economy tourism excels its economic role directly, first through the contribution it has to create regional and national income and the acquiring of foreign currency, then through the positive effect it has upon the social-economic and cultural growth of certain areas in the country and upon the internal monetary flow, and indirectly by the influence it exerts upon other branches of the national economy. Considered an economic activity, tourism includes a various range of services, such as: informative services, the sale of travel, transport,

accommodation, treatment in spas, activities of entertainment and pleasure. Consequently, at the level imposed by its role and functions, tourism appears as a result of the concerted and combined effect of multiple branches. Some of these, for example construction, the industry of electric and thermal energy, engineering, the textile industry, agriculture, the food industry – are considered as supplying branches, and what they supply is involved either in the material base of tourism, or in the production offered by public food supply. Other branches, like transport, goods' circulation, communications, and culture compete independently in order to meet the needs of tourists. The large number of branches which are involved in catering tourism shows that the “product” of tourism can be of high quality only if all the elements involved in its creation, or are an integrative part of its structure, are as well of high quality.

2. The potential for tourism and possibilities of regional development of tourism in the Region West.

The Region West – one of the eight regions of development in Romania – has a remarkable potential for tourism given its extremely rich and various landscape (in the region there can be found every form of relief, from plains to mountains), the climate with oceanic or sub-meridional influences, a hydrographical network of great representation, a various background of forests and hunting, all of these making up very attractive destinations for tourism. The region also hosts especially attractive mountain sceneries, karst relief in the mountains, karst and glacial lakes, natural lakes of everglade, mineral and thermal springs, leaf-bearing forests and coniferous forests, a hunting background with various species, national parks and natural reservations, dendrological parks and many areas for skiing. The region disposes of archeological vestiges, of historical and art monuments, architectural ensembles, plastic art and memorial monuments, displayed on a vast area in both urban and rural living spaces. To these one should also add museums, the art collections and galleries, the popular architecture, the folk costumes and pottery, ethnographical museums, traditional folk events, festivals and artistic events; there should also be mentioned the technical industrial patrimony, including dams, lakes of accumulation, hydro-power stations, the museums of steam locomotives, furnaces of the Middle Age, various plants and industrial centers. The distribution concerning every constituent county would look as follows:

The county of Arad has an increased potential of developing, in the long run, the tourism for business and transit, due to its geographic location and also due to the numerous foreign investors present in the county. Then, a large number of natural, cultural, historic and ethnographic sightseeing spots offer the possibility of practicing other forms of tourism as well, for example – the ecological tourism or the tourism for pleasure, the tourism for culture and history, and the tourism for treatment and spas. Among the sightseeing spots we can mention the Hodos-Bodrog Monastery, the „Adormirea Maicii Domnului” Monastery in Bezdin, the „Sfanta Fecioara Maria” Monastery in Radna, the Fortress of Aradului, the Fortress of Ineu, the Castle in Savarsin, the Soimos Fortress, the Bohus Castle in Siria, the Historic Centre of Arad, the Natural Park Natural Lunca Muresului, the Macea Botanical Garden, the Baile Lipova Health Resort, and the Moneasa Health Resort.

The county of Caras-Severin has an obvious potential for tourism, due to the diversity of its landscape, the great number of lakes of accumulation, the emphasis being on the Baile Herculane Health Resort and Spa or the Danube Strait. There can also be distinguished five areas for tourism – the Semenic area, the Cerna Valley area, the Anina Mountains area, the embankment of Nera-Beusnita and the Iron Gates. Among the sightseeing spots we can mention the Semenic Resort, the Muntele Mic area for tourism, the Domogled National Park – Cerna Valley, Baile Herculane, the embankment of Nera-Beusnita National Park, the Museum of steam locomotives in Resita (a collection of 16 locomotives, including the first locomotive manufactured in 1872), the Piatra Scrisa hermitage, the Rudaria Water-mill Park, the railways Oravita – Iam and Oravita

- Anina (the first railway range in the country, opened in 1854), the carcass of the Roman settlement Tibiscum (106 AD.), the Moldova Noua sightseeing spot.

The county of Hunedoara disposes of both the variety of the landscape and the wealth brought by the elements of cultural character; the county preserves over 400 sightseeing spots – historical and art monuments, and monuments of natural history – starting with the prehistoric era and continuing through the dacic, roman, feudal and modern times. Among the sightseeing spots we can mention first the two capitals of Dacia and the Roman Dacia - Sarmizegetusa Regia and Ulpia Traiana Sarmizegetusa, and then there are the Fortress of Deva and the Fortress' Hill, the Corvinsti Castle in Hunedoara, the Geoagiu Bai Resort, the Dendrological Park Simeria, the Museum of Gold in Brad, the Retezat National Park, the Mountain Resort in Straja, the Complex of monuments in Tebea, and the Dacic Fortresses in the mountains of Orastie.

The county of Timis disposes of a diverse natural potential, springs of mineral and thermal waters which enjoy recognition for their sanatory qualities, the hunting and piscicultural background, as well as the variety of the elements of architecture, folk art and folklore, all of them ensuring a diversified offer for tourism. Timisoara, the county's city of residence, comes fourth place on a national level according to size, and has been recognized since the 18th century as „Little Vienna”, being an important historic, economic, financial, cultural and scientific centre. Among the main sightseeing spots there are the Buzias Health Resort and Spa, Baile Calacea Health Resort, the Swamps in Satchinez, the Dendrological Park Bazos, the Museum of Banat in Timisoara, the „Traian Vuia” Memorial House, the Orthodox Cathedral in Timisoara, the Cave in Romanesti, the Village Museum of Banat, the Roman-Catholic Dome in Timisoara.

This various range of resources for tourism may generate and sustain a variety of tourism practices, among which: the widely used tourism (for circulation), the tourism for health and spa, the tourism for rest and relaxation, the tourism for business, the tourism for mountain-hiking, the tourism for sporting hunting and fishing, the cultural-historic tourism, the tourism for speology, the sporting tourism, the tourism for cruising, the religious tourism, the urban and rural tourism, the intercultural tourism, the gastronomical tourism with local specific. Regarding tourism, new products and new forms of recess tourism can be developed, like rural tourism and the tourism for adventure. There can also be developed the tourism for business, generated by conferences, symposia and exhibitions, diplomatic events, cultural and scientific events, the multinational companies' business expansion in the region.

Even without a detailed exposure one can easily notice the vast existing potential of the Region West, which, unfortunately, is not put in good use concerning the sustainable and ecologic development of the region. Regarding the capacity for accommodation in the year 2006, Region West ensured only 7,46 % of the entire capacity for accommodation in the country. On a regional scale, Region West was placed last but one regarding the number of tourists arrived in the region (9,87 % of the tourists visiting Romania in 2006), the 4th place regarding the number of staying overnight (2.006,2 thousand), and, respectively, the 4th place regarding the index of net usage of the capacity in function (36,3%, despite the strategic geographical location of at least two counties – Timis and Arad – and, as well, despite the external economic exchange which has been traditional for centuries. The potential for tourism in the rural area should also be taken into account, given certain characteristics of Region West, like its diverse landscape, the architectural tradition in the rural area, historical and archeological vestiges, mineral and thermal water resources; for the time being, the social transparency is very low, 9 % of the villages in the Region West having a high and very high potential for tourism. These are distributed in the counties of Hunedoara and Caras-Severin, in harmony with the protected areas and natural monuments in the region. It is especially this area that – fated right from the start to host mono-industrial activities and becoming, in time, vital industrial centers due to the intensive exploitation of raw materials – suffers from an acute economic and social crisis because of the

collapse of the planned economy's system and the economic transition of Romania towards the market economy. For this reason the presence of foreign investors is also very scarce, they showing preference more towards the counties of Timis and Arad, so that, in order to economically revitalize the two less developed counties in the region, it is necessary to win the interest of the foreign investors over, and this would require to begin with the development of the infrastructure for access and utilities, necessary for both the proper unfolding of the economic activities, and for ensuring a comfortable living for the population in these areas.

3. The infrastructure for access

In what concerns the infrastructure for access, a series of shortcomings excel, which diminish the possibility of a vast economic development, respectively to sustain a flow of tourists adequate to the region's potential for tourism; these are mainly high-lightened by the lack of motor highways (the immediate effect being the unjustified intensification of traffic on roads which are not proper for inter-regional and international transport), the lack of ring-roads in the case of most cities and towns in the region (which makes the inside traffic to be very difficult and also increases the duration of travel), the low carrying capacity of existing roads showing effects of accelerated degradation, and the high percentage of out-dated district roads, which leads to a decrease in possibilities and of the traffic capacity, respectively to a lack of access possibility regarding sightseeing spots in the territory.

Having a strategic geographic location at the crossroads of commercial paths which connect Central Europe to the Mediterranean South, Region West represents a bordering region, a "frontier" region, which disposes of four crossing points of the frontier with Hungary – Nadlac, Turnu and Varsand (in the county of Arad), and Cenad – Kiszombor (in the county of Timis) and four crossing points of the frontier with the Republic of Serbia – Jimbolia and Moravita (in the county of Timis) and Naidas and Moldova Noua (in the county of Caras-Severin). Five European roads cross Region West directed North-South and West-East, three of which are considered main European roads (E68, E70, E79), and respectively two secondary European roads (E 671, E 673). Of the ten Pan-European corridors (which have been given recognition as main thoroughfares of transport in Eastern Europe, aimed to connect Western and Eastern Europe, as well as the states of Eastern Europe), three of them cross the Romanian territory, two of which cross Region West: the Corridor IV (Berlin – Nurnberg – Praga – Budapesta – Constanta – Salonic – Istanbul – having two integrative parts, road and railway) and Corridor VII (the Danube, crossing Region West between Bazias and Cozla).

The motor highway designed for the future, in order to connect Budapest to the Black Sea, has been foreseen to cross Region West from West to East; this highway is forecasted to ensure a fast connection between the centers Timisoara – Arad – Deva, having as well a significant contribution to the traffic release on the other roads in the region.

Regarding air passages, The Region West disposes of airports in each integrative county, in the cities of Timisoara, Arad, Caransebes and Deva (there should also be mentioned that in Romania, based on the European Treaty, eleven airports are located on the TEN-T network, two of which being located in Region West). It is also worth mentioning that the Traian Vuia Airport in Timisoara is the second airport in Romania regarding its importance, catering an immediate area of 2,1 million inhabitants (both Region West and the Hungarian and Serbian Banat area). Its technical endowment allows access for some of the biggest airplanes, a quality that grants a significant potential to the airport, as air gateway of the region, in the use of tourism and fast access to economic circuits, including overseas markets. Its location, the rise in foreign capital and a fast growing number of investors in the Region West, as well as the fact that the airport enjoys competitive endowments of aeronautic type has led to a rise in passenger and commodity trafficking, so that the present issues the airport's administration is concerned with, involve the lack of space on the platforms, in air-stations, respectively in the parking lot. The county of Arad

disposes as well of an international airport, also having a strategic location. It allows easy access to economic agents from nearby areas (especially the counties of Arad, Hunedoara, Bihor and Alba, respectively Bekes and Csongrad in Hungary, regarding the transport of commodities). The contribution of air transportation to the economic life of the region could be improved through investment in airport services, in specific endowment regarding landing in difficult conditions, in ensuring the connection by air transportation between district centers, respectively in the potential for development of the two airports which are not sufficiently used – Deva and Caransebes. The airport in Caransebes, in the county of Caras-Severin, initially designed for internal flights, is at present in private property, maintaining however its potential of being used for external passenger trafficking, especially regarding tourism. In what concerns the airport in Deva, in the county of Hunedoara, this one is at present used only for activities like sports aviation.

4. Challenges and opportunities

The frail development of tourism in the Region West is also due to uncompetitive products of tourism and the unskilled personnel in the field; moreover, in 2006, the Region West disposed of only 10,55% of the total number of the personnel hired in the structures of reception and accommodation in the country, most of them working in the Timis county. The tourism in spas would also have a high potential of development in the region, the region hosting 13,3 % of the total number of health resorts and spas in the country, most of which are to be found in the county of Caras-Severin. Turning account of the attraction for tourism can contribute to the economic growth of the urban centers, which are currently in decline, or of the peripheral rural areas, mainly by favoring the setting up and development of local enterprises, thus transforming the areas with low economic competitive character into areas attractive towards investors. The activity of tourism creates demand for a large range of goods and services, acquired later on by tourists and companies of tourism, including goods and services created by other economic sectors (commerce, constructions, transport, the food industry, confections and footwear, the small industry and handicraft). Last but not least, tourism creates opportunities for regional and local economic growth and has a lasting contribution to creating new employment forms by turning into account the cultural and natural patrimony; in addition, a significant part of the newly created jobs involves a regional opportunity to absorb the female work-force.

The Region West enjoys a very diverse potential for tourism to be promoted, a potential which offers the possibility of practicing an entire range of forms of tourism all year long; even so, the tourism in the region is a lot less developed compared to other areas in the country (mentioning factors like a relatively reduced denseness of the population in the region, an insufficiently developed infrastructure for access to sightseeing spots and diverse locations, respectively the massive emigration of the population traditionally fond of tourism). The putting into operation of the 5th axis of priority of the Regional Operational Program (POR) – by improving the infrastructures of the areas aimed for tourism and the ones of the accommodation services – is expected to determine a qualitative growth, towards European standards, of the entire range of conditions for practicing tourism, with a direct influence upon the increase in demand for tourism for Region West, and implicitly for Romania, as a European destination.

5. Conclusions

The reasons which negatively influence tourism at the regional level are first the lack of a consistent strategy at the central level, given the conditions in which the development and promotion of tourism are not part of the local administrations' priorities, or maybe only to an insignificant extent, then the lack of transport infrastructure (roads, railways, adequate and modern waterways and air passages; even the road network is not properly maintained, isolating or making the sightseeing spots very difficult to reach). On the other hand, the lack of quality

service regarding accommodation, of a competitive management, of complementary services for tourism, of some documentation and guides and even the lack of an aggressive challenge on hand various forms of advertising, makes many sightseeing spots and various areas for tourism to remain unknown to the wide public, either home or overseas, with every negative consequences emerging from here.

The role of tourism in the regional economy, and implicitly in the national economy, refers mainly to a superior capitalization of available resources, which involve the economic and cultural rise of certain inhabited areas, the development in a territorial structure, the setting up of fields of activity which might absorb part of the workforce, it may also be an activating element of the global economic system, respectively a means of diversifying economic structures, parameters of education and training, has a calling for ecology, it imposes measures to protect the environment and the basic values of the human life (water, air, flora, fauna) and it also represents a lever to diminish the inter- and intra-regional disparities.

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THE IMPACT OF THE CAP-AND-TRADE SYSTEM ON SUSTAINABLE DEVELOPMENT IN ROMANIA

Bologa Gabriela

Agora University College of Law and Economics Science

Balint (Platon) Judit

University of Oradea College of Economics Science

The issue of pollution is an important contemporary issue. Within the last 20 years, there have been global studies on how to stop global warming. The European Union is the world leader in concrete measures undertaken in this respect. The introduction of the cap-and-trade system, begun in 2005 with the carbon emission certificate trade mechanism is considered a modest success that needs perfecting. The new EU directives of 2009, that come into effect in 2013, test member countries in the area of conventional and renewable energy strategies which have to be adapted to the national environmental protection strategies.

Keywords: market failure, cap-and-trade, emission certificates, carbon market

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Introduction

The impact of climate change on a global scale is more and more evident. The European Union, in the first decade of the 21st century, implemented a measures to reduce greenhouse gas emissions through the cap-and-trade method, using financial means, such as „carbon certificates”, creating a functional „carbon market”. These measures were in line with the Kyoto protocol, which sets objectives until the year 2012. In the year 2009 the ambitious legislative package for the 2013-2020 period came into effect. The EU wishes to reduce greenhouse gas emissions by at least 20% as compared to the year 1990, as well as to increase the percentage of green energy usage from 9 to 20% and to decrease primary energy consumption by 20%. The impact of implementing the energy/climate change package on the Romanian economy would affect the energy sector, the legislative process, profession reconversion, scientific and technological research, as well as the policy of attracting foreign investments and european funding.

Conceptual frame

People engage in market exchanges when they anticipate that through these operations their overall wealth increases. When, through these operations, the optimum results aren't reached, the neoliberal theory calls this *market failure*⁴⁰. One of these market failures are externalities.

Externalities are costs or benefits for a certain party which does not take part in the transaction. The classical case of negative externalities is pollution. For resources to be optimally used, the price paid for using them has to cover the *opportunity cost*. Nobel Laureate James M. Buchanan demonstrates the necessity of interpreting cost as *natural derivation from the act of choice*. If a company can use a factor de productie without paying for it, the resulting offer curve does not represent the whole marginal production cost.

$$\text{Social cost} = \text{private cost} + \text{externalities}$$

When the produced quantity is too great compared to the whole cost, then the social cost represented by the externality must be *internalised*. According to the methodology, as seen by the neoclastic theory, the government, which presumably always acts in the best interest of the public,

⁴⁰ Revista Economie Teoretică și Aplicata nr. 7/2006 Radu Șimandan, *Polurea și proprietate: Cât mai rezistă teoria eșecurilor pieței?*, <http://www.ectap.ro/articole/128.pdf>.

must intervene and correct the flaws of the market. The government, in order to fulfill its regulatory task, may use two methods: to impose centralised taxes, according to economist A.C. Pigou, or decentralised and tradeable (pollution) permits.

If property rights over some resources, used as production factors, are in the clear, the owners would be encouraged to enter into negotiations with the one that does the pollution. If there is the possibility of these negotiations, but these do not lead to optimum results, they are considered market failures. Elements of the negotiations, such as: informing, negotiating, stating, monitoring and applying the terms of the contract are activities that include costs, designated as **transaction costs**, highlighted by Nobel laureate economist Ronald Coase⁴¹. An analysis based on transaction costs defines externalities as follows: *the net value of externalities constitute the minimum threshold for associated transaction.*

According to Coase's theorem: in an exchange where external costs are present, the agents will negotiate until the point in which the resulting production is at an optimum amount, if three conditions are respected⁴². These conditions, in the case of pollution, are as follows:

- it is clearly defined when something can pollute, and in what amount.
- those who pollute have to pay to do it or they can be paid, by the owner of the affected resource, to abandon the practice of polluting.
- informing, negotiating, stating, monitoring and applying the terms of the contract should be at a low cost.

The problem of climate change is the consequence of **market failures**: those who produce damages to others by greenhouse gas (GHG) emissions do not usually pay anything.⁴³

Taking action against climate change can be achieved in three ways:

1. By states taking individual or collective action to reduce or limit the greenhouse gas emissions through imposed standards and regulations. This is called „**command and control**”

2. Carbon/energy tax

3. Imposing a limit on emissions while simultaneously trading in emission certificates. This is called „**cap and trade**”

If the first mechanism is of a public nature, the other two work through market means. State control is strong in the first case, medium in the second, and weak in the third.

Legal frame

In June 1992, the **United Nations Conference on Environment and Development** took place in Rio de Janeiro, where the need to integrate economic development and environmental protection into the sustainable development objectives was recognised, as well as the problem of an international environmental law, as a way of promoting sustainability, was raised. During this conference, the following documents were adopted:

- the Rio Declaration
- Agenda 21
- Convention on Biological Diversity
- Framework Convention on Climate Change

Romania ratified this document as Law nr. 24 of May 6, 1994

The Kyoto Protocol, of December 1997, is an international agreement regarding the environment, the agreement was put in action in October 2004 by the ratification of the Russian

⁴¹ Ronald H. Coase, *The problem of Social Cost*, Journal of Law and Economics 10/1960.

⁴² Revista Economie Teoretică și Aplicată nr. 7/2006 Radu Șimandan „Polurea și proprietate: Cât mai rezistă teoria eșecurilor pieței?” , <http://www.ectap.ro/articole/128.pdf>.

⁴³ Andrei Mocerov, “Fișă de analiză 1. Economia sistemelor de comercializare ale cotelor de emisie de CO2.” http://m.cdep.ro/afaceri_europene/afeur/2009/az_378.pdf.

Federation. Until 19.01.2009⁴⁴ the protocol was ratified by 84 countries that are responsible for 63,7% of the total greenhouse gas (GHG) emissions in the world. Romania ratifies the Kyoto protocol through Law number 3 of February 2nd, 2001 and therefore assumed the reduction of greenhouse gases by 8% compared with 1990.

The agreement stipulates for the 37 industrialized countries found in appendix 1 of the UNFCCC (*United Nations Framework Convention on Climate Change*), a reduction of the polluting emissions by 5,2% in the period 2008-2012, as compared with the emissions of 1990. Romania is part of the “transition economy” countries in appendix 1 of the UNFCCC. Flexibilization mechanisms for reaching the reduction targets assumed by the states mentioned in appendix B are:

AAU (Assigned Amount Unit) – the international commercialization of *emission certificates* - countries that are in appendix 1 of UNFCCC.

CDM (Clean Development Mechanism) - implementing projects in developing countries (that are not in Appendix 1) for generating CER (Certified Emission Reduction) credits. The projects are initiated by the industrialized countries from appendix 1 of UNFCCC.

JII (Joint Implementation) - between the states from appendix 1 of the UNFCCC (developed countries, developing countries). Romania is the beneficiary of the projects through the JI mechanism, implemented by the industrialized countries. For every saved tone of CO₂eq⁴⁵ the investor obtains an ERU (Emission Reduction Unit).

The European Union, to coincide with the Kyoto protocol parameters, launched the European Union Emission Trading Scheme for all the 25 member states, on January 1st 2005 following the principle of cap-and-trade, “limitation- transaction”. The allocation of the emission process has become an important stake, in the conditions that these permits can be freely traded on the carbon market. The Commission, through Directive 2003/87/CE has foreseen for the 2005-2008 period that member states are the ones that assess the amount of permits through the allocation with a free title and in a direct way. The scheme takes place on a three implementation periods: the first between 2005-2007, the second between 2008-2010 with a reduction by 8% of GHGs as compare to the 1990 levels, and the third period between 2013-2020. Financial instruments included in this scheme:

EUA – European Union Allowance – a tradeable unit (valued on the stock market) of the Transaction Scheme. 1 EUA represents the right to emit one tone of carbon

CER – Certified Emission Reduction – a unit equal to one tone of carbon dioxide. CERs are issued for the reduction of emissions from C.D.M. – Clean Development Mechanism (green energy) activities.

ERU – Emission Reduction Unit – obtained through a J.I. (Joint Implementation) project. One unit equals one tone of carbon dioxide.

VER – Verified Emission Reduction – are carbon credits which may be used to compensate carbon emissions. 1(one) VER corresponds to one tone of carbon dioxide.

The most important international financial markets on which these certificates are traded are Bluenext, European Climat Exchange, Intercontinental Exchange. Carbon dioxide emission certificates are traded on the Sibiu Exchange, as underlying asset, starting December 2009.

Member states have set, in the case of industrial output, a global limit on greenhouse gas emissions for which certificates (rights to emit one tone of CO₂eq per year) have been issued, equal in number to said limit. This system controls greenhouse gas emissions for approximately 15.000 companies, oil, gas and energy installations, celulos, paper, cement, glass and steel factories within the EU. Companies that emit more than their given quota will have to pay fines:

⁴⁴ United Nations Framework Convention on Climate Change - UNFCCC. http://unfccc.int/files/kyoto_protocol/status_of_ratification/application/pdf/kp_ratification.pdf.

⁴⁵ Equivalent carbon dioxide (CO₂eq) is the universally used unit of measure to indicate the global warming potential of the six types of greenhouse gases (GHG).

100 euros for every tone over the limit, during the 2008-2012 period, and, as an added measure, they will be forced to continue to submit the missing certificates the next year. Companies buy and sell certificates depending on how they fulfill their pollution goals.

Through the AAU mechanism, for the 2008-2010 period, the European Union has a set maximum yearly value of 2.08 billion tones of CO₂, and Romania of 75.9 million tons. Out of a total of 379.7 million certificates given to Romania for said 5 years, 351.1 million are split between 8 economic sectors, as set out in the HG 60/16.01.2008.

Sector	Certificates for 2008-2012
Energy	208,674,068
Oil refineries	28,818,122
Ferrous metal production and processing	61,654,319
Lime	4,908,313
Cement	41,251,885
Glass	1,618,308
Ceramics	1,753,842
Paper and cellulose	2,449,411

According to the *Fourth Global Evaluation Report of the Intergovernmental Panel for Climate Change*⁴⁶, written in 2007, human activities contribute substantially to the growth of greenhouse gas concentrations in the atmosphere, determining the change of its composition and subsequent global warming.

To combat climate change, the European Parliament – in December 2008 – and the Council of the EU – in April 2009 – adopted the „Energy – Climate Change” Package, also called the 20/20/20 Laws.

The objectives set out by the European Union with regards to this law are:

- The reduction of greenhouse gases by 20% until the year 2020, compared to 1990.
- A 20% share for renewable energy in EU final consumption, as well as a 10% target for biofuel in transportation.
- A 20% reduction in energy consumption as estimated for 2020, through increased energy efficiency.

The directives that make up the package are:⁴⁷

- Directive 2009/29/CE modifying Directive 2003/87/CE and improving and extending the commercial scope of greenhouse gas emission certificates.
- Directive 2009/28/CE regarding the promotion of the use of renewable energy sources.
- Directive 2009/31/CE regarding the geological capture and storage of carbon dioxide.
- Decision 406/2009/CE regarding member states’ efforts to reduce GHG .
- Directive 2009/30/CE, which forces fuel suppliers to cut greenhouse gas emissions generated in the fuel production chain.
- Directive 2009/33/CE, which concerns the promoting of green and energy efficient road transport vehicles.

Directive 2009/29/CE stipulates:

- The extension of the affected sectors, by including new ones, as well as new greenhouse gases that originate in various industrial processes.
- Geological capture, transport and storage of all greenhouse gas emissions.

⁴⁶ <http://www.ipcc.ch/>.

⁴⁷ General report on the activity of the European Union 2009 <http://europa.eu/generalreport/>

- The assignment of greenhouse gas emission certificates shall be “100% free” for energy-intensive sectors that face the risk of relocation⁴⁸ as well as for the energy producing installation that work in a cogeneration system, with the purpose of serving centralised heating systems.
- The assignment by “auction” for the energy sector, as well as for electrical production, shall be a minimum of 30% for 2013 and shall be gradually extended to 100% by no later than 2020. These auctions shall be open, transparent and the operator shall have the possibility of buying certificates from any Member State.
- The assignment by “auction” for installation from other, non-energy, sectors shall gradually rise from 20% in 2010 to 100% in 2020 on the basis of the principals of reference values of the most efficient technology.
- The Reserve of New Instalations (RNI) shall be managed on the European level, the assignment shall be with a free title, based on the reference value of the most efficient technology.

In Romania, considering the strict terms for the implementation of the legislative package, the “Action plan for the preparation of Romania for the enabling of the Energy – Climate Change legislative package” was approved, and thus the institutions, their responsibilities and their action plan for the next period were set out. The National Agency for Environmental Protection, through the Climate Change Service, created the “Guide for applying the 2009/29/CE Directive”⁴⁹.

The impact of the “Energy – Climate Change” Package on the Romanian economy

In Romania’s particular case, the situation of the primary energy sources is worrisome, especially in the context of analysing the energy security. The European Institute of Romania, in its “Perspectives on Romania’s energy security” study, concludes that the real situation regarding energy security is as follows:

- Dependence on importing energy resources, diversification of supply sources.
- Decisions regarding the national energy sector have an inertia of 4-20 years.
- The need to improve the efficiency of and modernise the energy sector by stimulating investments, as to reduce national losses in the consumption sector that are currently at 30-35%..
- The need to create an institutional frame for the energy sector.
- The structure of the energy balance: few resources, but expensive and diversified.
- Holds the largest share of renewable energy in the primary energy consumption in Central and Eastern Europe.
- Holds a great economical and technical potential in the renewable energy sector, unfortunately it’s untapped.

The known oil reserves will be used up in less than 20 years, natural gas reserves in about 15 years, coal reserves in 40-50 years and uranium reserves can ensure the functionality of two groups at the Cernavodă nuclear power plant until 2017.

A study⁵⁰ made by the European Institute of Romania in December 2009 analyzes the impact of the *Energy – Climate Change* Package on the Romanian economy and society. The conclusions and proposals have the purpose of facilitating the implementation of the package, but also of reducing its negative effects. Some of the most important measures proposed by the said study:

- The establishment of an institutional framework that incorporates a national planning institute, an energy and resources minister, a neutral body to supervise the energy market, a national body

⁴⁸ carbon leakage –the move towards other markets that have less strict rules than those set out by the EU

⁴⁹The Regional Agency for Environmental Protection Cluj Napoca
<http://www.arpmnv6.ro/Ghiduri%20eco/Ghid%20incardrare%20instalatii%20EU%20ETS%20post%202012%20revizuit%2022.12.2009.pdf>

⁵⁰ European Institute of Romania, București, Impactul implementării pachetului energie-schimbări climatice asupra economiei românești, Proiect SPOS 2009 Studii de strategii și politici, www.ire.ro.

for the management of the *Energy – Climate Change* Package through information centralisation and a regulation agency for the monitoring of intermediate and final targets.

- The development of a common document that incorporates the strategies in both the energy sector and the environment.
- Investments that strengthen transport networks and energy distribution.
- Growth of energy efficiency and the reduction of final energy consumption.
- The establishment of a fiscal regime for emission certificates and their transaction, the determining of the accountant rules of expenses of the scheme's implementation for the producers of heating and electricity by cogeneration.
- The creation of a legal framework necessary for ensuring the investment of funds acquired by the selling of CO2 certificates.
- The implementation of workforce qualification programmes for designing, building and operating the new green technologies.
- The need for a rehabilitation programme of certain thermo-electric powerplants that use indigenous coal, correlated with the desulphuration programme.
- The drafting of an evaluation study of our country's potential in the geological capture and storage of carbon dioxide.
- A programme for the thermal rehabilitation of buildings.
- The drafting of a study concerning the state of centralised heating systems and of a national strategy in the area of home heating.
- The development of the nuclear program, as an alternative to the country's dependence on natural gas imports and the replacement of old energy capacities with fossil fuels.
- A regulation of the introduction of the tariff binomial for heat and natural gas.
- Ensuring that energy prices have a high degree of tolerance by the consumers, through a system of energy assistance, wholly oriented towards all low-income families by eliminating subsidies and seasonal help.
- The continuation of energy sector privatisation together with public-private partnerships.
- The growth of the level of structural fund absorption, funds meant for improving environmental factors

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- 13.<http://www.sibex.ro/> Sibiu Monetary Financial and Goods Exchange
- 14.<http://www.bluenext.eu/> BlueNext European Financial Market

ECONOMIC IMPACT OF GLOBALIZATION ON THE ENVIRONMENTAL POLICY OF THE EUROPEAN UNION

Călborean Raluca

Babeş-Bolyai University

Faculty of Economics and Business Administration

Environmental policy has become an object for description and analysis. A global environmental mechanism intends to promote collective action at the international scale and to build an integrated environmental policymaking and management framework concerning the tasks of a shared global ecosystem. Governments use a number of different types of environmental policy instruments to implement their environmental policies: legislative, technical and economic-financial instruments. The encounter is to combine the environmental protection with continuing economic growth in an over the long term sustainable way. This paper tries to underline that there is an under appreciation of the adaptability of social structures even within economics of environmental policy, to the extent that it is necessary to fully acknowledge and highlight the inborn trade-off between economy and environment.

Keywords: environmental policy, sustainable development, globalization, acquis communautaire, economics

JEL codes: Q01, Q50

1. Introduction

Global environmental policymaking in the last decade has focused more on principles and declarations than on mechanisms for modifying environmental driving sources. The principal focus has been on drafting treaties. Gaps in issue coverage and, sometimes, even contradictions among treaties and organizations with environmental responsibilities have undermine result-orientated actions.

Environmental policymaking combines the identification of a goal with some means to achieve that goal. In practice, these two components are often linked within the political process.

The complex structure of the European Union (EU) generates uncertainties: EU tends to be rather a political concept, while Communities reserve their juridical personality.

Environmental protection is a priority objective of the European Union. This paper analysis incentives and contradictions of action programs and instruments formulated for implementing ecological policy.

2. Environmental Globalization

Globalization requires thoughtful and modern ways. A global environmental mechanism intends to promote collective action at the international scale and to build an integrated environmental policymaking and management framework concerning the tasks of a shared global ecosystem.

There is an under appreciation of the adaptability of social structures even within economics of environmental policy, to the extent that it is necessary to fully acknowledge and highlight the inborn trade-off between economy and environment.

The environment enters in the competences shared between Community and Member States (MS). The Community competence harmonizes with the different national policies.

Nowadays, environmental policy has become an object for description and analysis. The rate of change, both in circumstances as into the beliefs and attitudes of people respecting their environment in every aspect of modern society, during the last century upon government is

reflected in public policies and that related to the human environment and the biosphere has been numerous and rapid since the 1972 United Nations Conference in Stockholm.

The legal base of the European Union's environmental policy⁵¹ is set out in the Treaty on European Union (EU) and is based on Article 174 of the Treaty establishing the European Community. It aims to ensure the sustainable development of the European model of society. Policy concepts such as preventive measures, precautionary principle, the "polluter pays" principle and combating environmental pollution at source have precious importance and are of maximum applicability.

The main objectives laid down in Article 174 are:

- preserving, protecting and improving the environment quality;
- protection of human health;
- prudent and rational utilization of natural resources;
- promoting measures at international level for handling of regional environmental issues.

The European Union is one of the initiators of the United Nations Environment Program (UNEP) creating a strategic approach to the international management of chemicals, takes part to a number of international agreements and partnerships and is a signatory and active participant in the Kyoto Protocol on Climate Change, which entered into force in February 2005.

Its objectives regarding the environment are: control of activities with an adverse environmental impact, protection of air and water quality, waste management, conservation of resources and protection of biodiversity. However, environmental problems were increasing and reaching global-scale proportions through environmental consequences. They have brought an accumulation of natural wealth, but also an exceed of the capacity of natural systems to process and neutralize the residual products of modern civilization: contamination of air, water and soil, decrease of the restorative capabilities of over-stressed species and ecosystems often to the point of extinction.

Starting in the 1980s, governments saw the emergence of an international environmental agenda over the next two decades as the first attempt at global environmental governance⁵². Some of the most important accomplishments in the area of global environmental governance are:

- an agenda of the most important environmental concerns has been defined;
- action plans, treaties and international conferences have been developed;
- relevant scientific research has been made;
- campaigns concerning environmental problems supported by national governments, nongovernmental organizations (NGOs), multinational corporations have been launched;
- international environmental affairs has become a major subject of teaching.

Hama Arba Diallo, executive secretary of the United Nations Convention to Combat Desertification (UNCCD) said: "Perhaps the only concept as heavy laden with multiple agendas as globalization is 'sustainable development'".

The European Association Agreement stipulates that Member States development policies must be guided by the principle of **sustainable development**⁵³ in order to achieve a form of

⁵¹ "Policy" is hardly a precise term, but it is used here as defined by the **Oxford Reference Dictionary** (1986) as "a course of action adopted by a government or party or person".

⁵² The definition of the term "governance" has varied according to the scope of decision-making power. There has been a move to a definition under which "governance, at whatever level of social organization it may take place, refers to conducting the public's business – to the constellation of authoritative rules, institutions, and practices by means of which any collectivity manages its affairs" (John G. Ruggie, *Reconstituting the Global Public Domain: Issues, Actors and Practices*, published in *European Journal of International Relations*, Vol. 10, Issue 4, 2004).

⁵³ The word "sustainability" is derived from the Latin *sustinere* (*tenere*, to hold; *sus*, up). The main meanings provided by dictionaries for *sustain* are to "maintain", "support" or "endure". However, since the 1980s **sustainability** has been used more in the sense of human sustainability on planet Earth and this has resulted in the most widely quoted definition of sustainability and sustainable development, that of the Brundtland Commission of the United Nations on

“development that meets the needs of the present without compromising the ability of future generations to meet their own needs” by integrating environmental requirements into the definition and implementation of other EU policies and activities.

The director of the Third World Network, Martin Khor, is a critic of the current globalization process. He supports the idea that the reason for the marginalization of the sustainable development paradigm and of the market paradigm has been “the strong support and aggressive advocacy of the powerful countries” for *both* results.

The needs of all countries, an assurance from the strong to help the weak, the worry about the proper development of the environment and an understanding that the state and the international community must intervene on behalf of the public interest to attain greater social equity and bring about more sustainable patterns of production and consumption, characterizes the sustainable development paradigm on Khor’s behalf.

3. Eco-Economy

As it seems, the expression of **eco-economy** belongs to the American scientist Lester R. Brown. He entitled one of his famous works “Eco-Economy: Building an Economy for the Earth” (2001). From the etymologic point of view, the origins of the term eco-economy come from the Greek *oikos*, which means house, household, habitat, citadel.

Eco-economy is synonym with ecological-economy and it incorporates the recognition of a subsystem resulted from the multiple, objective interaction of two realities: the economic reality and the ecologic reality. The origin of both terms comes from Greek: *nomos*, meaning law and *logos*, meaning science, discourse, order.

The critics of economic globalization see in the process of globalization an exacerbating of environmental problems. Economic globalization leads there for to:

- a decrease in the ability of national governments to cope with environmental management problems;
- an increase in corporate power and reach;
- an enlargement of environmentally destructive growth;
- the stimulation of particular sectors that have negative side effects;
- the commodification of resources such as water.

On the other hand, within globalization, environmental quality can be achieved through the strengthening of environmental management by improving capacities in government to manage economic affairs. It can lead to increased incomes, which in turn can lead to governmental revenues for social and environmental programs, and to an increasing international trade in resources. The Nobel economist Joseph Stiglitz has noted the result to be that “globalization today... is not working for much of the environment.” Nor, in his view, is it “working for many of the world’s poor” or “for the stability of the global economy.”

4. Environmental Policy Instruments

Governments use a number of different types of environmental policy instruments to implement their environmental policies: legislative, technical and economic-financial instruments.

The **legislative instruments** create the legal framework of the Community policy for the environmental protection. They consist of over 300 normative acts (directives, regulations and decisions), that have been adopted beginning with the 1970s; the so called *acquis communautaire*.

The term *acquis communautaire* of environment represent both the entire legislation as the whole of the policies and institutions created to certify the continuous application and development of

March 20, 1987: “sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (<http://en.wikipedia.org/wiki/Sustainability>).

this legislation. Regulations with an horizontal character that facilitate the process of making a resolution, developing and involvement of the civil society in the protection of the environment, and the regional legislation that refers to all the regions that make the object of environmental policies, are the categories of regulations included into the *acquis*.

According to the EU legislation, the *acquis* comprises “legal instruments covering a wide range of fields, including water and air pollution, the management of waste and chemicals, biotechnology, radiation protection and nature conservation”. Environmental impact assessment has to be carried out by the MS before certain public and private-sector development projects are approved.

The **technical instruments** ensure the proper keeping of the quality standards concerning the environment and the use of the best reachable technologies. This category consists of the following instruments:

- standards and emission limits;
- the Best Available Technologies (BAT);
- the *eco* denomination (eco-labeling);
- criteria for environment inspection in the MS.

The **economic-financial instruments** are represented by different programs, such as:

- **LIFE+** program: technological projects with environmental benefits, projects contributing to the implementation of the EU's Birds and Habitats Directive and to the EU's goal of halting the loss of biodiversity and projects that spread information about environmental issues, such as climate change and conservation.

- **Structural Funds** (European Regional Development Fund (ERDF) and European Social Fund (ESF)) and **Cohesion Fund**: financial instruments of EU's regional policy which aim to restrict the development disparities among regions and MS. The Funds participate in pursuing the goal of economic, social and territorial cohesion. For the period 2007-2013, the budget allocated represents 35% of the Community budget and is the second largest budget entry.

Economic driving forces and **market-based instruments** (MBI) are very effective to inspire accordance with the environmental policy. They are often defined, such as in the *Oxford Reference Dictionary*, as “instruments or regulations that encourage behavior through market signals rather than through explicit directives”.

These policy instruments, MBIs, such as environmental taxes, tradable permit systems or targeted subsidies, are a cost-effective way to protect and improve the environment and are often described as “harnessing market forces” because they encourage firms (and/or individuals) to undertake control efforts that are gaining acceptance as important policy mechanisms for achieving environmental protection goals.

5. Conclusions

A global environmental mechanism intends to promote collective action at the international scale and to build an integrated environmental policymaking and management framework concerning the tasks of a shared global ecosystem.

Gaps in issue coverage and, sometimes, even contradictions among treaties and organizations with environmental responsibilities have undermine result-orientated actions.

The eco-economy incorporates the recognition of a subsystem resulted from the multiple, objective interaction of two realities: the economic reality and the ecologic reality. Within globalization, environmental quality can be achieved through the strengthening of environmental management by improving capacities in government to manage economic affairs.

The strategies of governments improve the quality of the environment and they support the Member States and regional and local authorities in implementing policies and environmental legislation. Legislative, technical and economic-financial instruments represent different types of environmental policy instruments to implement governments' environmental policies.

On the other hand, the critics of economic globalization see in the process of globalization an exacerbating of environmental problems. The goal that wants to be achieved in liberalized trade and investment flows should be complemented by efforts in the environmental and social areas. The encounter is to combine the environmental protection with continuing economic growth in an over the long term sustainable way.

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THE PERSPECTIVES OF MARITIME TRANSPORT IN EU AND ITS INTEGRATION IN THE SUPPLY CHAIN MANAGEMENT

Cărăgin Andreea Raluca

The Academy of Economic Studies Bucharest

The Faculty of International Business and Economics

Paraschiv Dorel Mihai

The Academy of Economic Studies Bucharest

The Faculty of International Business and Economics

Voicu-Dorobanțu Roxana

The Academy of Economic Studies Bucharest

The Faculty of International Business and Economics

In a globalised economy transport is one of the most important factors linking the national economies and maritime transport is the main way to deliver goods in international trade. For any international company, choosing the appropriate transportation as part of the logistic solution is vital for its competitiveness. In the context of the economic crisis, CEE strategic location factors play an important role for regional companies which adapt and change their logistic services by developing new scenarios for the shipping industry in order to obtain a better position on the global market. In addition to a favourable geographical location CEE has several other important arguments, like sufficient harbours for developing container terminals to launch extensive container transport transit. The most important recent trends in logistics are shown, as well as the framework of the EU maritime transport.

Key words: maritime transport, EU transport strategy, supply chain strategy

Cod JEL: L91, L98, L52.

1. Introduction

In Europe there are over 1200 commercial harbours spread over 100 000 km of coast, many of them benefiting from the European funds. Improving the competitiveness of the maritime transport can bring important benefits to the whole economy. Approximately 40% of internal commerce goods and almost all goods destined for the international commerce are transported by sea. This sector represents an important source for jobs and income in Europe. Every year, over 400 million passengers and over 3.5 billion tones of goods pass through the European ports. Using the rapid growth of international commerce in the last decade, the maritime goods transportation sector in Europe has also developed considerably, companies investing important amounts of money in fleet renewing and extension. These companies face a fierce competition due to the firms that apply inferior safety measures. The instability of energy markets and piracy also stop the development of maritime transportation.

The purpose of this study is to increase understanding of the opportunities for improving freight logistics and transport in Europe, identify obstacles to change and recommend measures that would enhance the competitiveness of European industry and services. The article focuses on some key topics: the main driving forces behind changes in the location of economic activities in Europe, how are these decisions influenced by supply chain management considerations and what initiatives would improve the efficiency of European freight logistics and transport. The most important recent trends in logistics are towards: shorter order cycles, more frequent, more reliable deliveries, closer relationships with only few of the suppliers, greater use of IT systems

and outsourcing logistics; the future of E-commerce, and the impact which this will have on logistics is still to be determined⁵⁴.

2. Literature review

The paper is presenting a synthesis of the recent research works in transport and supply chain management. The *supply chain management* is considered by **Hung et al (2004)** to be used in the literature with different meanings, such as: purchasing and supply; transportation and logistics; marketing; and level of coordination. According to **Mak and Ramaprasad (2003)** *supply chain management* is “a set of approaches utilized to efficiently integrate suppliers, manufacturers, warehouses, and stores, so that merchandise is produced and distributed at the right quantities, to the right locations, and at the right time, in order to minimize system-wide costs while satisfying service level requirements”. A lot of research has been made regarding supply chain management, but according to **Sanchez-Rodrigues, Potter and Naim (2010)** “little research has been undertaken including transport operations as a strategic member of the supply chain, with hardly any work on the impact of uncertainty on transport operations within supply chains”. In the maritime transport sector, the effort to obtain economies of scale and a certain level of control over the logistic function are influenced by services globalization, the development of the container system transportation, the transport alliances and transport concentration in a small number of ports (the so called hub ports). The role of ports has changed now, transforming them into freight distribution hubs⁵⁵.

Sanchez-Rodrigues et al. (2007) cited by **Sanchez-Rodrigues et al (2010)** develop a logistics-focused uncertainty model. The Logistics Uncertainty Pyramid Model includes the following uncertainty sources that can affect transport operations: shipper, customer, carrier, control and external uncertainty. The research conducted by **Sanchez-Rodrigues et al (2010)** suggests the following causes of transport uncertainty: delays, demand and information issues, delivery constraints and lack of coordination. *Delays* appear to be very important for shippers, customers and providers, hence affecting all logistic chain members. *Demand and information issues* were considered the second most important barrier to achieving a high level of logistics performance; *delivery constraints* are considered to be another important barrier in transport operations, as they can cause potentially delays. Finally, *lack of coordination* within the logistics chain and at the company level can cause disruptions in the delivery process.

Few companies are self-sufficient, therefore the dependence on other firms. When their resources and competencies are not sufficient, firms are likely to establish connections with other organizations on the market that are able to offer the needed services. According to **Fugate et al. (2009)** “in a supply chain environment, buyer-seller arrangements involve other entities as well, such as third-party organizations (e.g. transportation providers)”. Mentzer et al. (2001), cited by **Grawe (2009)** considers that “an effective logistics operation can provide a competitive advantage for a firm and increase a firm’s market share”. Logistics can also enhance customer value and logistics managers consider that it adds value to the company.

Monczka et al. (2005) cited by **Meixell and Norbis (2008)** thinks that “mode choice and carrier selection are part of the decision-making process in transportation that includes identifying relevant transportation performance variables, selecting mode of transport and carrier, negotiating rates and service levels, and evaluating carrier performance”. Choosing the appropriate transport solution is very important, as it represents an average of 20% of total production costs.

⁵⁴ Freight Logistics and Transport Systems in Europe. Trends in the location of European industry and its interaction with logistics and transport, European Council of Applied Sciences and Engineering Euro-CASE, 2000

⁵⁵ Short sea shipping in Europe, Volume 772, De European Conference of Ministers of Transport. Combined Transport Group

Meixell and Norbis (2008) reports that transport industry challenges are nowadays transportation capacity shortage, international growth of economic activities, economies of scale and scope, security concerns and environmental and energy concerns.

Transportation capacity shortage has surfaced in logistics management. Capacity limitations have an impact on all carriers; therefore their capacity to overcome these limitations will help to differentiate from current competition.

Global transportation involves higher cost and longer transit times, making *international growth* an important challenge in supply chain management.

Economies of scope are “readily apparent relative to the use of transportation equipment after it is emptied, while *economies of scale* are a concern relative to shipment size. There is a strong incentive to ship in full truckloads to minimize the cost associated with the considerable capital expenditure for equipment. Economies of scale are also affected by the handling of inventory” considers **Meixell and Norbis (2008)**.

Security in the supply chain is also very important thinks Russell and Saldanha (2003) cited by **Meixell and Norbis (2008)**, the consequences being “an additional \$151 billion annual cost, \$65 billion of which is in logistical changes to supply chains. How can this problem be solved? “By selecting security-conscious carriers, shipping via secure ports, meeting packaging security requirements, and providing background information on key personnel” considers Rinehart et al. (2004) cited by **Meixell and Norbis (2008)**.

Environmental and energy concerns presents a challenge to logistics managers, as environmental impact is increasingly important to consumers, being known that transportation sector is a major contributor to air pollution, acid rain, maritime water quality problems.

3. EU legal framework for the maritime transport

Transport is an essential component of the European economy. The transport industry at large accounts for about 7 % of GDP and for over 5 % of total employment in the EU. The present situation of the supply chain system in CEE area has been from manufacturer-led to retailer-led supply chains (from “push” to “pull” supply chain economics). Transport and logistics have relatively little effect on the global location of primary activities – the manufacture and sale of final products. This is determined by markets, labor conditions, financial incentives, and the social or cultural preferences of senior management. However they influence regional and local location decisions where site accessibility is a significant factor⁵⁶.

In the maritime sector, marine pollution and maritime accidents were considerably reduced and the EU has established one of the most advanced regulatory frameworks for safety and for pollution prevention. Safety agencies have been set up also for aviation (EASA), maritime affairs (EMSA) and rail transport (ERA)⁵⁷.

In 2009, the third maritime safety package has been adopted by the European Parliament. With the adoption of the first two legislative packages on maritime safety (the so-called ERIKA I and II packages), the message delivered by the EU being that substandard shipping would no longer be admitted.⁵⁸ The EU has proposed guidelines for the development of an integrated maritime policy, which constituted one of the Commission’s strategic objectives for the period 2005-2009⁵⁹.

These guidelines form a central part of the Communication on an Integrated Maritime Policy for the EU (Blue Paper) adopted by the Commission and approved by the European Council in 2007

⁵⁶ Freight Logistics and Transport Systems in Europe. Trends in the location of European industry and its interaction with logistics and transport, European Council of Applied Sciences and Engineering Euro-CASE, 2000, p. 8-9

⁵⁷ A sustainable future for transport. Towards An Integrated, Technology-Led And User-Friendly System, Directorate General for Energy and Transport, European Commission, 2009

⁵⁸ http://ec.europa.eu/transport/maritime/safety/third_maritime_safety_package_en.htm.

⁵⁹ http://europa.eu/legislation_summaries/maritime_affairs_and_fisheries/maritime_affairs/pe0003_en.htm.

and are part of the United Nations' 1982 Convention on the Law of the Sea and the World Summit on Sustainable Development in Johannesburg in 2002. Member States are encouraged to *establish their own integrated maritime policies* in close collaboration with their national and regional maritime stakeholders, should consider *creating internal coordinating structures* within their government frameworks and all *maritime stakeholders should participate in integrated maritime policy-making*.

“Maximising sustainable use of the oceans and seas while enabling growth of the maritime economy and coastal regions is the prime objective of an integrated maritime policy for the EU” according to the European Commission; therefore the following measures will be taken:

- create a strategy to alleviate the consequences of climate change;
- enhance professional qualifications and studies in the maritime field;
- create a European maritime space without administrative or customs barriers as well as a comprehensive maritime transport strategy for 2008-2018;
- issue guidelines on the application of environmental legislation relevant to ports;
- promote technological innovation in the shipbuilding and energy sector;
- support international efforts to reduce pollution of the atmosphere and greenhouse gas emissions attributed to ships;
- build a knowledge and innovation base for the maritime policy.

The Commission Green Paper: Towards a future Maritime Policy for the Union: a European vision for the oceans and seas is in line with the Lisbon Strategy and aims to obtain sustainable development by reconciling the economic, social and environmental dimensions of the exploitation of the seas and oceans. The EU is the biggest maritime power in terms of maritime transport, coastal tourism, offshore energy production, shipbuilding technologies and related services.

The EU is also the leader in building of cruise ships, renewable energy and ports. The Green Paper examines the factors influencing competitiveness: the state of the marine environment, scientific knowledge in all areas relating to the oceans, innovation and the expertise of the workforce. Maritime policy “forms part of the Lisbon Strategy by proposing to exploit synergies between regional policy and policies on fisheries, research and innovation, businesses, maritime transport, the environment and energy in order to promote sustainable development”⁶⁰.

4. CEE's arguments in logistics

In the context of the economic crisis, CEE strategic location factors play an important role for regional companies which adapt and change their logistic services by developing new scenarios for the shipping industry in order to obtain a better position on the global market. Together with further deepening of the single market, integration of the EU with neighbor regions will continue. Globalization, enabled by the liberalization of trade and by developments in transport (such as reefer containers) led to enhancement of the world economy. Transport outside Europe will increase much more than inside Europe and EU external trade and transport are likely to keep growing rapidly in the coming years.

SWOT Analysis

Strengths

- Low labor costs, compared to the ones in Western Europe; the problem is now if this opportunity will remain with the EU accession of CEE countries.
- Workforce is literate and speaks foreign languages.
- Lower operating costs are provided by the difference in labor rates, generating net savings.
- Delocalization of R&D centers in CEE means that companies can develop products adapted to

⁶⁰ http://europa.eu/legislation_summaries/maritime_affairs_and_fisheries/maritime_affairs/l66029_en.htm.

the targeted markets.

- The Black Sea represents a main maritime transport way in Europe, and Romania has access to it; it also has access to the Danube, a very important important way of, which has a total 2411 km navigable, 78 ports and 1100 ships registered in 30 states.

Weaknesses

- The EU is on its way to create a level playing field in the increasingly integrated transport market, but issues such as differences in taxation and subsidies still need to be addressed.

- The environment remains the main policy area where further improvements are necessary. In the EU, compared with 1990 levels the transport was the sector with the biggest growth rate of greenhouse gas emissions.

- Lack of enough intermodal nodal points.

- Not enough developed port infrastructure.

- The logistic market started to have a negative rate last year, as the quantity of logistic spaces delivered has decreased from 250.000 in 2008 to only 50.000 in 2009 in Romania, for example.

The rate of usage of logistic spaces also decreased from 96% in 2008 to 88% in 2009.

Opportunities

- The demand for freight transport in the EU grew on average by 2.7 % per year. The growth of freight transport is also linked to economic practices (concentration of production in fewer sites, to economies of scale, delocalization, JIT deliveries) that allowed reduction of costs.

Threats

- Environmental challenges

- Transport will suffer from the effects of climate change and will necessitate adaptation measures. Global warming resulting in a rising sea level will amplify the vulnerability of coastal infrastructures, including ports.

- Increasing scarcity of fossil fuels.

- The economic crisis that affects this sector of activity also.

5. Conclusions and future research

The purpose of this study was to show the role of transport policy in Europe, as transportation represents more than only a problem of cost, distribution playing an important role in obtaining a competitive advantage. "The performance of the transport carrier may influence the effectiveness of the entire logistics function of a company", as it is considered by **Meixwell and Norbis (2008)**. The results of this study also reveal the presence of a regulatory framework of the maritime transport in the EU and also show, through a SWOT analysis the main arguments that CEE region has regarding the logistic system.

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THE IMPACT OF STRUCTURAL FUNDS IMPLEMENTATION IN BIHOR COUNTY. CASE STUDY ON THE REGIONAL OPERATIONAL PROGRAMME 2007-2013

Chirilă Lavinia Florentina
Faculty of Economics
University of Oradea

As The County's Development Plan 2007-2013 shows, Bihor county, which through its geographic position and existing local resources, plays a strategic role, of the West gate of Romania, distinguishes through a low unemployment rate, of 2,7% in 2007, on the third place in Romania after Bucharest and Timiș county and on the first place in the North-West region that he is part of, through a high living standard, with a GDP of 55% of the European average, ranks among the most developed counties in Romania (range 8 in the country according to the GDP value per capita, range 2, after Cluj county in the North-West region).The present paper analises the absorbtion rate of structural funds allocated through the Regional Operational Programme of Bihor county and sets itself to formulate some conclusions regarding the way in which Bihor county has valued until present the development opportunities offered by the Regional Operational Programme, respective regarding future action directions, established by the Bihor County Development Plan, 2007-2013.

Key words: regional development, regional politicly of EU, structural funds, absorption rate of structural funds, Regional Operational Programme, Bihor County Development Plan.

JEL Classification: O22, R10, R11, O10

Introduction

Bihor County, through its geographic position and its local existing resources, fulfils a strategic role, of Western gate of Romania. The county distinguishes through a *low unemployment rate*, of 2,7% in year 2007, on the third place in Romania after Bucharest municipality and Timiș county and on the first place in the North – West Region that it is part of. Through a *high living standard*, with a GDP of 55% of the European average, value registered in the year 2006, Bihor county is part of the most developed counties in Romania, being situated on 8 place on country according to the GDP value per capita, and in the North – West region, Cluj county is the only one that goes beyond Bihor, both through the development of the economy and through its relative proportion. Having a high attractive level, for investors and tourists, Bihor county disposes of a growing entrepreneurial capacity and a developing human capital, process sustained by a young and extremely dynamic academic system (Development Plan of Bihor County 2007-2013, 2007). The message of regional or cohesion politicly of the European Union for the period 2007 - 2013 is “a bigger economic growth and more workplaces for all the regions and towns from the European Union”. In order to fulfill this, EU has allocated for the cohesion policy the total amount of 347.4 billion Euros for 2007 - 2013, that means that over one third of the European Union's budget is allocated to the financial instruments of the cohesion policy of the European Union: European regional development fund, Cohesion fund and Social European fund. 82 % of the total amount of the funds will be directed to the convergence regions – which shelters 35 % of the European Union's population. In the other regions, approximately 55 billion Euros are allocated for the objective „Regional competitiveness and the work force

employment”. Other 8.7 billion are available for cross-border, transnational and interregional cooperation, in the frame of the objective „European territorial cooperation” (European Commission, 2010). The present paper proposes to analyze the *impact of using structural funds on Bihor county*, answering questions such as „Where are we situated in present compared to the vision for Bihor county proposed through the *Development Plan of Bihor County 2007-2013?*”, „Are we heading in the right direction?”. There are also sighted aspects as the identification of the priority axis with the highest absorption rate. The identification of obstacles that blocks funds absorption in adverse fields as well as formulating solutions for the stimulation of structural funds absorption is another objective of the paper.

Literature review

The absorption rate is defined as the ability of a country or organization to use efficiently financial assistance received. In the case of the Regional Operational Programme, the absorption rate is given by the capacity of eligible organizations to elaborate and implement viable projects. In other words, even though the needs of a country or organization are big, their ability of using efficiently the financial assistance can be reduced from various reasons (for example the lack of skilled labor forces, the lack of planning, the lack of co-financing, etc.). An inappropriate use of structural funds will lead to a very small absorption rate (Regional Operational Programme, 2010). According to the European Commission Report from May 2007, regarding the cohesion policy, the premises of success in implementing European funds depend in big measure of the solid institutional capacity of public administration from member states. There are two directions of the European funds drain. On one side, the contribution of the fund suppliers (the supply side) at successful funds administration is determined by the quality of public administration, and on the other side, regarding the demand side, public benefits depend of the way of funds implementing. The role of the public administration is therefore a bivalent one, having the quality of contributing both from the position of coordinator of European funds administration, as well of the beneficiary, administrative capacity being filled by the ability of administration according to the legal discretion that regulate the funds that they will dispose of in project implementation. Consequently, consolidating the administrative ability of structural funds absorption as well as preparing fund’s portfolio, viable public investment projects are extremely important to guarantee the success of implementation.

Empirics

For the present paper we analyzed the priority axis that met the highest call for financing, using The stage Report of communication of implementation of the North – West Regional Development Agency, as well as the Information regarding the stage of projects presented for financing through *the Regional Operational Programme 2007-2013* in North – West region at 14.12.2009, containing detailed information about Bihor county. We realized a comparison between Bihor county and the entire North-West region, and we extracted conclusion on the base of the results that we obtained.

According to “The information regarding the stage of the projects applied for financing through *the Regional Operational Programme 2007-2013* in North – West region at 14.12.2009”, in Bihor county, the situation of the projects that applied for financing is the following:

Table 1

Priority axis	Field of action	Total number of projects applied – out of which: contracted – rejected -ended	Total value of projects (millio	Irredeemable financing asked (million euro)

			n euro)	
1 – Supporting the durable development of cities – urban pols of growing	1.1 – “Integrated plans of urban development” – urban centers subfield	Integrated plans of urban development applied: 3 Total individual projects pertaining to the integrated plans of urban development : 8	15.43	10.53
2 – Development of regional and local transport infrastructure	2.1 – “Rehabilitation and modernization of county road chain, urban streets – including building / rehabilitation of city-roads”	Total projects submitted: 5 out of which: Rejected: 2 Contracted: 2 , Precontracted: 0	54.15	43.26 <i>Irredeemable financing asked through the contracted projects 15,33</i>
3 –The improvement of social infrastructure	3.1 – „Rehabilitation / modernization/ equipment of health services of infrastructure ”	Total number of projects submitted 7 out of which: Rejected: 3 Contracted: 1 Precontracted: 0	4.81	3.94 <i>Irredeemable financing asked through the contracted projects – 0.85</i>
	3.2 – “Rehabilitation / modernization/ development and equipment of social services infrastructure”	Total number of projects submitted - 15 out of which: Rejected: 1 Backed up: 2 Contracted:1 Precontracted: 0	10.18	8.36 <i>Irredeemable financing asked through the contracted projects – 0.68</i>
	3.4 – „ Rehabilitation / modernization/ development and equipment of educational infrastructure and of the life-long learning infrastructure”	Total number of projects submitted: 10, out of which Rejected: 2 Contracted: 0 Precontracted: 4	14.46	11.28
4 –Support of local and regional business environment development	4.1 “Durable development of support structures of businesses of regional and local importance”	Total number of projects submitted: 6 out of which Rejected: 2 Contracted: 0 Precontracted: 0	51.48	23.55
	4.2 “ Rehabilitation of industrial sites, polluted and unused and preparing for new activities ”	Total number of projects submitted: 0	0	0
	4.3 “Microenterprises development support”	Total number of projects contracted 15	Total value - contracted project	<i>Irredeemable financing asked through the contracted projects 1.02</i>

			1.75	
5 – Durable development and tourism promotion	5.1 – “Rehabilitation and durable valuing of cultural heritage, as well as creating and modernization of connected infrastructures”	Total number of projects submitted: 2 out of which Rejected: 1 Contracted: 1 Precontracted: 0	10.05	7.73 <i>Irredeemable financing asked through the contracted projects – 6.81</i>
	5.2 – “Creation, development, modernization of tourism infrastructure for valuing natural resources and growing the quality of touristic services”	Total number of projects submitted: 5 out of which Rejected: 2 Contracted: 0 Precontracted: 2	30.93	13.36

Source: North-West Regional Development Agency data, 2010.

Analyzing Table 1, we notice that the absorption of structural funds differs from a priority axis to another and from an intervention area to another. According to the report studied, in Bihor County, the biggest number of projects submitted has been registered on Priority axis 4, called “The support of the development of local and regional business environment”, intervention area 4.3 “The support of microenterprises development”, with a total number of 15 submitted and contracted projects, being in the implementation stage. Even though the value of these projects is small, in average approximately 200.000 €, we notice that the private business environment is receptive and interested in structural funds absorption. On the other hand, the most problematic regarding the total number of projects submitted are the intervention fields 4.2 “Rehabilitation of industrial sites, polluted and unused and preparing them for new activities” and 5.3 “The growth of touristic potential”, where up to the moment of the report no contract had been submitted, so the absorption rate is 0. Another phenomenon observed is the fact that almost all priority axis, respective intervention fields, have a high percentage of projects rejected as it follows: Priority axis 2 “Development of regional and local transport infrastructure” - 40% projects rejected; Priority axis 3 “The improvement of social infrastructures” registers an average of 26% rejected projects on the 3 intervention fields reported; Priority axis 4 “Support of local and regional business environment development” - 30% projects rejected on the 3 intervention areas; Priority axis 5 “Durable development and tourism promotion” – an average of 45% projects rejected. This phenomenon is attributed by the present governance to the lack of interest of the previous governance, and the fact that there is not a unitary approach at the level of the Management Authorities and Intermediary Organisms. The main problem is bureaucracy; **it passes a long time between the moment when the applicant’s guide is published and effective contracting of the projects, this leading to the large number of projects rejected, etc.**

Considering the financial allocation on development regions for Romania, in the Regional Operational Programme 2007 – 2013, we observe that to the North-West region has been allocated 12.09% of the total value of funds allocated to Romania. So, in The Regional Operational Programme up to present, Bihor County has accessed 22.93% of the total value of funds allocated for period 2007-2013 to the North-West region, and respectively 2.77% of the total funds allocated for Romania in the period 2007-2013. It is a high percentage, but predictable, considering the fact that the county we are speaking about is the second one as dimension in the North-West region, after Cluj County, with a total numbered of 15 projects won only on the intervention field 4.3 “The support of microenterprises development”, according to Table 1. As it can be noticed in Table 2, a high value of won projects is registered by the investment in county roads, infrastructure, healthy services, projects that come from the public sector. But, even though the value of the projects is big, fact that contributes to a high absorption

rate, the number of projects is reduced, the need of active implication of public sector in funds absorption being still felt in intervention fields such as 5.3 “The growth of touristic potential”, 4.2“Rehabilitation of industrial sites, polluted and unused and preparing them for new activities”.

Table 2

Priority axis/Intervention field	NV (mil. €)	BH (mil. €)	% (BH/NV)
1. Supporting the durable development of cities	168.19	10.53	6.26%
1.1. Integrated plans of urban development	168.19	10.53	6.26%
2. Development of regional and local transport infrastructure	105.99	43.26	40.82%
2.1 County roads/ urban streets	105.99	43.26	40.82%
3. The improvement of social infrastructure	79.5	23.58	29.66%
3.1. Healthy infrastructure	20.99	3.94	18.77%
3.2. Social services infrastructure	12.03	8.36	69.49%
3.3. Equipments for emergency situations	12.03	0	0.00%
3.4. Education infrastructure	34.45	11.28	32.74%
4. Supporting the regional and local business environment	96.19	24.57	25.54%
4.1. Business support structures	33.17	23.55	71.00%
4.2. Industrial sites: rehabilitation and preparing for new activities	28.46	0	0.00%
4.3. Supporting microenterprise development	34.56	1.02	2.95%
5. The development and promoting tourism	86.54	21.09	24,37%
5.1. Valuing cultural heritage	28.46	7.73	27.16%
5.2. Tourism infrastructure	39.9	13.36	33.48%
5.3. Touristic potential promotion	18.18	0	0.00%
TOTAL (without the sums foreseen for technical assistance, these being administrated by AM POR)	536.41	123.03	22.94%

Source: North-West Regional Development Agency data, 2010;

In Table 2, it is realized a comparative analyses between the values of the structural funds allocated to the North-West region, through the Regional Operational Programme, and the total value of accessed funds up to the present moment in Bihor county, for every Priority axis and intervention field, by correlating data from the Report regarding the stage of projects submitted for financing through ROP 2007-2013 for Bihor county with the data regarding The financing allocation on development regions through ROP 2007-2013. As we have noticed earlier, the areas with the smallest level of absorption through ROP 2007-2013 are 5.3 “The growth of touristic potential”, 4.2“Rehabilitation of industrial sits, polluted and unused and preparing them for new activities”. We already know the fact that main reason that determines this phenomenon is the lack of active and dynamic public implication of the public sector in absorption structural funds, in this field the state is the eligible beneficiary. Also, we notice the interest of the microenterprises and the availability of the private sector to access structural funds, even though

the co-financing is a big impediment in funds absorption. The co-financing is the main reason for which many microenterprises give up projects that they have won. So, we come back to the public sector and government who must accelerate the process of adopting the law regarding the public-private partnership in order to ease the access of private sector to investment in infrastructure.

Results

We consider that we are heading in the right direction, but not as fast as we should, so we must try harder. We have managed to access a high percentage of structural funds intended for Romania, North-West region, through investing in infrastructure, roads, sewerage systems, modernization and technologization of the microenterprises but, what is alarming is the fact that the needs are still very big and far from being satisfied. Even though the implication of county's local authorities in the structural funds absorption has risen lately, there are still fields where the absorption rate is zero. Surprisingly, Priority axis 5.3 "The growth of touristic potential", and Priority axis 4.2 "Rehabilitation of industrial sites, polluted and unused and preparing them for new activities", not so surprisingly, have the absorption rate 0. The second county as dimension in the North-West region, Bihor is situated on the second place regarding the structural funds absorption through the Regional Operational Programme 2007-2013, after Cluj County, which is according to general expectancies, but far from full valuing the county's potential, especially in the field of tourism, where we have an enormous potential revealed by the resorts of national interest (such as Băile Felix, Băile 1 Mai, Băile Tinca popular for the balneary tourism; mountain resort Stana de Vale; etc.), the existence of the treed carst and of a high number of caves of national and international value. We consider that the local authorities should show a bigger opening towards funds accession, by creating partnerships with universities in order to skill public employees in funds accession and implementation. Far from formulating exhaustive conclusions, we express our hope that, Bihor county will manage to determine and to be aware of the fact that it should grow the grade of public responsibility towards the exploitation of all development opportunities so that, according to the vision proposed through The development plan of Bihor county for 2007-2013, up to the year 2027, to offer to its citizens a unpolluted environment, a high living standard and a competitive, dynamic and an economy integrated in the European single market.

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AN OVERVIEW OF THE GENERAL EVOLUTION OF THE ROMANIAN FOREIGN TRADE AFTER 1989, WHILE TRYING TO JOIN THE EU (II)

Giurgiu Adriana

University of Oradea

Faculty of Economic Sciences

Department of International Business

Research Centre for Competitiveness and Sustainable Development

Considering the context of the international trade in the period 1989-2006, which has suffered dramatically changes, we have continued to analyse the realities marking the Romanian foreign trade after 1989. As a matter of fact, the EU as we have noticed in previous articles, started even in 1990 to have important weights in Romania's imports and exports, these weights surpassing 50% of the total of imports and exports starting with 1995, since when we can say that Romanian has been performing preponderantly economic exchanges with the European Union countries. Thus, in the present paper we continue our "radiography" concerning the general aspects and tendencies of the Romanian External Trade during the years 1990-2006, and their effects upon the Romania's membership to the European Union, by presenting some relevant indicators, such as: the geographical orientation and the Romania's exports and imports to/from EU etc.

Key words: Romanian foreign trade evolution, imports, exports, EU accession process, geographical orientation, weight of Romania's exports and imports to/from EU, in the total Romanian exports and imports

JEL codes: F14, F15.

Considering the context of the international trade in the period 1989-2006, which has suffered dramatically changes, we have continued to analyse the realities marking the Romanian foreign trade after 1989. Where the privatization of the state monopolies succeeded, though, the role of the state was simply transformed into a regulating one and as a result, positive evolutions have been registered. As it concerns the methodological approached in this paper, for the analysis on the evolution of the Romanian external trade after 1989, we used a series of general statistic indicators, which are very useful to make general comparisons with other countries.

With respect to the geographical orientation on partners, the statistical data analysed in this paper reflects a growth of the weight of European countries and especially of those in the EU, both at import as well as at export. For exemplification we present these weights only for the EU (see *Graph 1*), because only for this region the trend to grow is obvious. With the other areas, the growth is slow or there has not been recorded any growth, the weights being relatively low and insignificant.

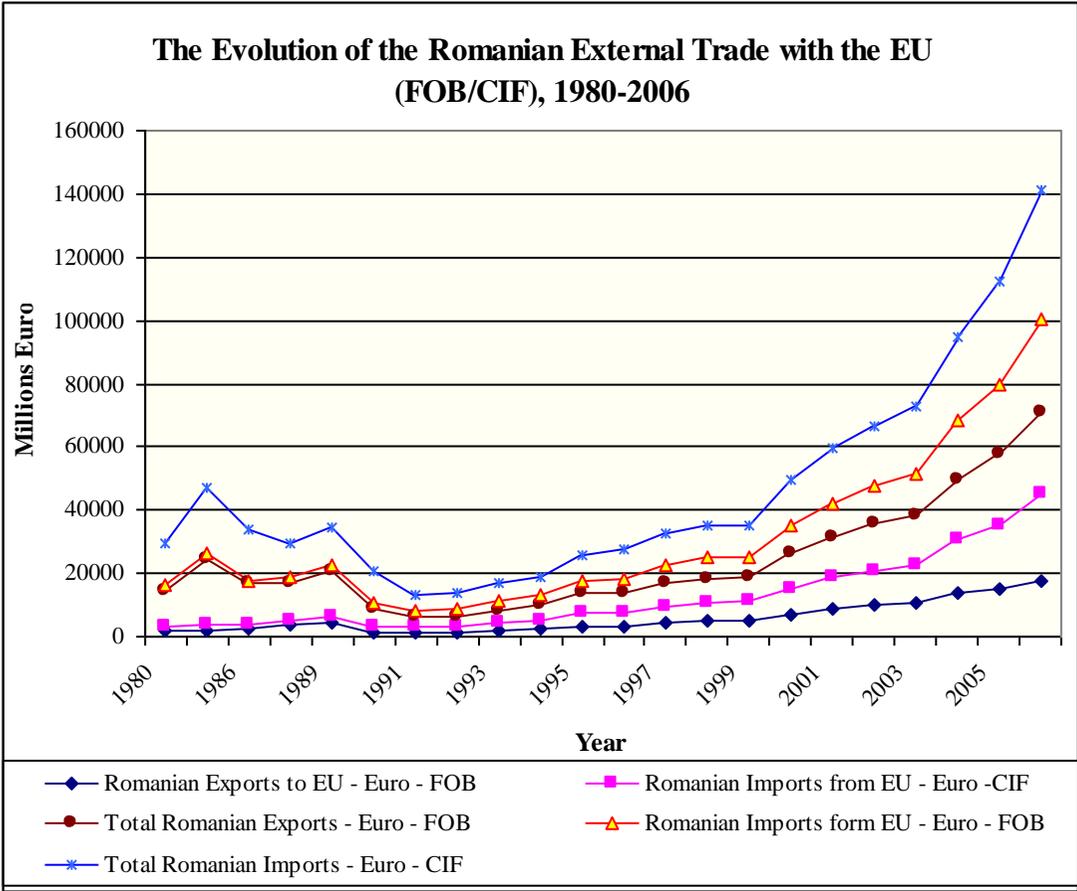
Therefore, the trend to intensify the commercial exchanges with the European Union is clear. As a matter of fact, the EU as we have noticed previously, started even in 1990 to have important weights in Romania's imports and exports, these weights surpassing 50% of the total of imports and exports starting with 1995, since when we can say that Romanian has been performing preponderantly economic exchanges with the European Union countries. We must mention here

that this year - 1995⁶¹ – represents actually the year when Romania officially applied for the accession to the European Union, which determined to a certain extent this important weight held by EU in our foreign trade, because of the fact that by achieving the consensus of the political class regarding our candidature to EU, this consensus was reverberated on the legislation, too and on the policy applied subsequently in the commercial filed.

According to the EU Association Agreement, Romania gradually and asymmetrically reduced the customs duties for the industrial products import from EU, completely cancelling them on 1 January 2002 (while EU eliminated these duties on 1 January 1997), as well as the quantitative restrictions for the trade with merchandise due to be processed (for example, *Lohn* for the export with textiles and clothes which led to the increase of that group’s weight in the total exports of Romania towards EU, from 33.4% in 1994, to 36% in 1997), as it can be seen in *Table 1*.

Therefore, starting with 2002, a free trade area was constituted between EU and our country regarding the industrial products. The trade with agricultural products has been partially liberalised, due to this sector’s sensibility in EU, by signing reciprocal conventions for a series of agricultural products: tax exemptions and reductions, tariff contingents and reciprocal elimination of the export subventions for some products, following that the complete liberalization should take place when Romania accedes to EU⁶².

Graph 1



⁶¹ more exactly, on June 22, 1995.

⁶² As a matter of fact, Romania is considered as being a country with competitive advantages in trade with agricultural products, if eliminating the external distortions.

Source: the statistical data offered in the annexes of the book: Giurgiu, Adriana, *Comerțul intraeuropean. O nouă perspectivă asupra comerțului exterior al României (Intra-European Trade. A New Perspective onto the External Trade of Romania)*, Economica Publishing House, Bucharest, 2008.

Table 1. The weight of Romania's exports and imports to/from EU, in the total Romanian exports and imports, 1989-2006

Year	Exports to EU – Weight % in total of exports	Imports from EU – Weight % in total of imports
1989	32,9	11,7
1990	33,9	8,3
1991	36,9	6,3
1992	35,2	13,8
1993	41,3	13,9
1994	48,2	21,8
1995	54,2	28,9
1997	56,5	41,3
1998	56,5	45,3
1999	64,5	48,2
2000	65,5	50,4
2001	63,8	52,3
2002	67,8	52,5
2003	67,2	57,7
2004	67,7	60,7
2005	72,9	56,5
2006	67,6	57,4

Source: Personal computations based on statistic data⁶³

Regarding the other areas (see *Graphs 2 and 3*), the weights are considerably low. The reasons for this orientation of the foreign trade preponderantly towards the EU and significantly to a smaller extent towards the other areas are:

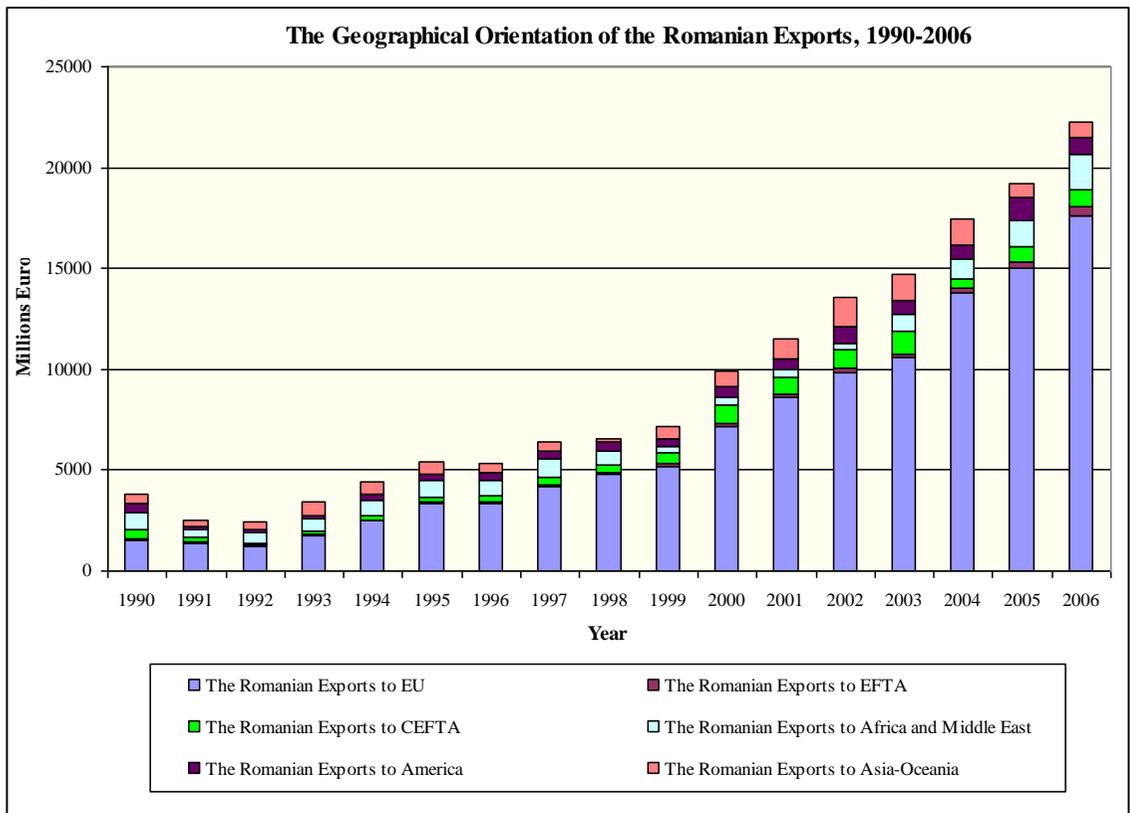
- for example, with Africa and Middle East, the weight became lower during 1999-2002 due to the tensions and long crises in the Middle East; moreover, the traditional relationships with this area did not manage to be maintained in the first years of transition, being reconsidered on other bases after 2002, when Romania became a USA partner in the military operations in the area, thus registering a considerable sudden change of the commercial exchanges with the countries in this region (for exemplification, the Romanian exports raised from 335 million Euro in 2001, to 1749 Euro in 2006; the CIF imports in the same years raised from 137 million Euro, to 750 million Euro) and an annual surplus of the balance of trade on this destination. Therefore, this market should still be considered by Romania because it seems that our products are in demand in the region, being competitive for the purchasing power of that particular population. Obviously, an analysis of the structure of our exchanges on this direction is necessary to be able to realise if the situation is conjectural or not;
- with the EFTA countries, the level of commercial exchanges, yet reduced as value, recorded also a negative balance of the Romanian balance of trade in the period we are analysing;
- with the Asia-Pacific region, even though the trade has recorded a preponderantly ascending trend since 1990 onwards, Romania's exports towards this region lowered due to some

⁶³ see Annex 2

limitations of imports by this area; in spite of all these, we can notice an increase of the Romania's imports, starting with 2001, when China adhered to the WTO; from the point of view of the negative balance of our balance of trade – which, as a matter of fact, records the similar trend of the EU on this relation – we consider this region as not being beneficial for the Romanian products because it is the most competitive market for Romania – and not only – currently (for example, Romania's exports became lower from 1447 million Euro in 2002, to 733 mill. Euro in 2006, while the CIF imports in the same years increased from 2009 million Euro to 3363 million Euro).

- with the region of America, even though the trade has recorded a preponderantly ascending trend since 1990 onwards, Romania's exports towards this region recorded cyclical fluctuations starting with 2000; in spite of all these, we can notice an increase of the Romania's imports, starting with 2000, year when Romania started its accession negotiations to the European Union; but from the point of view of the negative sold of the Romanian balance of trade – which is opposite compared to that of the EU on this relation – we consider North America – especially if we take into consideration the commercial exchanges with the USA – as not being beneficial for Romania's exports. In exchange, South America can be considered as a market with an important potential for the Romanian products, especially in the present, as EU members and beneficiaries of the free trade agreements of this area with the Latin American countries. We cannot though but notice the fact that the positive trend of Romania's commercial exchanges with the region of America started in 1993 – after a significant previous diminution – when the USA re-awarded Romania the most-favoured-nation-clause.

Graph 2

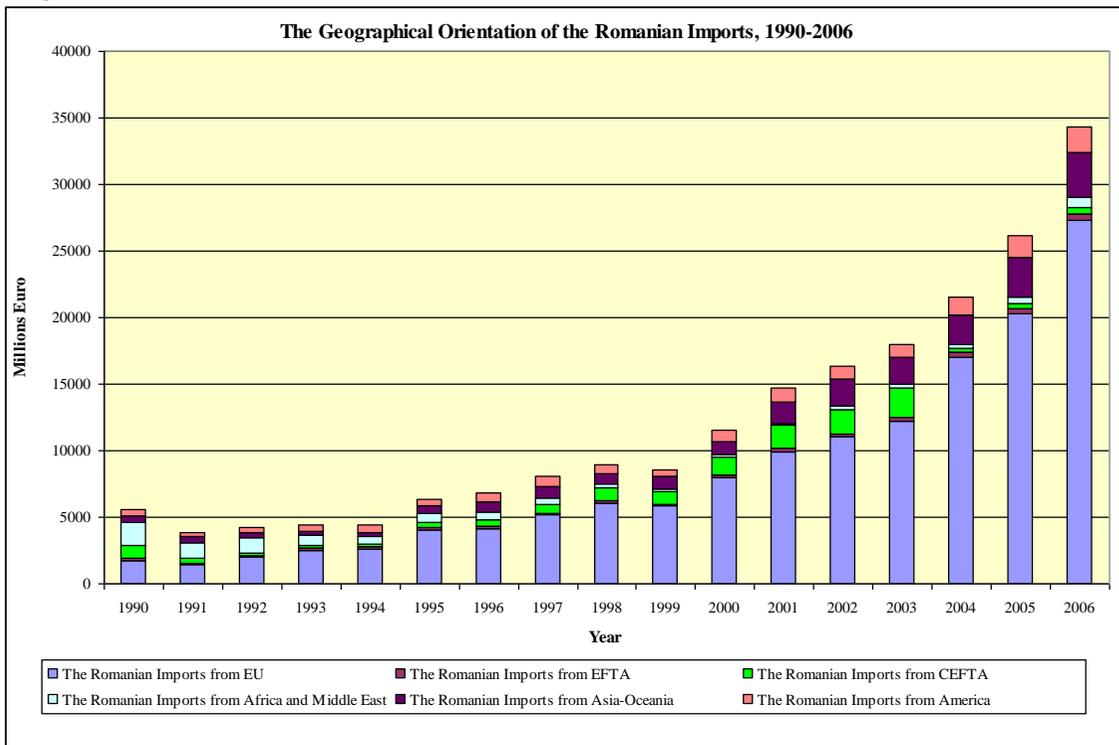


Source: Personal computations based on statistic data provided in the annexes of the book: Giurgiu, Adriana, *Comerțul intraeuropean. O nouă perspectivă asupra comerțului exterior al României (Intra-*

Thus, as a **conclusion**, we appreciate that Romania has readapted its external commerce after the year 1989, according to the existing conjunction on the international markets, but, although it has reoriented from the geographical point of view, actually, the external commercial changes of the country are far from registering the desired efficiency (if we refer only to the commercial balance account), the export levels are still situated almost in all the cases under those of the imports. This fact is, first of all, due to the fact that the geographical reorientation has not been accompanied by great changes in the structure of the exported goods and nor by an increase in their competitiveness. In addition, Romania has guided itself mostly on the markets with which it already had closed agreements of free trading, even if – as we have proved in the regions of Africa and Middle East – there was and still is a huge potential for our exports on other destinations, more efficient, at least on a short and medium term, until we manage to produce intensive technological products.

This geographical orientation of our external affairs – which actually had a meaningful contribution to the commercial deficit of our country – was mainly owed to the used promoting measures by the Romanian commercial politics in the analyzed period, that were mainly focused on the markets of EU states and those with which we had bilateral agreements starting from the year 1990, not having at all any foundation for the aim of efficiency of our external affairs. Even more, the country’s commercial deficit has accentuated in the first months from joining the European Union, fact that clearly shows the necessity to reorient the Romanian exports towards markets with a higher potential.

Graph 3



Source: Personal computations based on statistic data provided in the annexes of the book: Giurgiu, Adriana, *Comerțul intraeuropean. O nouă perspectivă asupra comerțului exterior al României (Intra-*

Thus, as a **conclusion**, we appreciate that Romania has readapted its external commerce after the year 1989, according to the existing conjunction on the international markets, but, although it has reoriented from the geographical point of view, actually, the external commercial changes of the country are far from registering the desired efficiency (if we refer only to the commercial balance account), the export levels are still situated almost in all the cases under those of the imports. This fact is, first of all, due to the fact that the geographical reorientation has not been accompanied by great changes in the structure of the exported goods and nor by an increase in their competitiveness. In addition, Romania has guided itself mostly on the markets with which it already had closed agreements of free trading, even if – as we have proved in the regions of Africa and Middle East – there was and still is a huge potential for our exports on other destinations, more efficient, at least on a short and medium term, until we manage to produce intensive technological products.

This geographical orientation of our external affairs – which actually had a meaningful contribution to the commercial deficit of our country – was mainly owed to the used promoting measures by the Romanian commercial politics in the analyzed period, that were mainly focused on the markets of EU states and those with which we had bilateral agreements starting from the year 1990, not having at all any foundation for the aim of efficiency of our external affairs. Even more, the country's commercial deficit has accentuated in the first months from joining the European Union, fact that clearly shows the necessity to reorient the Romanian exports towards markets with a higher potential.

At the same time, one must also underline the important role played by the *Romanian commercial politics reform* in the whole process of the economical reform in our country, which can be explained through the fact that, on a short term, it has been a good substitute for other politics, because it stimulated the competition (reducing the dominant positions in economy and disciplining the application of subsidies), it has eliminated the distortions created by system of administrated prices and created pressures for the modernisation of the fiscal system.

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INDIVIDUAL AND CONTEXTUAL DETERMINANTS OF ENTREPRENEURSHIP: AN INTERNATIONAL COMPARATIVE ANALYSIS

Hatos Roxana
University of Oradea

Hatos Adrian
University of Oradea

Abstract

Models of entrepreneurial behavior focus usually on individual level factors yet a great deal of beginning and running a business depends on the economic, social and institutional environment. Our analysis uses data from the 2008 European Social Survey to assess the weight of country-level characteristics in explaining individual entrepreneurship measured as self-employment of business ownership. The article starts with a literature review which puts the bases of our hypotheses. The results describe cross country comparisons of entrepreneurship rates, individual and country-level regressions of entrepreneurship. As expected, there are large differences between countries with respect to rates of entrepreneurship. A great part of this variance can be accounted for by the division between the former socialist countries and the rest and by levels of urbanization.

Keywords entrepreneurial behavior, contextual factors, comparative analysis

JEL: A14

Introduction

Models of entrepreneurial behavior focus usually on individual level factors yet a great deal of beginning and running a business depends on the economic, social and institutional environment. Unemployment basically acts as a push factor for self-employment (Audretsch & Thurik, 2006). Based on literature review we expect a positive influence of income differentials on the number of self-employed (Evans & Leighton, 1990). Most studies investigating the role of motivational determinants of the choice for self employment pertain to the *individual level*. Urban areas will give rise to economies of scale through which small-sized entrepreneurship in retailing comes under pressure (Noorderhaven, Thurik, Wennekers, & Van Stel, 2004; Wildeman et al., 1999). We expect life-dissatisfaction to be positively related with job-dissatisfaction and thus with self-employment. The role of post-materialism in explaining differences in self-employment between countries is dealt with in Uhlaner *et al.* (2002).

Data

We have used the data base of the 2008 European Social Survey which includes answers from 54988 subjects selected using a stratified probabilistic procedures from the adult populations of 28 countries. The data were weighted in order to adjust the data base to the size of each country's population. The weighted data base contains 58456 cases.

Variables

The dependent concept in the study is entrepreneurship. Entrepreneurship was defined as business ownership or self-employment. As such, we have defined as entrepreneurs those individuals who, in the European Social Survey indicated their occupational status as being self-employed or working in family business. According to this definition, 9,9% of the sample qualify as entrepreneurs.

Individual-level variables

Variable name	Description	Measurement	Univariate statistics
age	Age of respondent	Numeric	Avg=47,1 Stdev=18,6
edu_square	Squared of Years of full-time education completed	Numeric	Avg=158,3 Stdev=101,7
male	Gender	Dichotomy (1=male)	44,5%
rural	Residence	Dichotomy (1=rural)	31,6%
father_empl	Father self-employed at 14	Dichotomy (1=self employed when the subject was 14)	16,3%
mother_self	Mother self-employed at 14	Dichotomy (1=self employed when the subject was 14)	6,0%
father_sec_ed	1=father with secondary education	Dichotomy (1=father with secondary education)	41,9%
mother_sec_ed	1=mother with secondary education	Dichotomy (1=mother with secondary education)	43,4%

Contextual variables

Inspired by the literature we have modeled individual entrepreneurship using several features of the countries in the data base:

Variable name	Description and source	Measurement	Univariate statistics
Frmcommunist	Country former communist or not	Dichotomy (1=former communist)	12 (42%)
Unempl2006	Percent unemployed in 2006 according to labor force surveys ILO	Numeric	Range: 3,4-13,5
Unempl2007	Percent unemployed in 2007 according to labor force surveys ILO	Numeric	Range: 2,5-11
GDPcapita	Gross Domestic Product per capita in 2008, from the CIA Factbook (for Cyprus we have used 2009 estimates)	Numeric	Range: 7271-58141
Urban	Percent of population living in cities, data from the CIA Factbook	Numeric	Range: 48-97
SWL2006	Satisfaction with life index, data from http://en.wikipedia.org/wiki/Satisfaction_with_Life_Index#International_Rankings_2006	Numeric	Range: 120-273

Materialist	Percent materialist in the population, according to WVS of 1998-1999, except for Cyprus where estimates from 2006 were used.	Numeric	Range: 6,3- 52,1
Post_mater ialist	Percent materialist in the population, according to WVS of 1998-1999, except for Cyprus where estimates from 2006 were used.	Numeric	Range: 1,7- 22,7

	selfem ployed	Frmcom munist	ampune mpl2006	unemp l2007	GDPc apita	ur ba n	SWL 2006	Mater ialist	Post_mat erialist
Belgium	11.36	0	8.3	7.5	34.49 3	97	243.3 3	22.2	20.3
Bulgaria	7.53	1	9	6.9	12.39 4	71	143.3 3	48.7	3.2
Coatia	7.48	1	11.1	9.6	19.08 5	57	196.6 7	15.4	19.2
Cyprus	17.61	0	4.5	3.9	21.2	70	230	37.5	10.5
Czech Republic	9.61	1	7.1	5.3	24.71 2	73	213.3 3	25.3	9.8
Denmark	9.94	0	4.1	4	36.60 4	87	273.4	8.5	16.1
Estonia	7.41	1	5.9	4.7	20.65 7	69	170	41.2	2.6
Finland	14.53	0	7.7	6.8	35.42 6	63	256.6 7	26	10.7
France	9.17	0	8.8	8	34.04 5	77	220	27.9	17.9
Germany	12.1	0	10.3	8.6	35.61 3	74	240	30.1	15.1
Greece	28.04	0	8.8	8.1	29.36 1	61	210	18.9	16.7
Hungary	6.22	1	7.5	7.4	19.32 9	68	190	50.5	2.4
Israel	12.17	0	8.4	7.3	27.54 8	92	223.3 3	13.8	12.6
Latvia	5.56	1	6.8	6	17.10 1	68	156.6 7	34.9	4.8
Netherland s	12.37	0	4.2	3.5	40.85	82	250	11.8	22
Norway	10.07	0	3.4	2.5	58.14 1	77	246.6 7	13.6	11.2
Poland	16.06	1	13.8	9.6	17.62 5	61	196.6 7	36.9	7.6
Portugal	12.63	0	7.7	8	22.08 1	59	203.3 3	35.6	10
Romania	4.33	1	7.3	6.4	14.06 4	54	173.3 3	45.2	7.1
Russian Federation	4.74	1	7.2	6.1	16.13 9	73	143.3 3	52.1	1.7

Slovakia	7.46	1	13.3	11	22.08 1	56	180	45.9	4
Slovenia	9.56	1	5.9	4.6	27.61	48	220	16.8	16
Spain	15.88	0	8.5	8.3	31.95 5	77	233.3 3	27.1	15
Sweden	10.6	0	5.4	6.1	37.38 3	85	256.6 7	6.3	22.4
Switzerland	12.92	0	4	3.6	42.53 4	73	273.3 3	14.4	18.3
Turkey	8.9	0	9.9	10.3	13.92	69	176.6 7	19.3	20.9
Ukraine	6.5	1	6.8	6.4	7.271	68	120	45.6	3.5
United Kingdom	12.46	0	5.4	5.3	35.44 5	90	236.6 7	15.3	22

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THE BALANCE OF PAYMENTS' SUSTAINABILITY AND THE EUROZONE ACCESSION CONVERGENCE CRITERIA

Hațegan D.B. Anca
University of Oradea
Faculty of Economic Sciences

Negrea Adrian
University of Oradea
Faculty of Economic Sciences

The main purpose of the balance of payments (BoP) is identified as representing the long term need of equilibrium and stability of the international payments and revenues. The purpose of this paper is to determine the factors that influence the balance of payments of a certain country, by using a rigorous classification that reveals the complexity of these factors. Our conclusions are very relevant, especially for countries like Romania, because, in order to achieve the external equilibrium, it seems that every county must adopt a mix of internal economic policies, and although theoretically this can be realised, sometimes in practice it can prove to be impossible on account of inability or refusing to combine the appropriate economic policies.

Keywords : balance of payments, sustainability, Euro area, convergence criteria, foreign direct investments, portfolio investments, external operations

JEL codes: F32, O11, F15, F33

The balance of payments purpose, functions and sustainability

The main purpose of the balance of payments is identified as being the long term need of equilibrium and stability of the international payments and revenues. This objectiv is determined by certain costs of certain imbalances between payments and revenues. The nature of the costs depends on the echange rate type of regime.

As in accountancy the balance of payments is always balanced, the imbalances registred refer to the main accounts' balance, the current account and the financial and capital account, except the National Bank reserves.

*In otrher words, **the balance of payments general imbalance** represents the sum of all comprising accounts' imbalances, according to its architecture. Thus, the goods and services balance result, the income balance result and the current transfer result form the current accounts' imbalance. And the capital and financial account imbalance is given by the results of the financial account and capital account. So, every account's balance is obtained by adding all its comprising subaccounts' balances, and every subaccounts' balance is obtained by adding all its comprising items.*

The external imbalance nominal value is given by balance of payments surplus or deficit and is reflected in the financial flows volume and sign. Thus, the balance of payments deficit represents the contiunuos negative and high value balance of all reserve assets.

According to the theory, the external imbalance appears only if the exchange rate is administred in a certain degree, because when the exchange rate is floating, every imbalance trend should be counteracted by a spontaneous shift of the exchange rate towards the equilibrium.

*Therefore, the external balance represents the situation when the sum of the current account and the financial and capital account balance is zero. When this theoretical concept is transformed into an efficient policy, we can fiind many inconveniences, specially regarding the *period* considered when the balance of payments is analysed, *the period* when the balance of payments*

equilibrium forecasts to be obtained, *the balance of payments structure* and the *relation* between the internal and external balance.

The current accounts' balance is one of the most important and most controversial ways of measuring the macroeconomic performances in a transition economy, and reflects the connection between the national economy and the rest of the world.

Regarded from a macroeconomic perspective, the current account balance reflects the impact of foreign resources inflow on the economic development and also draws the attention on a dangerous and unsustainable imbalance, determined by the cumulation of external debt as a result of the disparities between the available income and the economy's absorption capacity, and the difference between the national savings and gross investments⁶⁴ (key factors of economic growth), that transforms the saving - investment balance into the measuring instrument of the resource necessity generated by the economic evolution in a certain period of time.

A deficit resulted from the high level of investments can be sustainable only if the investments are directly related to capital formation and economic growth. *A deficit resulted from a low level of national savings* is more doubtful.

We consider that the current accounts' deficit sustainability is a complex concept that depends on several factors, like: the goods and services exports' growth rate compared with the one of the imports, the structure of exports, imports, government expenditure and national credits, and also the improving prospects of collecting budget revenues. And the governmental deficits sustainability has important consequences on the economy's external deficit sustainability. In transition countries the large governmental deficits are not covered by private savings, this situation being reflected in large current account deficits. Thus, budgetary deficits are largely covered by external loans, that can become a burden for the economy, if they are not used for financing fruitful investments.

The foreign direct investments inflows perspectives influence the external deficit sustainability (a large percentage of FDI inflows could be helpful for covering the current accounts' deficit, but it must be considered that in the transition economies that have already finalised the privatization process, a drop of FDI inflows will probably be registered, FDI ensuring only the short term current account deficit sustainability) and also their economic destination. There are several long term FDI inflows perspectives, with positive effects on our country's competitiveness and supply expansion, including an export oriented production, on the account of Romania's production potential. Another important aspect refers to the phase of FDI: growth stage or the repatriation of profits stage. The historical experience shows that overall, FDI help the balance of payments, only in the first stage. In the second stage, their impact on the balance of payments becomes negative.

The current accounts' deficit also depends on the level, destination and structure of the external debt and on maintaining the possibility of covering the current accounts' deficit through external financing, ie the existence of a positive differential of the real interest rate and an external creditworthiness, and also of the international reserves evolution and balance, and of the tradable goods sector's developing degree.

The economy's capacity of sustaining the current accounts' deficits also depends on the financial system development level, first of all because an undeveloped banking system discourages the national savings. Secondly, an undeveloped financial system could not efficiently assign capital inflows and savings towards investments. The third reason refers to a banking system crisis that would support an exchange rate crisis.

The real exchange rate and the exports and imports elasticity influence the exported and imported volume of goods, and therefore the external deficit's sustainability. The national currency

⁶⁴ That splits the private and public sector gap.

devaluation represents a major risk for the current accounts' sustainability, because it makes the external financing more expensive.

Other determinants also have impact on the current accounts' sustainability level are the economy's degree of openness, the structural reforms and the level of labour productivity..

An extremely important aspect that must be considered when studying the current accounts' deficit sustainability refers to determining an „anchor”, like some comparing criteria. This kind of anchor for establishing the current accounts' sustainability could be avoiding insolvency of a certain country, this representing one of the economic policy strategic goals.

The convergence criterias and the balance of payments

The euro area balance of payments represents a statistical overview of the economic operations between the resident and non-resident countries of the euro area, registered in a certain period of time, usually one year

The European Commission Treaty establishes that joining the third stage of EMU depends on meeting the real and nominal convergence criterias and could be realised at the moment chosen by each country. Also the Treaty sets the *exclusion clause*, according to which Great Britain and Denmark can remain outside the EMU if they decide so, despite meeting the convergence criterias.

The convergence criterias (Maastricht criterias)⁶⁵ are variables that express the homogeneity degree between the economies regarding the main features. Between the EU member states must exist a certain degree of homogeneity so that the economic growth in the EMU could be sustainable, and so that the possible common shocks shouldn't determine asymmetric effects between the member states.

The nominal convergence represents the medium term progress to reaching Maastricht's nominal convergence. The sustainability of meeting the nominal convergence criterias represents a sine qua non condition for joining the euro area

The nominal convergence criteria can be classified into *monetary criterias* (the first three) and *fiscal criterias* (the next two) and they are:

- **price stability**: the average inflation rate of the countries wishing to adopt the euro must not overcome by more than 1.5% the average inflation rate of the first three most performant economies regarding the price stability;
- **interest rate**. The countries wishing to join the euro area must have a long term nominal interest rate that should not overcome by more than 2% the long term average interest rate of the first three member states with the lowest inflation. \
- at least two years before joining the euro area, the candidate countries must join the ERM II, proving their **national currency stability** through maintaining it between + / - 15% compared to a central parity established compared to the euro⁶⁶.

ERM II represents a sort of training room, that allows the transition period needed for adopting the euro. Joining the ERM II is optional regarding the period of time chosen, but is mandatory for adopting the euro. MRS II represents a mechanism through which the EU assures that the member states are heading towards stability, from an economic point of view.

- **The budgetary deficit** must represent not more than 3% of real GDP;

⁶⁵ The maastricht criterias are included in the 121 Article of the Treaty and in the 21 Protocol attached to the Treaty.

⁶⁶ When establishing the central parity there must be considered the balance exchange rate and the exchange rate's evolution in the period before determining the central parity, for being credible and for diminishing the risks. The central parity must reflect the economic reality.

- **The external debt** can not overcome more than 60% of GDP. There are some exceptions to this conditions, for countries with a decreasing external debt, that insures a close percentage to the established value.

Meeting all the criterias with the appropriate values does not involve the real convergence.

All the candidate states must also meet the **legal convergence** criterias. This means adjusting the national legislation and the regulations issued by the member states' Central Banks to be fully compatible to the ESCB Statute, in order to planning and implementing the European monetary policy. Largely, this convergence refers to problems regarding the national Central Banks independence and their integration in the ESCB.

In addition to the nominal convergence criterias, when assessing if a member state is ready or not to adopt the euro, the European Commission and the European Central Bank also consider the market integration, the balance of payments' situation, labour costs and other price indicators (real convergence).

The real convergence implies the economic development that insures reaching the EU's and euro area's real income level, the gradual proximity, as coherent and as faster as possible, regarding the income per capita and the price level, of those closest regarded from the economical development point of view. In other words, the real convergence involves equalizing the living standards, what the EU calls „economic and social cohesion”. The variables that express the real convergence are: the unemployment rate, the structure of the balance of payments⁶⁷, national income per capita and public expenditure. For obtaining this it takes more time than for meeting the nominal convergence criterias, as their accomplishment affects positively the real variables.

After the research conducted for realizing this paper and in order to argument the theory, in the following part, we will try to analyse the main convergence indicators and also to draw up the most appropriate conclusions regarding our countries situation. .

As regarding our country's recent **price stability**, the inflation rate was above the reference value. In March 2010, the reference value was 1.0%⁶⁸. În Romania, the inflation rate registered was 5.0%, 4.0% above the reference value.

After a period of deflation, HICP was below 4% in the second part of 2007 and 2008, on the account of raising food and fuel prices. In July 2008, the annual inflation rate reached the high value of 9.1% and remained that way despite the strong economic downturn, registering 5% in the second half of 2009. The gap between the euro area inflation rate reflects a rise in the price of tabaco, fuel and the persistent inflation in services sector. In the first quarter of 2010, the annual inflation rate still remained high, registering 4.6%.

The Romanian economy was strongly affected by the global economic downturn, as our country's economic growth decreased from 7% in 2006-2008 to -7.1% in 2009, on the account of the decrease of the local demand, and on the back of approved credits and investment inflows. The available information and indicators for the first semester of 2010 suggest a superficial recovery of the Romanian economy. The forecasted GDP growth is 0.8% for the year 2010 and 3.5% for 2011, reflecting so an increase of the local demand components, except the public expenditure.

The labour market reacted late at the difficulties of the economic situation. The unemployment rate increased to 6.8% in 2009, from 5.8% in 2008. In 2009 the labour productivity decreased to registering negative values, on the back of lower results.

⁶⁷ Article 121 from the EU Treaty (1992) affirms that besides the qualitative criterias, „the state and evolution of current account balance” of all the candidate countries must be examined before they join the euro area\

⁶⁸ Calculated as the average of Portugal, Belgium and Estonia's last months' average inflation rate, plus 1.5%

Since 2005 Romania operates in an inflation targeting framework, combined with a floating exchange rate regime. BNR highlighted the fact that all exchange rate and monetary operation instruments will remain available, including the interventions for stabilizing the national currency.

The leu's exchange rate floated a lot in the 2000's. Between 2004 and 2007 the leu appreciated, on the account of capital inflows, attracted by the slight economic recovery and the EU accession perspectives. After a five years appreciation, in the second half of 2007, the national currency suddenly depreciated, as a consequence of the first signs of global financial markets downturn. The leu's depreciation trend in 2007, was only interrupted in the second part of 2008.

Another important moment of the leu's depreciation was in 2008, on the account of worsening of the global financial markets situation and the rising fears of foreign investors towards the macroeconomic imbalances. After Romania asked for international financial assistance, the financial market pressures lowered and the national currency stabilized for a while during 2009. Financial market pressures reappeared at the end of 2009, on the back of the local policy uncertainties. At the beginning of 2010, the financial markets conditions improved and the leu's exchange rate registred a slight improvement.

In Romania, the long term interest rate was all the time above the reference value, since January 2007, when our country joined the EU. In March 2010, the reference value, as calculated by the average long term interest rate of Portugal and Belgium, plus 2%, was around 6%, and Romania's long term interest rate was 9.4%, 3.4% higher.

As regarding the external deficit, the Council adopted a decision, saying that Romania registred an **excessive deficit**, based on the previous year's deficit of 4% of GDP. In the same time, the Council recommended our country to correct the excessive deficit until 2011. In February 2009, the Council suggested new recommendations, that should be met until 2012. An increase on financial efforts was recommended and also strengthening the fiscal policy and adopting and implementing pensions reform.

The governmental deficit rose in the period 2005-2009, reaching 8.3% of GDP in the last year. The worsening of our country's deficit between 2005 – 2008, when the real GDP growth registred 6.4%, was on the back of the expanding fiscal policy orientation, reflected by the structural deficit deterioration, that reached 7.7% of GDP, in 2008. The fiscal deficit deterioration is a sign of the economic downturn's effects on governmental financing

The approved budget for 2010, adopted in January 2010 expresses a 6.3% of GDP deficit. According to the political conditions reflected by the programme for supporting the balance of payments, the planned adjustments are tied to expenses: the measures imply a 2.2% of GDP reduction, but also an increase in incomes of 0.5% of GDP. Anyway, the 2010 Commissions spring forecasts show a deficit of 8% of GDP.

Romania's external deficit reached 12.8% of GDP in 2007, followed by a slight reduction in 2008 to 11.1%. The strong increase of the external deficit between 2005 and 2007 reflected a deterioration of the trade balance, because the imports were encouraged by a strong internal demand. In 2008, Romania's external deficit started to adjust, as a result of the internal demand decrease and the consumers' preference for local products and also continued in 2009. As to regarding the services, the trading balance was neutral in the last period. The negative income balance decreased, on the back of decreasing the investment profit repatriation by foreign companies in 2007. In change, the repatriated income by the Romanian workers that work abroad represented a supporting factor of the external deficit, even though their contribution decreased in 2009, on the account of the global financial crisis.

As regarding the saving – investment balance, the rise of the external deficit between 2005 – 2007, was largely due to accelerating the local investment activities, while the savings rate followed a slight increase. The difference between savings and investments strongly decreased on

the account of the economic downturn and the balance of payments adjustment in the financial and non-financial sectors.

In the last years, Romania's deficit was largely covered by FDI net inflows (on the back of the privatization process). In 2007, the FDI percentage in financing the external deficit decreased to 45

The financial accounts surplus decreased to 5.3% of GDP in 2009, from 12.6% in 2008. The decrease can be explained by the decrease registered by other investments as well, although the international financial assistance acted like an offset. The FDI net inflows decreased considerably under 4% of GDP in 2009, reflecting the reinvested profits.

The international reserves rose by 1% of GDP in 2009, partially due to the IMF loan.

Romania's **external debt** rose rapidly in the last years, reaching 68% of GDP in 2009. Before the economic crisis, the balance of payments positions' worsening was largely due to the loans from the banking sector. In 2010, the strong need for credit will probably contribute to our country's external deficit.

Conclusions

The main conclusion that can be drawn after this research is that the balance of payments represents an unreplaceable instrument to describe a country in its relations with the international environment, for assessing the strengths and weaknesses in its international relations. Also, the balance of payments explains a lot of things about every country's economic structure, about its past and future.

As regarding Romania, the European Commission considers that our country does not meet any of the euro area accession criterias, like the price stability, the governments budgetary position, the exchange rate stability and the long term interest rate convergence, but it also faces law-making obstacles.

As regarding the convergence criterias, our country's annual inflation rate is above the reference value since we joined the EU..

Romania does not meet the budgetary position criteria, being submitted to an excessive deficit procedure and having to reduce the negative balance of public expenses to under 3% of GDP until 2012.

For joining the euro area, a country's national currency must be included in ERM II. The leu's exchange rate is still free, and the downturns on the global financial markets, starting with the the second half of 2007 determined an appreciation, also supported by our country's macroeconomic imbalances.

Long term interest rates were still very high in 2009, on the account of the market volatility, before decreasing at the beginning of 2010, as a result of the internal market indicators improvement.

The external deficit reached 12% of GDP between 2007 and 2008, on the back of the accelerated growth of internal demand, and after it decreased, being supported by the trade deficit reduction..

As a result of the legal compatibility and meeting the convergence criteria, the European Commission considers that Romania does not require the conditions for adopting the European currency.

Anexa 1

ROMANIA'S BALANCE OF PAYMENTS						
	2004	2005	2006	2007	2008	2009
Current Account	-8.4	-8.6	-10.5	-13.4	-11.6	-4.5
Goods balance	-8.7	-9.8	-12.1	-14.3	-13.6	-5.9
Services balance	-0.3	-0.4	0.0	0.3	0.5	-0.3
Income balance	-4.2	-2.9	-3.3	-3.3	-2.7	-1.8
Current transfers balance	4.9	4.5	5.0	3.9	4.3	3.5
Capital Account	0.8	0.7	0.0	0.7	0.4	0.5
External deficit⁶⁹	-7.5	-7.9	-10.5	-12.8	-11.1	-4.0
Financial Account	6.1	7.5	9.6	13.5	12.6	5.2
FDI	8.4	6.6	8.9	5.7	6.7	3.8
Portfolio investments	-0.7	1.0	-0.2	0.4	-0.4	0.4
Other capital investments	6.3	6.6	6.3	11.0	6.3	2.0
International financial assistance						7.7
Official reserves	-7.9	-6.7	-5.4	-3.6	0.1	-1.1
Financial account without official reserves	14.0	14.2	15.0	17.0	12.6	6.2
Errors and omissions	1.4	0.4	0.9	-0.7	-1.5	-1.2
Gross capital formation	23.7	23.3	26.5	31.0	31.3	25.1
Gross savings	17.9	14.4	15.9	17.3	18.6	20.8
External debt	35.2	38.7	42.1	47.0	51.8	67.9
International investment position	-26.9	-29.0	-37.7	-43.5	-49.4	-61.1

Source: information published by Eurostat and BNR, in the Convergence Report 2010

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COMPETITIVENESS AND INNOVATION OF THE ROMANIAN COMPANIES

Nagy Csaba

Mihai Eminescu University of Timisoara, Faculty of Touristic, Hotel and Commercial Management

In front of the Romanian economy which has been integrated only for a few years, lies the challenge of competitiveness which in many cases is associated with innovation. To turn from a close center oriented economy to market economy required an enormous effort from the population and from the companies as well, but the real challenge is still to come. The requirements of competitiveness and innovation of the United European Market are compulsory, from the point of view of the Romanian entrepreneurs is vital for their survival and development. The studies made so far are not very promising. There are many things to be done, many problems are still not solved in the European Union. The European Union is behind its traditional competitors USA and Japan. This is why one of the major concerns of the EU is competitiveness and innovation.

Key words: competitiveness, innovation, development, factors.

JEL classification: O11, P25, F15, O31

The appearance of the Common European market and the economic situation of the USA and Japan required from the EU the reconciliation and putting forward of the strategies for growth and development before their national economic politics. Two documents are representative from this point of view The Agreement for Stability and Growth and The Lisbon Plan. The initial plan which wanted to turn the EU into a model of achieved competitiveness proved to be exaggerated and at the 2005 European Council held in Brussels called the results „mixed” and the unofficial results are even more drastic, the Lisbon Strategy is characterized by „the lack of development” (Hodson, 2005), „failure” (Pisani-Ferry and Sapir, 2006; Wanlin,2006), „disappointing result” (Kok, 2004) and even more „a ridiculously ambitious main target” (Wanlin (2006).

According to the data of Wanlin (2006) in 2005 the average GDP of the EU of the 15 was smaller with 27% of the GDP of the US, though in comparison with 2000 till when the productivity of the EU grew with 1.4% yearly between 1995 and 2005, then the growth in the US was 2.4% yearly. The study prepared by Bannerman (2002) showed that in the period 1990-2000 the EU reached a 3% growth only in one year in contrast the growth fell under 3% in the US only in one year. The level of the achievements of the main competitors mainly that of Japan’s and US’s secure a perfect basis for comparison regarding the level of competitiveness that must be achieved by the EU. The main objective of the Lisbon Plan says that “an economy based on knowledge, that would be the most competitive and dynamic in the world, that is able to develop continuously, with more workplaces and bigger social cohesion” has to be achieved till 2010. This is characterized by four things: “growth”, “innovation”, “employment” and “cohesion” plus we have to add the fifth one which was decided at the 2001 meeting of the European Council held in Goteborg taken from the idea of “sustainable development” regarding “environmental protection”.

By the middle of 2005 the accent fell on a precise target whose main objectives were directed to “growth” and “employment” but the targets multiplied on the level of communities and nationalities.

The Lisbon Strategy despite its goodwill and disputable applications appears as a reaction, a behavior which is needed because of the growing economic battles. The Lisbon Strategy does not offer a recipe for the achievement of higher competitiveness for all industries. Till now the competitiveness of the national economies was analyzed either in big lines – where more national economies were discussed World Economic Forum – Yearly Competitiveness Reports; IMD

World Competitiveness Yearbook), or in the analysis of the EU's economies, including the new member countries and the nominated countries economies (EU Commission, EU Sectorial Competitiveness Indicators, Lisbon Review, CER, The Lisbon Scorecard I,...,VI), or in the national analysis regarding the achieved Lisbon objectives mostly in the case of the national programs (in the case of Romania the GEA – *The Reports of the Group of Applied Economics and the Lisbon Strategy 2006 – National Reference Program*). The different studies cannot be compared in all respects because in most of the cases the data under discussion differ. The results of the broad reports are in favor of “*global*” indicators, while the so called “Scorecard” reports use “*structural*” indicators which use values taken from the economy and social medium, that can be aligned into a specific category from E to A where E is the least powerful value and A is the most powerful one.

The reports took into account the factors of competitiveness also but from different perspectives – the WEF is not a “*benchmark*” but it measures the respective factors with a specific method and ranks the countries according to it, while the reports based on the Lisbon Plan compare the facts to a previously planned objective. We have to mention that the objectives are determined based on the situation of the member countries which differ a lot from the situation of the new ones which sometimes make the comparison difficult or even impossible.

From the above mentioned we can conclude that beside of the fact that they used the same objectives the approaches differ, the indicators of the competitiveness are different and in such cases the different reports rank differently the same country.

Till 2005 the WEF used two indicators to determine the competitiveness of the different countries – GCI (*Growth Competitiveness Index*) and M/BCI (*Micro/Business Competitiveness Index*). Besides these the WEF in its 2006/2007 report developed a new method for determining competitiveness, which includes all the indicators of competitiveness taking into account the facts of the present and productivity in which they are used. It includes the effectiveness of the work and the flexibility of the workforce market. The factors of competitiveness can be divided into 9 groups: 1. Institutions; 2. Infrastructure; 3. Macro-economics; 4. Health and education; 5. Higher education and trainings; 6. The effectiveness of the market; 7. The level of technology; 8. The level and complexity of companies; 9. Innovation. Though these factors are common their importance varies from country to country and from periods to periods.

The WEF Report based on the phases of the factors of competitiveness speaks about ***three phases in which a country can be:***

- I. *Phase* – The competitiveness is *factor driven*. It is characterized by: the low level of education of the workforce, the existence of natural resources – which are at the basis of small prices, but the products are simple. At the same time supposes the existence of some basic requirements: institutions, infrastructure etc.
- II. *Phase* – The competitiveness is *efficiency driven*. This period is characterized by high efficiency and the good quality of the products. The competitiveness is the result of the high level of education of the workforce using the existent technologies.
- III. *Phase* – The competitiveness is *innovation driven*. This phase is based on the products which are the result of innovation and on the complex production processes.

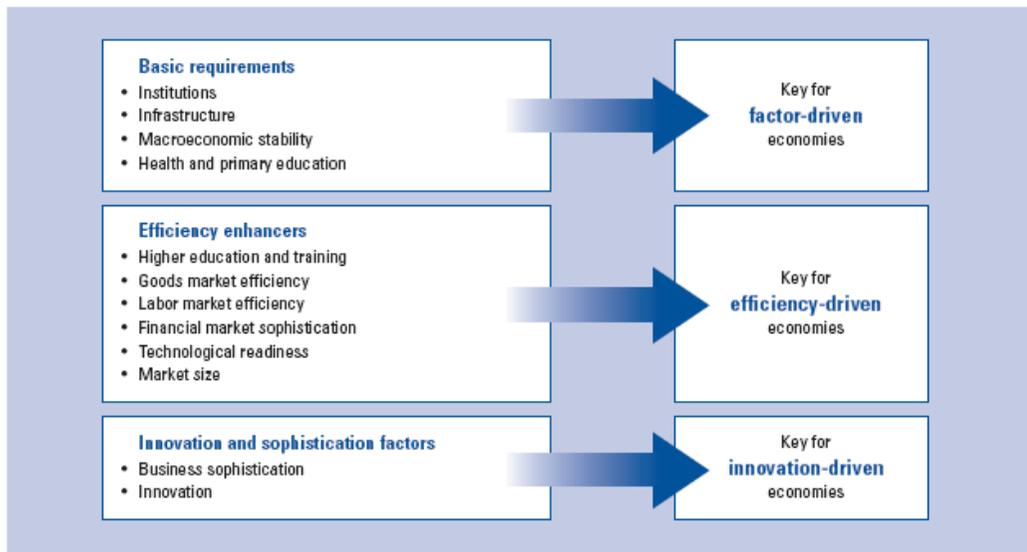
The GCI captures this open-endedness by providing a weighted average of many different components, each of which reflects one aspect of the complex reality that we call competitiveness. We group all these components in 12 different pillars that we call the *12 pillars of competitiveness*⁷⁰. These pillars are:

⁷⁰ It is notable that the 12-pillar index recalls the origins of the World Economic Forum's work on competitiveness, taking into account the complexity of competitiveness and the large number of factors driving productivity. Klaus Schwab's pioneering competitiveness index from the Report on the Competitiveness of European Industry (Schwab 1979), and annual competitiveness reports released over the many years that followed, was a weighted average of 10 factors that can be summarized as follows: (1) dynamism of the economy, (2) industrial efficiency and cost of

- First pillar: *Institutions*
- Second pillar: *Infrastructure*
- Third pillar: *Macroeconomy*
- Fourth pillar: *Health and primary education*
- Fifth pillar: *Higher education and training*
- Sixth pillar: *Goods market efficiency*
- Seventh pillar: *Labor market efficiency*
- Eighth pillar: *Financial market sophistication*
- Ninth pillar: *Technological readiness*
- Tenth pillar: *Market size*
- Eleventh pillar: *Business sophistication*
- Twelfth pillar: *Innovation*

The concept of stages of development into the Index are integrated by attributing higher relative weights to those pillars that are relatively more important for a country given its particular stage of development. That is, although all 12 pillars matter to a certain extent for all countries, the importance of each one depends on a country's stage of development. To take this into account, the pillars are organized into three subindexes, each critical to a particular stage of development. The *basic requirements subindex* groups those pillars most critical for countries in the factor-driven stage. The *efficiency enhancers subindex* includes those pillars critical for countries in the efficiency-driven stage. And the *innovation and sophistication factors subindex* includes all pillars critical to countries in the innovation-driven stage. The three subindexes are shown in Figure 1.

Figure 1: The 12 pillars of competitiveness



Reference: World Economic Forum, "The Global Competitiveness Index: Measuring the Productive Potential of Nations" XAVIER SALA-I-MARTIN, JENNIFER BLANKE, MARGARETA DRZENIEK HANOUIZ, THIERRY GEIGER, IRENE MIA, FIONA PAUA, weforum.org/pdf/.../Reports/gcr_2007/chapter1.pdf

production, (3) the dynamics of the market, (4) financial dynamism, (5) human resources, (6) the role of the state, (7) infrastructural dimension, (8) outward orientation, (9) future orientation, and (10) sociopolitical consensus and stability.

The interrelation of the 12 pillars are: Innovation (12th pillar) is not possible in a world without institutions (1st pillar) that guarantee intellectual property rights, cannot be performed in countries with a poorly educated and poorly trained labor force (5th pillar), and will never take place in economies with inefficient markets (6th, 7th, and 8th pillars) or without extensive and efficient infrastructure (2nd pillar).

The different member countries of the EU take into account the above mentioned ones in the development of their own strategy. The 2005/2006 WEF report puts Romania on the 68th place among the 125 countries which was a place lower from the earlier year's rank though the level of the indicator grew to 4.02 from 3.67. This means that the situation worsened on a relative level (compared to other states). The Report said that for the first time Romania leaves the I phase (cheap workforce, natural resources) and because certain basic requirements have been fulfilled (institutions, macro-economic stability, infrastructure, the basic level of education and health system) it gets into the II phase which is efficiency driven.

Tabel 1: Global Competitiveness Index 2007-2008 (position)

Rank (Out of 131 countries/economies)	
Global Competitiveness Index 2007-2008	74
<i>Subindex A: Basic requirements</i>	88
1st pillar: Institutions	94
2nd pillar: Infrastructure	100
3rd pillar: Macroeconomic stability	84
4th pillar: Health and primary education	52
<i>Subindex B: Efficiency enhancers</i>	62
5th pillar: Higher education and training	54
6th pillar: Goods market efficiency	74
7th pillar: Labor market efficiency	85
8th pillar: Financial market sophistication	78
9th pillar: Technological readiness	59
10th pillar: Market size	43
<i>Subindex C: Innovation and sophistication factors</i>	73
11th pillar: Business sophistication	73
12th pillar: Innovation	76

Reference: [weforum.org/en/initiatives/gcp/Global Competitiveness Report/index.htm](http://weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm)

Table 2: The normalized values of the factors influencing competitiveness

Sub-indicators	Romania		First place	
	Indicator value	Rank	Indicator value	Country
I. Basic requirements	4,13	83	6,05	Denmark
1.1. Institutions	3,40	87	6,05	Finland
1.2. Infrastructure	3,05	77	6,51	Germany
1.3. Macro-economy	3,94	97	6,19	Algeria
1.4. Health and education	6,38	69	6,98	Japan
II. Factors strengthening efficiency	3,99	55	5,66	USA
2.1. Higher education	4,34	50	6,23	Finland
2.2. The efficiency of the market	4,03	76	5,69	Hong-Kong

2.3. The level of technology	3,59	49	6,01	Sweden
III. Innovation	3,25	73	6,02	Japan
3.1. The level and complexity of companies	3,89	73	6,26	Germany
3.2. Innovations	3,14	68	5,90	Japan

Reference: *The Romanian European Institute, 1st study, 2006*

We can see from the table that Romania's weak points are linked to the factors defining competitiveness but the growth of it depends on the investment decisions of the companies which are influenced by the business environment.

In the study of the WB published in 2006 which dealt with the business environment using ten indicators put Romania on the 46th place, in comparison with the 72nd place of the earlier year out of 170 countries.

Competitiveness can be defined in several ways, but the most accepted one defines it as the ability to sell a product. In practice it is characteristic from the point of view of companies, industries or on a macro-economic level. When we speak about the competitiveness of companies of industries then in most of the cases we analyze the supply and in this case it appears in the form of price or quality. The price based competitiveness which is the result of the difference between the efficiency of the production factors and the price of it that in most of the cases is the result of economies of scale. The quality based competitiveness can be the result of the market markup the products in question differ profoundly from other products. The reports on the industries use the quantitative factors (price, the size of exports, productivity, investments) and qualitative ones (management, brand, innovation).

The GEA spoke about the followings in its report on Romanian competitiveness:

1. *Workforce* – with the following sub-indicators:
 - unit labor cost – ULC;
 - the percentage of educational costs in the GDP;
 - the percentage of graduates in sciences and technology;
 - long life learning – LLL.
2. *Market* – sub-indicators: the level of investment per capita
3. *Research – Development – Innovation* indicators:
 - the level of cost for RDI in GDP;
 - the rate of innovation.
4. *Business environment* – with the following sub-indicators
 - state aids;
 - risk capital;
 - business survival.
5. *Infrastructure* – with two structural rates:
 - the level of logistics in GDP (growth indicator);
 - IT costs.

The work method implies four stages:

- 1.The appearance of composite indicators which compares the Romanian competitiveness to the EU's average;
- 2.The analysis of the influential factors compared to the EU;
- 3.The analysis of the relative position of the Romanian competitiveness (compared to the 15 EU countries and to the 25);
- 4.The analysis of the relative position from the point of view of the influential factors.

We have to mention the following results:

Table 3: The nominal value of the indicators of competitiveness

	Romania	EU 15	EU 25
Competitiveness	0,0017	0,042	0,038
Work efficiency	0,006	0,047	0,042
Employment rate	0,029	0,037	0,035

Conclusions

As a conclusion we have to mention that Romania in its fight with the economic and social problems did not promote the objectives set by the Lisbon Strategy. In the EU the main objective is to develop competitiveness with steps increasing innovation – they create new workplaces and stress those economic activities that protect environment – while in Romania the main stress was on the restructuring of the economic structure and to improve the entrepreneurial environment. The politics of the future will stress the development of the infrastructure – as the main factor of economic growth – to improve the partnership between the public and private to improve RDI, to improve the ability to develop the structural basis, to improve education and trainings and to facilitate financial reductions for RDI.

In the present there are more documents on the tasks which are varied. We can speak about the National Development Plan, The National Strategy Framework, Industrial Political Strategies, The National Export Strategy, The National Strategy of RDI 2007-2013.

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ACHIEVING SUSTAINABLE SECURITY – VULNERABLE PUBLIC GOOD IN THE CONTEXT OF A NONPOLAR SECURITY ENVIRONMENT. SHIFTS IN THE CONCEPT OF SECURITY

Marinoiu Ana-Maria

The Academy of Economic Studies Bucharest

The Faculty of International Business and Economics

Raneti Dan-Radu

Associate Research Fellow, EURISC Foundation

Cărăgin Andreea Raluca

The Academy of Economic Studies Bucharest

The Faculty of International Business and Economics

It is important to start our assumptions from the fact that, from some economists' point of view, most of the cases which were considered examples of actual public goods were found to be wrong. So, what we want to find out is whether, considering the fact that security must not be provided only through private means, we can still talk about an equal distribution of it, or it has shifted to a selective distribution of security. In order to answer the question whether security can still be provided by the state in an equal distributional system, we will use it as a premise and try to prove it. Beginning with the theoretical characteristics of a public good and with the definitions of the present concept of security we will try to find out if one can still speak of security as a public good, and moreover, as a global public good.

Key words: public goods, global public good, security

JEL Code: L88, L86, L70

1.Current security environment characteristics - the globalization of insecurity

Sustainable development of a state is meant to combine economic growth with preservation of the natural human health as a prerequisite for ensuring the equilibrium of systems that brings about the existence/operation itself of society and the maintenance of a stable security environment. Therefore, any modification to any of these components leads to changes and alterations of the whole process of sustainable development. Events occurring worldwide aimed at national and international safety and security have determined a new approach to national security, demonstrating how vulnerable are certain areas or sectors that provide essential services to all areas of social life.

By analyzing the international security environment, it is noted that many concepts have changed, many developments have been altered after all terrorist attacks of this decade. This raises a crucial question: 'Which are the characteristics of the world today?' Nowadays, the international environment is characterized by the extension of the influence of globalization in increasingly more activity areas, and this implies, as I said above, a redefinition of all concepts that until now seemed well founded.

In this respect, debating security, Timofte (2005) showed that 'extremely fast current changes require responses adapted to the multidimensional reality of security, removal of barriers between different measures of the intelligence services, in order to allow cross action, integrating all its dimensions (diplomatic, military, economic, socio-cultural, humanitarian, environmental and other), as well as the progressive adjustment of all types of societies'.

Also, in a paper on security standards, Muresan and George (2005) state that "events such as March 11th, 2004 (terrorist attacks in Madrid), August 14th, 2003 (USA left in the dark because of

a power failure) and September 11th, 2001 (terrorist attacks on the WTC) have become benchmarks in the process of assessment and identification of new requirements relating to the priority of reforming the whole concept of security and its management at the individual to international level .(...) An initial issue dealt with only by the military sector, security tends to be a common good, being characterized by the phenomena affecting existing goods in a market.”

In this context it should be given greater attention to these areas of interest which directly concerns civil society, but also national security, given the extent and negative consequences that may result from disruption of the functioning of these industries or sectors. “The world will not be the same” was one of the most frequently used phrases after the tragic events of September 2001 in the USA. And indeed, now, after almost 9 years, we can say with certainty that the world has changed. First of all the principles that the whole world was based on have changed, principles that in the last decade of the XXth century – that began with the fall of the Berlin Wall and the disappearance of the Soviet Union – have seen an expansion of democratic regimes in the world, the flourishing of globalization, legitimization of the rule of law and human rights. Also, the individuals’ perception on the state's capacity to protect them has changed, they acknowledging the increased vulnerability of the citizen, of the state and of the security systems in general.

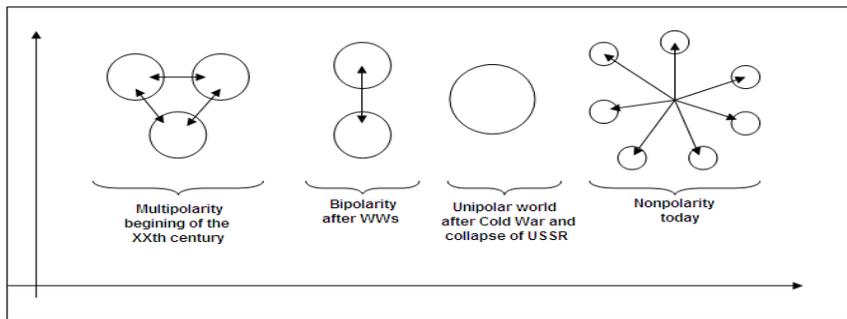
Therefore, it was clearly stated that the lack of control over the complex process of globalization has profoundly negative effects on ‘this interconnected world (Sarcinschi, 2006), globalization being seen as an amplification factor of insecurity. Also, because these systemic changes, ‘the classical array of security proposed by the Watson Institute for International Studies specialists⁷¹, is rather an array of globalization, insecurity, whereas illustrates how the risks, dangers and threats spread from the individual to global level and vice versa’ (Sarcinschi, 2006).

1.1.Nonpolarity – characteristic of the current security environment

Haass (2008), in Foreign Affairs, said that the main feature of international relations in this century is nonpolarity: a world dominated not by one, two or more states, but by the dozens of actors with different power. This trend is in itself a profound break from previous eras. In the first part of the XXth century we have a multipolar distribution of power, followed by the rise of a system of international relations dominated by two superpowers (the bipolar era). The Cold War and the collapse of the Soviet Union announced the beginning of unipolarity, an international system dominated by a superpower – the United States.

At first glance, today's world seems to be multipolar. The major powers (China, EU, India, Japan, Russia and USA), combined, comprise about half of world population, 75% of global GDP and 80% of the defense expenditures. However, appearances are deceptive. The world today differs substantially from what we call a classic multipolar system, because we see an unprecedented dispersal of power to various power centers, of which only a minority are states. Indeed, an emblem of the new world is that nation-states lost their monopoly on power and ability to influence global dynamics alone. The authority and power of the states is now shared with the main actors of globalization: global and regional organizations, NGOs, international corporations, media, paramilitary organizations, cities (New York, Shanghai), political parties, organized crime cartels, NGOs. In the era of nonpolarity, power and influence are becoming less interacted.

⁷¹ Watson Institute for International Studies, <http://www.watsoninstitute.org>.



The nonpolar world is a consequence of globalization. Globalization reinforces nonpolarity in two ways: a large part of cross-border flows take place outside the control of sovereign governments, and often without their knowledge. In this respect, globalizations dilute the influence of major powers. Likewise, globalization increases the power of non-state actors: energy exporters, terrorist organizations, multinational companies. It is increasingly clear that to be today's most powerful state does not mean to hold a virtual monopoly on power. It is very easy for individuals and private groups to acquire and to exercise substantial power.

The international security environment is marked by developments and major changes taking place globally, being characterized by a relatively high degree of instability, unpredictability, as well as by the expression of risks and new, asymmetric threats, thus emphasizing the need to redefine the whole concept of security and proper management of potential threats, both internationally and at the individual level. Thus, the focus moves on human security⁷², with an agreement regarding that security should be considered from a broad perspective, taking into account factors other than the military. But this expansion entails risks, namely that the security sector can become too powerful if it is active in the society's demilitarized areas, or may not have expertise to address these challenges. (EURISC Foundation 2004) And in these circumstances, can we speak of security as a public good?

2. Public goods and global public goods – definitions and characteristics

In the classical theoretic school, public goods are characterized as being non-exclusionary and non-rival, and can be also externalized. Perhaps, as Kaul (2000) stated, the easiest way to define a public good is to examine it in opposition with a private one. Private goods are typically traded in markets. Buyers and sellers meet through the price mechanism. If they agree on a price, the ownership of the good can be transferred. Thus private goods tend to be exclusionary, as they have clearly identified owners, and also tend to be rival, as, usually, only one individual has property rights over them at one time.

However, not all the goods are consumed similarly. The question that rises is: could there be exclusion without rivalry for some goods? And the answer is a positive one, although it is quite difficult to provide perfect examples of such goods. So, public goods have just the opposite qualities to those of the other goods. They are non-exclusionary and non-rival in consumption. In other words, the concept of public good refers to the fact that these goods belong to everybody in common, so that the consumption of a good by one individual does not affect the consumption of the same good by another individual - Samuelson (1954).

The classical example is that of a light house that is meant to guide the ships' crew to sail safely to the land. So, any ship that is near the light house and can see its light can use it, without paying anything and without excluding anyone else from using it. Still, some economists reject the idea

⁷² UNDP introduces for the first time in a report of 1994 the concept of 'human security', that was developed subsequently. It is suggested to change the concept of security in 2 ways: from an increased approach on territorial security to highlighting individuals' security, and from a security based on weapons to a security based on sustainable human development (<http://www.undp.org/hdro/hdrs/1994/english/94overview.pdf>)

of public goods. For example, Fudulu (2003), speaking of this classical example, argues that if two or more fishermen are approaching the same lighthouse, they are using in fact different goods, because ‘there is at least one aspect of consumption which is different. They might be using the same building and other technical facilities, the same power, the same personnel, but they cannot use the same location to watch the lighthouse. Fisherman A’s location cannot be employed by fisherman B. The area from which the consumption of the good can be performed (which is a fundamental aspect in this peculiar case) has shrunk and it will shrink as the number of fishermen increases; the lighthouse is less and less “good”. In fact, we can say that we are dealing with different goods.’

In spite of these theories, whether there are public goods or whether individuals are left only with “the choice of a distributional system, that is, equal distribution (for what economists call public goods) or selective distribution (for what economists call private goods)”, as considers Fudulu (2003), economically speaking, public goods have the following characteristics: *non-rivalry*, that is a public good is non-rival in consumption because the margin cost associated with this good by another person is zero and the variable costs remain constant no matter the number of individuals using it and *non-exclusiveness*, that signifies that technically it is impossible to exclude a person from benefiting from a public good through a divisibility mechanism, *i.e.* the price.

Based on these characteristics, one can ask where public goods come from, that is who provides them, because, once they exist, they are there for all to enjoy. Economists such as Fudulu (2003) say that it is because of these special features of the public goods that markets cannot produce them, or at least not in sufficient quantity, hence compensatory state actions are required. So, as there are situations when market failure phenomenon appears (noticed through the existence of externalities), the state intervenes in order to correct this situation through the provision of public goods that can satisfy the demand, facilitate the development and promote social cohesion. As we have said previously, this phenomenon appears when the market itself can not allocate the resources efficiently.

We must add that economists define *externalities* as instances where an individual or company’s actions have economic consequences for others for which there is no compensation. One important distinction is between positive and negative externalities. Instances of the latter are most commonly discussed, such as the environmental pollution caused by a plant, which may have impacts on the value of neighboring homes. The basic conclusion is that, in the absence of government intervention or other solutions to internalize the externalities, negative externalities are over-provided and positive externalities are under-provided.

As any kind of good, public goods are produced and require resources. So it is often the most rational strategy for private actors to let others produce them and seek to enjoy these goods without contributing to their production. This is perhaps the greatest dilemma that public goods face. Without some sort of collective action mechanism, they risk being under-provided. Conversely, without collective action, public goods would be over-provided – and Kaul (2000) mentions here “public bads”, such as pollution, noise, street crime and so on.

For a long time, during discussions on public goods, there was the assumption that they have exclusively a national nature. But in the present reality, the new challenges that our world faces, and we mean here the systemic changes generated by the irreversible globalization process, have imposed a reshaping of the concept of public goods. Globalization is associated with increased cross-border flows that include goods, services, labor and financial capital. We can no longer speak only of public goods at a national level, as globalization has affected this concept, too, and led to the emergence of *global public goods*.

Based on the same theoretical aspects presented above, we can characterize global public goods as goods whose benefits reach across borders, generations and population groups. So global public goods provide non-rival and non-exclusionary benefits to people living in different countries. The only difference from the national public goods is that, if at the national level states

often step in to facilitate the collective action needed to avoid over-production or under-provision of public goods, at the international level there is no such institution. Yet, as history has shown, if global public goods do correspond to national needs and interests, states manage to reach agreement on coordinated action.

3. Security as a global public good

International developments thus led to a reassessment of the concept of "security" and to the need to redefine it.. The Challenges induced by globalization, its overlapping with the trends towards regionalization and fragmentation, generate new tensions and new risk factors. Great disparities in the economic development, which increasingly emphasizes within conditions of unprecedented technological progress, discriminatory access to education and health, vital life resources, information and knowledge cause serious social crisis, generate frustration and raise discontent. With economic globalization, social crises are accompanied, not once, by identity crises, generating unexpected violence.

International relations explain, traditionally, the concept of security through the concepts of power (supported by the disciples of the Realist School) and peace (associated to the disciples of the Idealist School). These concepts have governed all the aspects of national security until the 80's. Speaking of the security concept, Buzan (1991) pointed out that "this is a more fickle, sharp and useful approach to the international relations studies than power or peace". The current international situation advocates the revival of some geopolitical theories which consider globalization as a central component of national strategic power. Most citizens tend to define the risks to their security predominantly in domestic terms – from drug and people trafficking to terrorism, organized crime and state corruption. In the past, national security was considered "the nation's capacity to follow its national interests" (Hartland-Thunberg, 1982) or "the nation's capacity to hold out against foreign aggressions" (Giacomo, 1989). In others' point of view, national security was "that part of the governmental policy that has as objective the creation of national and international conditions favorable for the protection and extension of national values against real or potential enemies". (Trager and Simonie, 1973)

Nowadays, the concept of *security* has acquired different dimensions within the context of globalization, such as economical, political, ecological and military dimensions. Conventional military power has lost its role as an indicator of one state's power and as an institution able to dishearten a wide range of possible threats. According to Krell (cited in Ionescu, 1993), "military security no longer means ensuring territorial inviolability, but protecting the individuals and their daily life against military violence". Thus, national security became human security, focusing on the individual and the community.

Based on the theories of public goods, and on the definitions of security experts consider that *national security* is a *public good*, the citizen being the beneficiary of the state's efforts. The international organizations consider the concepts of security and also peace as being public goods. Moreover, with the outgoing process of development and globalization, both the United Nations Program for Development and the World Bank have also included these concepts as being global public goods. Why?, one can ask. Because, besides creating and preserving the equilibrium of the social and economic systems, another role of the state is that of protecting the interests of its citizens. For such purpose the national interests are defined as the totality of the common factors in the diversity of the particular purposes of the people, which refers to the present and future protection of the citizens, at the same time with the rational, efficient and sustainable use of the resources.

Buzan (1991) states that, in the context of the actual international system, security represents the ability of the state and society to defend the autonomy of its integrity and identity. Thus, based on the above, and even on Samuelson (1954), one can notice that the state's intervention in

regulating the economic order and ensuring the equilibrium of national systems in order to create and maintain a safe and stable security environment is perfectly justifiable.

Conclusion

Non-rivalry and non-exclusiveness define public goods. However, because of the recent transformations and shifts in the international relations and in national policies, the concept of security tends not to be considered anymore as a public good, as it comprises the characteristics of rivalry and exclusiveness, if only we consider the problems the minorities encountered in the US after September 2001. To amend this, as security must be a state produced and provided good, the government should shift the focus from national defense to human security and must interact with the civilians in order to realize a compromise between ensuring national security and preserving human rights and liberties.

Although in the current international context, the contradiction between freedom and security has become undisputed at the practical level, we cannot say yet that this antithesis has a degree of artificiality in the sense that 'we cannot talk about the existence of a total security status, as meeting the objective and subjective conditions referring life and living conditions vary from one individual to another, from an international player to another' (Sarcinschi 2006). In this context, what is possible for someone, for someone may be objectionable, and hence the problems that occurred. In fact, the main question is 'how much people are willing to give of their rights and freedoms for an added security?'

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STATE AID AND PARTICIPATION TO INTERNATIONAL TRADE FLOWS. ROMANIA'S CASE

Nitulescu Ioana

Academy of Economic Studies Bucharest

Ichim Nela Ramona

Romanian American University Bucharest

Pavel Elena Mihaela

Romanian American University Bucharest

This article focuses on the Romanian state aid and participation to the international trade flows. The purpose of this research was to determine whether the state aid offered takes into account the evolution and the requirements of the new market conditions generated by the economic and financial crisis. Our main conclusion was that regarding Romania's participation to the international trade flows, as the state aid measures focused mainly on sectors with high social impact, trade came second on the government's concern.

Key words: state aid, trade flows, subsidies

JEL classification: F14, F43

Introduction⁷³

Before analyzing the connection between state aid and trade flows we will first mention some articles which previously tackled this topic.

First of all, Garcia and Neven (2005) analyzed how state aid affects and distorts competition and trade within and across jurisdictions. They conclude that the magnitude of the distortion depends on the type of state intervention and that the impact of selective state aid on market prices and competitors depends mostly on the particular characteristics of the market. We therefore chose for this research a 3 year timeline (between 2007 and 2010) when the effects of the world economic and financial crisis were felt by all member states. We therefore considered a market environment with extreme conditions when state aid is required in order to keep up with the external competition.

Regarding the European Union (EU), Bruce Lyons (2009) suggested that the most familiar problem to the European debates on state aid is that subsidies create international distortion to competition. His explanation was that inefficient firms receive subsidies and then take market share from more efficient foreign suppliers. In this case not only competition is affected, but also the trade between the member states, and this fact we intend to focus on in this article.

However, Philip Lowe, the former Director General DG Competition (2009), pointed out that for the European Union, relaxing or suspending the state aid rules for the duration of the financial and economic crisis should never be an option. The effect would be that some companies which enjoyed state subsidies would also get a competitive advantage over their competitors. The most important thing is to acknowledge that public intervention has to be decided at national level, however, at the same time, it needs to be implemented within a coordinated framework and on

⁷³ This article is a result of the project POSDRU/6/1.5/S/11 „Doctoral Program and PhD Students in the education research and innovation triangle”. This project is co funded by European Social Fund through The Sectorial Operational Programme for Human Resources Development 2007-2013, coordinated by The Bucharest Academy of Economic Studies

the basis of common principles to the whole EU.

When starting to analyze state aid expenditure during the financial and economic crisis, a higher aid volume was expected but we should also take into consideration the EU political mandate for “less and better targeted state aid” especially for this period when there is a need for a more effects-based approach. In this context we can use the general balancing test developed by Friederiszick, Röller and Verouden (2006). In essence, this test asks whether (i) the state aid addresses a market failure or other objective of common interest; (ii) the state aid is well targeted and whether (iii) the distortions of competition are sufficiently limited so that the overall balance is positive.

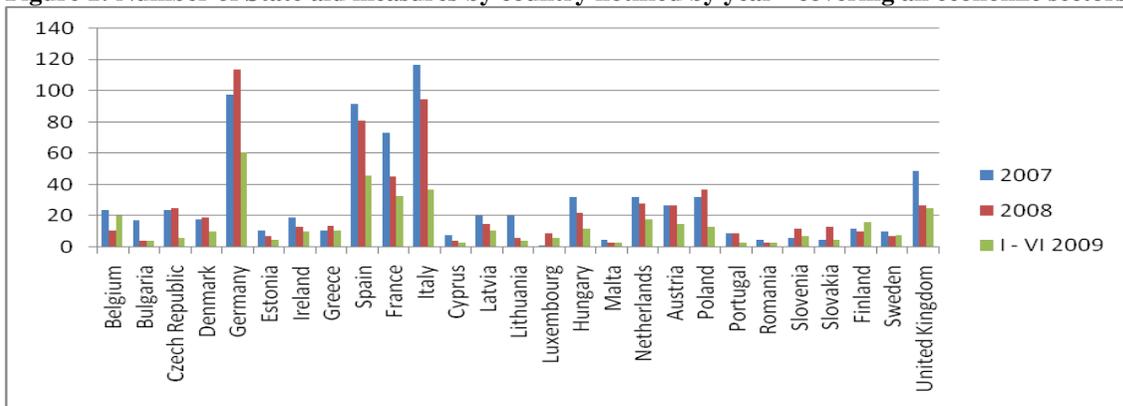
Based on our previous research, our article will focus on the connection between state aid offered by the government and Romania’s participation to the international trade flows. Ichim, Pavel and Nitulescu (2010) found that the higher the trade dynamics, the more intervention is required. Free trade is not entirely the solution for the countries when they deal with extreme conditions such as financial and economic crisis or high competitive environment.

State aid measures in Romania in the context of economic and financial crisis

As the European Commission reported, crisis measure implemented and reported by member states in 2008 amounted approximately to 212.2 billion EUR, which means around 1.7% of EU 27 GDP. The big increase of State aid to industry and services at EU27 level can be attributed to the thirteen member states which granted aid to financial institution in response to the crisis. Many of the EU 12 countries did not support their banking sector and their aids levels remained unaffected by crisis measures.

Looking at figure 1, we can see also that there are significant disparities between countries regarding the number of State aid measures notified during the analyzed period (2007- first semester of 2009). On the first place is Germany with 114 State aid measures during 2008, followed by Italy (95), Spain (81), France (45), Poland (37), Netherlands (28) and the UK (27). Compared to 2007, in 2008, the number of State aid measures decreased with some exception in case of Germany, Greece, Poland, Slovenia and Slovakia. For the latter countries a wider range of measures were needed to stabilize the economic environment. In 2008, the number of State aid measures was significantly lower in Luxembourg (9), Cyprus (4), Romania (3) and Malta (3). Compared to 2007, in 2008, the number decreased, with one exception, Luxembourg, which registered just one case in 2007. By the end of the first semester of 2009, the situation remained almost unchanged for Romania and Malta, both with 3 new notified measures.

Figure 1: Number of State aid measures by country notified by year - covering all economic sectors



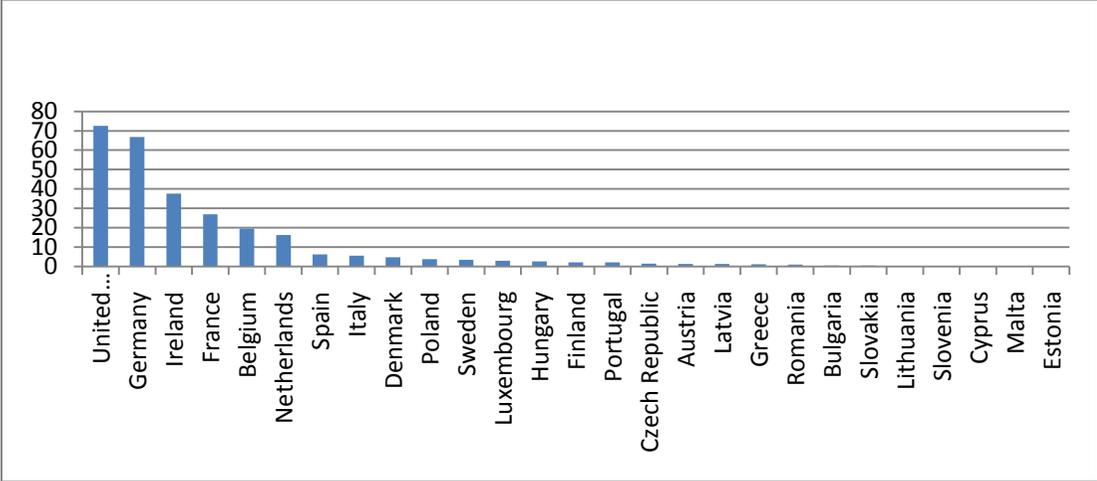
Source: Eurostat data processed by the authors

In 2008, total State aid granted by Member States was approximately 279.6 billion EUR. In absolute terms, United Kingdom showed the highest aid level (72.5 billion EUR) followed by

Germany (66.8 billion EUR), Ireland (37.5 billion EUR), France (26.8 billion EUR) and Belgium (19.4 billion EUR). As the figure 2 shows, Romania was on the twentieth place with a total state aid of 0.9 billion EUR.

In relative terms, State aid amounted to 2.2% of EU27 GDP in 2008. This average masks significant disparities between Member States: the share of total aid to GDP amounts to less than 1% (of GDP) in ten countries and exceeds the average in eight countries. In the latter group, the sharp increase on State aid was due to the crisis measures. For Romania, the level was 0.64% of EU27 GDP.

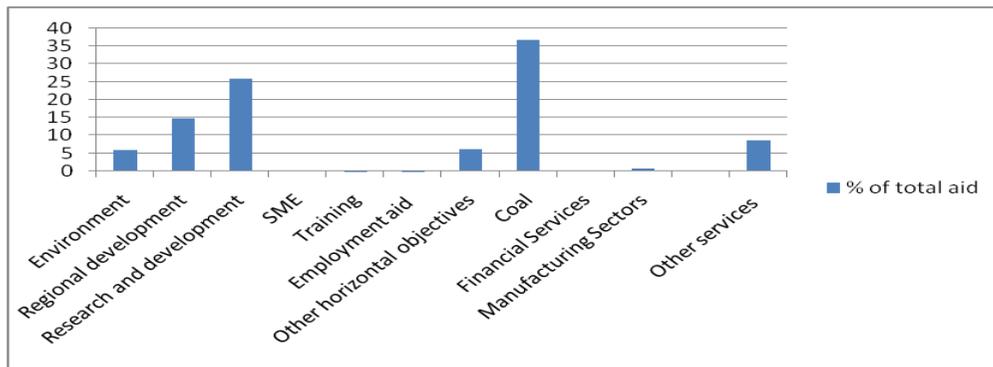
Figure 2: Total State Aid less railways, 2008 – billion EUR



Source: Eurostat data processed by the authors

Significant differences were found between member states regarding the sectors towards which aid was directed. In Romania, most of the State aid measures (53%) were concentrated for the horizontal objectives of common interest. In this category aids considered as being better suited to address market failures and thus less distortive than sector and ad hoc aid can be included. Research and Development and Innovation, safeguarding the environment, support to SMEs, employment creation, the promotion of training and aid for regional economic development are the most prominent horizontal objectives pursued with state aid. From the horizontal objectives, while the highest support was for research and development (27.7 %) followed by regional development (14.7%), small and medium enterprises received no support. Low levels of support received also the employment and training fields (both of them 0.1%)

Figure 3: State aid for primary objectives and sector aid as % of total aid (crisis measures excluded); 2008



Source: Eurostat data processed by the authors

Comparing to other member states, the share was significantly lower in Romania, in seventeen member states, 90% or more of all the aid awarded in 2008 was earmarked for horizontal objectives. In Ireland, Hungary, Slovakia and Spain, the share of horizontal aid was between 70% and 85%. As we can notice in figure 3, for Romania, a significant proportion of aid continues to be awarded to the manufacturing sector as well as to the mining industry (36.5%).

As regarding the crisis measures, while most of the EU countries chose different types of interventions (guarantee schemes, recapitalization schemes, and schemes combining several measures or ad hoc interventions) in support of financial institution, in Romania there was no support for this kind of institution by the middle of 2009.

Romania's participation to trade flows 2007-2010

Figure 1 and 2 in the appendix are relevant in order to establish Romania's rank concerning its participation to international trade flows among member states. Both figures show the evolution of intra and extra EU total product imports and exports of member states. As it can easily be noticed, most members maintain their rank among the 27 EU countries. Romania does not make any exception. Based on our calculation, Romania is the 18th among the EU members during all three years, 2006-2008. As mentioned above, in 2008, Romania was ranked twentieth with a total state aid offered in amount of 0.9 billion EUR and the 18th EU trader.

In January 2007 compared to January 2006 the exports reached a 2.9% growth while the imports rose by 16.7% (all calculated by reference to RON amounts). Due to Romania's new status as member of the EU, both the exports and the imports reached higher growth rates. In January 2008, compared to January 2007, the exports grew by 25.8% while the imports by 19.7%. January 2008 was the second month when the dynamics of the exports exceeded the one of the imports. 33% of the exports and 37.7% of the imports were auto vehicles and transport equipment while manufactured goods represented 42.1% of the exports and 29.9% of the imports. The global economic and financial crisis has also had an impact over the Romanian economy and therefore, in January 2009 compared to January 2008, the exports dropped by 12.9% and the imports by 28.2%. Once again auto vehicles and transport equipment along with some manufactured goods are the main products to be exported and imported (auto vehicles and transport represented 38% of the exports and 33.3% of the imports while other manufactured goods accounted for 41.7% of the exports and 32.9% of the imports).

In January 2010, however, though the crisis is far from being over, both the exports and the imports show a different trend. Compared to January 2009, the exports grew by 18.4% and the imports only by 3.5%. However, compared to December 2009, both the exports and the imports decreased (by 3.5% for the exports and by 17.1% for the imports).

From this presentation one aspect is worth noticing. Both the manufacturing sector and the car industry are the main generators of imports and exports. At the same time these sectors are also

state aid beneficiaries. For instance, in December 2008, the Romanian car industry took a severe hit and therefore the government decided to grant state aids to Renault Dacia (€ 15.4 million) and auto parts suppliers: Delphi Diesel Systems Romania (€ 24.7 million), KS Atag Romania (€ 27.9 million), Calsonic Kansei Romania (€ 17.9 million) and Honsel (€ 37.4 million).

However, state aid was seldom focused on trade during this period. As the crisis was felt deeper and deeper the attention was drawn from trade to other sectors and this affects Romania's participation to the international trade flows.

Conclusions

The economic and financial crisis raised new challenges for EU regarding especially State aid control. This is the case for most of EU countries. The big increase of State aid especially to industry and services at EU27 level can be attributed to the thirteen member states which granted aid to financial institution in response to the crisis.

Many of the EU 12 countries did not support their banking sector and therefore their aid levels remained unaffected by crisis measures. In Romania this is not the case as no financial institution was offered support by the end of 2009. However, a significant proportion of aid continued to be awarded to the manufacturing sector as well as to the mining industry without any relation to the external competitiveness of those sectors.

Regarding Romania's participation to international trade flows, as the state aid measures focused mainly on sectors with high social impact, trade came second on the government concern. If our previous research showed that the bigger the participation to trade flows the larger the support, Romania is an exception during the period taken into consideration. Regarding the "less but better targeted" state aid, it seems that Romania only managed to accomplish the first part of the rule.

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Appendix

Figure 1 Intra and extra EU product imports 2006-2008
 Source: EUROSTAT data processed by the authors

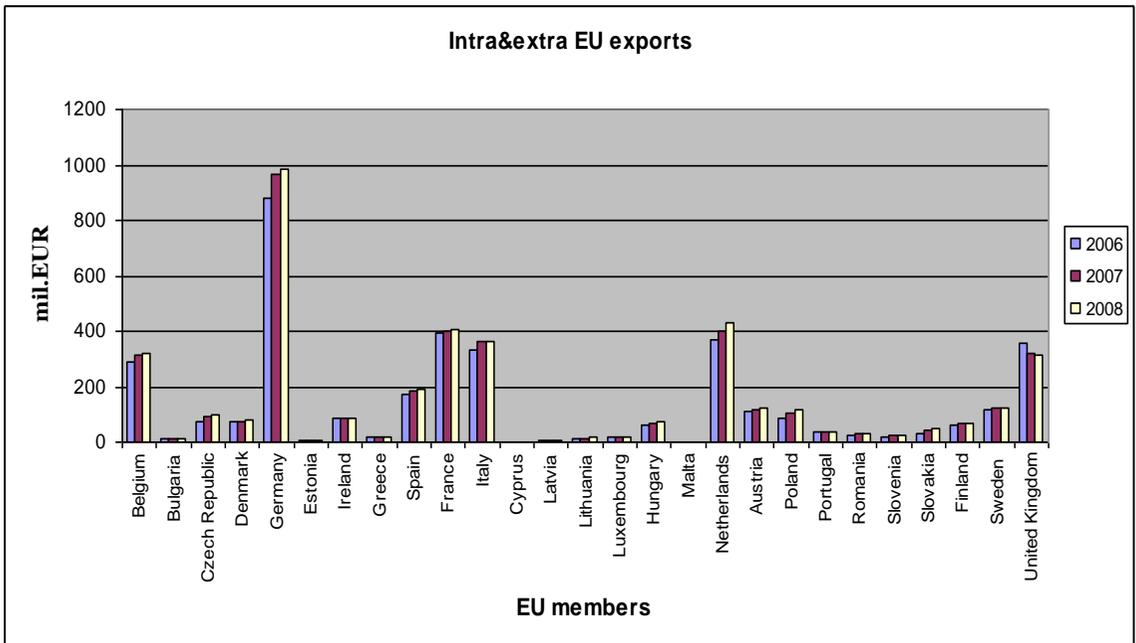
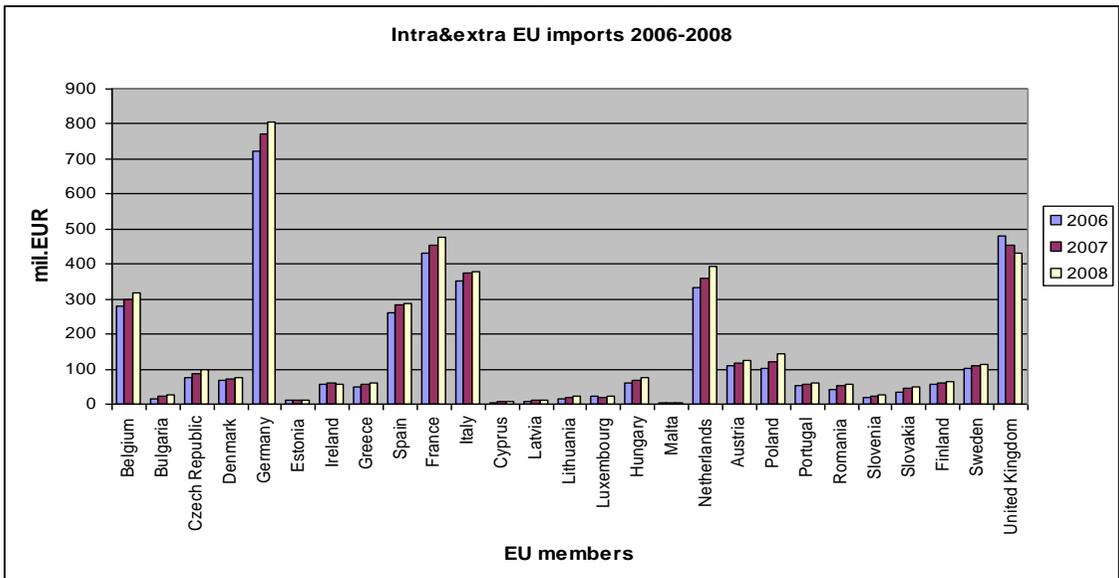


Figure 2 Intra and extra EU product imports 2006-2008
 Source: EUROSTAT data processed by the authors



Intra+ extra EU imports								
	2006	Rank		2007	Rank		2008	Rank
Malta	3.44	27	Malta	3.47	27	Malta	3.12	27
Cyprus	5.52	26	Cyprus	6.29	26	Cyprus	7.23	26
Latvia	9.19	25	Latvia	11.18	25	Estonia	10.89	25
Estonia	10.71	24	Estonia	11.44	24	Latvia	10.97	24
Bulgaria	15.42	23	Lithuania	17.81	23	Lithuania	21.15	23
Lithuania	15.43	22	Luxembourg	20.09	22	Luxembourg	21.48	22
Slovenia	19.23	21	Bulgaria	21.86	21	Bulgaria	25.10	21
Luxembourg	21.16	20	Slovenia	23.03	20	Slovenia	25.18	20
Slovakia	35.82	19	Slovakia	44.23	19	Slovakia	49.90	19
Romania	40.74	18	Romania	51.31	18	Romania	56.25	18
Greece	50.66	17	Greece	55.64	17	Ireland	57.09	17
Portugal	53.11	16	Portugal	57.06	16	Greece	60.32	16
Finland	55.25	15	Finland	59.62	15	Portugal	61.18	15
Ireland	58.24	14	Ireland	61.16	14	Finland	62.40	14
Hungary	62.33	13	Hungary	69.73	13	Hungary	74.07	13
Denmark	68.10	12	Denmark	71.53	12	Denmark	74.78	12
Czech Republic	74.22	11	Czech Republic	86.22	11	Czech Republic	96.57	11
Poland	101.14	10	Sweden	111.33	10	Sweden	113.64	10
Sweden	101.58	9	Austria	118.96	9	Austria	125.30	9
Austria	109.28	8	Poland	120.91	8	Poland	141.97	8
Spain	261.79	7	Spain	284.05	7	Spain	286.11	7
Belgium	280.06	6	Belgium	300.29	6	Belgium	317.05	6
Netherlands	331.98	5	Netherlands	359.45	5	Italy	377.29	5
Italy	352.47	4	Italy	373.34	4	Netherlands	394.98	4
France	431.60	3	France	452.00	3	United Kingdom	430.36	3
United Kingdom	478.99	2	United Kingdom	454.50	2	France	478.30	2
Germany	722.11	1	Germany	769.78	1	Germany	805.73	1

Figure 3 Intra and extra EU imports - source: Eurostat data processed by the authors

Intra+ extra EU exports								
	2006	Ran k		2007	Ran k		2008	Ran k
Cyprus	1.07	27	Cyprus	1.02	27	Cyprus	1.11	27
Malta	2.23	26	Malta	2.25	26	Malta	1.9	26
Latvia	4.9	25	Latvia	6.06	25	Latvia	6.9	25
Estonia	7.72	24	Estonia	8.03	24	Estonia	8.47	24
Lithuania	11.27	23	Lithuania	12.51	23	Bulgaria	15.21	23
Bulgaria	11.75	22	Bulgaria	13.51	22	Lithuania	16.07	22
Greece	16.53	21	Luxembourg	16.36	21	Greece	17.19	21
Luxembourg	18.24	20	Greece	17.2	20	Luxembourg	17.2	20
Slovenia	18.5	19	Slovenia	21.96	19	Slovenia	23.2	19
Romania	25.85	18	Romania	29.55	18	Romania	33.59	18
Slovakia	33.34	17	Portugal	37.59	17	Portugal	37.95	17
Portugal	34.51	16	Slovakia	42.7	16	Slovakia	48.25	16
Hungary	59.93	15	Finland	65.69	15	Finland	65.58	15
Finland	61.48	14	Hungary	69.61	14	Hungary	73.77	14
Denmark	73.72	13	Denmark	75.16	13	Denmark	79.25	13
Czech Republic	75.61	12	Ireland	88.69	12	Ireland	85.47	12
Ireland	86.59	11	Czech Republic	89.38	11	Czech Republic	99.81	11
Poland	88.23	10	Poland	102.2	10	Poland	115.9	10
Austria	108.9	9	Austria	119.3	9	Austria	123.2	9
Sweden	117.7	8	Sweden	123.2	8	Sweden	124.6	8
Spain	170.2	7	Spain	184.8	7	Spain	191.3	7
Belgium	292.0	6	Belgium	314.4	6	United Kingdom	312.5	6
Italy	332.0	5	United Kingdom	320.3	5	Belgium	320.8	5
United Kingdom	357.3	4	Italy	364.7	4	Italy	365.8	4
Netherlands	369.2	3	Netherlands	401.8	3	France	408.7	3
France	394.9	2	France	402.6	2	Netherlands	433.7	2
Germany	882.5	1	Germany	964.0	1	Germany	983.2	1

Figure 4 Intra and extra EU exports- source: Eurostat data processed by the authors

THE LISBON TREATY- LINK BETWEEN PARTICIPATIVE DEMOCRACY AND ADMINISTRATIVE MODERNIZATION

Onofrei Mihaela

University “Alexandru Ioan Cuza” of Iași

Faculty of Economics and Business Administration

Bosie Irina

University “Alexandru Ioan Cuza” of Iași

Faculty of Economics and Business Administration

This paperwork examines briefly, the implications it carries on the Lisbon Treaty, the organizational, institutional and decision-making level in the current context of the European Union, included in the reform process. It is important to mention that the European Union's desire is to assign a new role, upwards of national parliaments it is materialized with the new regulation of the Lisbon Treaty. This creates premises to develop a common foreign policy, providing Member States and Community institutions the chance to creatively use new opportunities. The Treaty encourages participative democracy and citizen participation with implications in decision-making efficiency gains.

Keywords: subsidiarity, the Lisbon Treaty, national parliaments, reform

Jel Code: N14, G18

1. Review of the Lisbon Treaty: coercive measures or participation for the European Union citizens

The Lisbon Treaty entered into force in 2009, it didn't radically change the institutional structure of the European Union, but the expansion and the need for legislative adjustments was necessary for the community. Initially the legal rules were designed for a smaller Union, with a capacity of less predictability, regardless of an economic recession, financial climate change, sustainable development issues, high crossborder crime environment and corruption. These adverse events have expanded from year to year, and the need for change and legislative update for the European Union was inherent. Countries that signed the Treaty, sustained that this change is necessary to adequately solve the new issues that appeared.

The Treaty outlined new tasks for European Parliament, Council and Commission, which have a decisive role in the European Union. All started from premises that the members welfare is very important for the Union as it was intended to approach their institutional environment. Union Citizens, represented by the parliaments of their Member States exercise their rights by contributing to the expansion process of European Union. The Parliaments of each Member State receive the permission in order to express opinions regarding legislation, how it is applicable differentially for each state, as required.

European Union must aim the welting life of their citizens and members within the context of the general good and cannot exist without the Member States, being established in order to help them. If we accept the idea of administrative communication, formal communication directions respects the relations in the institution, communication is taking place generally in three directions: top-down, bottom up, horizontal. We can consider that the intervention of the citizens within the expressing of the opinions regarding the European Union is an application of the administrative communication, this time it's about European institutions communication.

2. The changing process and its implications on the increasing the decisional power of the Community institutions

Although other EU treaties, including the Amsterdam Treaty, didn't achieved high expectations of Member States, the treaties, however amplified the EU decision-making power. One of the important changes brought about by the Lisbon Treaty, is the right of Governments, the European Parliament or the Commission, Council of Europe to submit proposals for revising the treaties. These proposals shall be submitted to notify the European Council and national parliaments, with the purpose to increase or reduce the competences awarded the European Union treaties.

Institutional power, by strengthening the role of Parliament, is a key point, thereby, grant new powers to national parliaments, and thereby increase the force decisions of Member States, streamlining decision-making at European level. The role of the increased parliaments of the Member States power aim to protect the rights of each Member State on issues of taxation and defense.

The legislation elaborated by the Union is forwarded to national parliaments. By the early warning system, parliaments shall have eight weeks to support their view to EU legislative proposals. If the proposals do not meet the social, economic, political realities and there are disagreements with provisions in relation to the real situation, the national parliaments can make additions or changes on behalf of these proposals.

From the perspective of Member States involvement in decision making, the problems outlined by the states must be supported by the other Member States. Some areas require unanimous approval as tax issues and defense issues, and other decisions must be taken by qualified majority vote, the double majority.

The Lisbon Treaty is aimed to ensure the EU citizens' freedom, justice and security, disclaiming the internal barriers.

Sustainable development is a goal achieved by the Treaty being possible to have balanced growth, economic competitiveness, employment, and maintain stable exchange rate of euro, finally resulting uniformity in economic welfare, while maintaining traditional values of each Member State. Member States established force, is determined by investing the national parliaments with new powers. National parliaments will have a direct input into European decision making.

The system introduced by the Lisbon Treaty gives Member States the role of national parliaments to observe and control the European Union in not exceeding its powers, because there are certain problems that can be handled at the country level, regional or local level.

The democratic nature of the European Union is greatly improved by increasing the power of Parliament, and the competence of the Union it's defined by the European Union Member States. The powers are outlined by the principles of subsidiarity and proportionality.

Within the Lisbon Treaty are recognized the regional and local dimensions of subsidiarity and a great importance have the introduction of a flexibility clause where European Union get the goals they are not expressly covered by treaties.

Lisbon Treaty gives the right of Member States to withdraw from the European Union. Withdrawal is realized through one agreement between the applicant Member State and European Union, formally from the negotiations. Decision is taken by the Council in order to obtain qualified majority voting. This is possible after Parliament approval, so the procedure has a long journey after careful and complex analysis.

The European Union operates with the principle of representative democracy, citizens are directly represented at the Union Parliament. Member States are represented in the European Council by the heads of states and/or Government and by the Council of each individual state government that are accountable to parliaments and citizens of the Member States.

Lisbon Treaty governs the right of every citizen to participate in the democratic life of the Union, and through political parties at European level, citizens are given community decisions.

3. Content and implications of new regulations of the Lisbon Treaty

Lisbon Treaty has reinforced the power of Member States by granting power to involve in decision-making, but strengthened the attribution of European institutions. Regarding the European Parliament, as the representing citizens of Member States, following the Lisbon Treaty, has increased its powers at the legislative level, the budget and approval of international agreements. Changes have occurred in its structure too, the number of European deputies has exceeded up to 751. Allocation of seats per Member State will be under the principle of degressive proportionality, deputies in countries with a huge population will represent a higher number of citizens than the deputies that represent countries with a lower population. The modification brought with the Lisbon Treaty involves the European Council and refers to the decision process. Council will decide by qualified majority. There are exceptions in cases where treaties provide another procedure, as unanimous vote. These changes will strengthen the transparency and efficiency. The Council represents the member governments and this respects its role that remain unchanged, also maintaining its role in foreign policy, security policy and coordination of economic policies.

European Commission's role is to promote the general European interest and the Lisbon Treaty without changes in its structure. According to the principle of equal rotation between Member States, since 2014, the college will be composed of an equal number of commissioners with two thirds of Member States, 18 in case of European Union has 27 member countries.

European Council, institution of the European Union, will not have another attributions added. As a novelty, however, the Treaty creates a new post, the President of the European Council. It is elected for a term of two and a half years and provides training and continuing work.

Provisions in the European Union Court of Justice has changed, the Lisbon Treaty extends the scope of its intervention, in terms of criminal cooperation measures such as introducing some procedural changes.

The role of the European Central Bank and the Court of Auditors has not changed following the adoption of the Treaty.

Court of Justice becomes the European Union Court of Justice, Court of First Instance Court is changing its name, judicial chambers are specialized courts also remain Public Function Tribunal.

4. The role of national parliaments in the context of the subsidiarity principle

The Lisbon Treaty, through the Protocol regarding the role of national parliaments in the European Union and the Protocol regarding the principles of subsidiarity and proportionality, gives new competences and strengthens the role of national parliaments in the European Union.

Council of Europe is an organization of parliamentary cooperation between national parliaments and recovery tasks in compliance with human rights.

Subsidiarity principle it is seen in terms of political concept which aims regulator powers of European member states. It is a principle of legitimation of powers that implies three rules: efficacy, tolerance and respect, competence of individuals and groups. [Bîrzea, 2001]. The Treaty brought an extremely important regulator of novelty, stating that national parliaments are directly involved in monitoring EU activities in the correct application of the subsidiarity principle.

Through the subsidiarity, the European Union institutions restricting their area, assuming only the action that can't be achieved at the Member States level. Investments with decisional power are made at the citizen level, the citizens have the right to express their views to EU decisions, this fact highlights that the EU gives rights to citizens of Member States in terms of decision making.

Inside the Treaty are reminded issues such as how national parliaments exercise control over their governments regarding the activities of the European Union. This aspect is governed by constitutional organization and practice of each Member State. Through the Treaty is encouraged participation of national parliaments in EU actions to strengthen and to express views on draft EU legislation and on other matters which may be of particular interest to them. [Lisbon Treaty, 2009]

Through the Treaty are determined the forms of transmission of legislation, for example if the draft legislative acts issued by the Commission, shall be forwarded to national Parliaments at the same time as to the European Parliament and Council. Draft project of legislative acts are sent by the European Parliament to national parliaments.

Interparliamentary measures and cooperation are indrawn, the European Parliament and national parliaments set together and start organizing cooperation within the Union.

The protocol on the principles of subsidiarity and proportionality wanted decisions to be taken at a level as close to citizens. [Lisbon Treaty, 2009].

Desire Treaty on subsidiarity and proportionality establish a system for monitoring the application of these principles.

Legislative acts elaborated by the Commission are consulted with regard to regional and local dimension of expected action.

The treaty required the organization of conferences designed to promote information exchange experiences between national parliaments on specific issues, foreign policy and security issues.

Draft legislative acts shall be justified in relation to the principles of subsidiarity and proportionality. Any legislative draft should contain a detailed statement to assess compliance with the principles of subsidiarity and proportionality. This statement should include elements to assess the financial impact of the project concerned. [Lisbon Treaty, 2009]

Annually, the Commission must show a report to the European Council, European Parliament, Council and national parliaments on the application compliance with the Protocol on the role of national parliaments in the European Union, and the Protocol on the principles of subsidiarity and proportionality.

Therefore subsidiarity is essential for the proper design of the Political Union and the legitimacy of skills and activities. In this sense, subsidiarity has always been accepted, although the Maastricht Treaty left much to be desire in the implementation. Given that subsidiarity is to ensure effective decisions, moving the center of gravity closer to the citizen, in practice often found the existence of centralized accents, as opposed to the original wishes.

Lisbon Treaty is involved in regulation of the subsidiarity principle, offering to other treaties of the EU reform a treaty with a mission to change the rules for EU states, is closely related to the principles of proportionality and necessity.

Conclusions

Lisbon Treaty provisions have emphasized the primary role of the principles of participatory democracy, this concept is getting new values in the territorial space of the Member States. The Treaty creates favorable conditions for expansion of participatory democracy within the European Union. The Lisbon Treaty provisions facilitate communication between community members and decision-making capacity increases relative to the rationality and efficiency of decision making.

News to the Lisbon treaty meant to improve standards of ongoing European process, under the banner of "Unity in diversity". EU Reform Treaty gives further advisory role, coordination and support of Member States, defense, monetary and economic issue, taxes, drawing the coordinates followed to ensure optimal balance of the Union. Trends harmonization of Member States does not diminish the sovereignty of nation-states, does not affect the cultural traditions and customs, on the contrary, it aims to improve relations between Member States, ensuring rising living standards in a different EU, but several guards measures of identity.

"The word power" of the European Union member states, enhanced by the Lisbon Treaty, invests the European Union with an unitary force coordination, bringing their own development strategies to ensure convergence.

Aknowledgements by Irina Bosie

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COMPETITIVENESS THROUGH ENVIRONMENTAL HEALTH

Stanciu Miltiade

Spiru Haret University

Faculty of Marketing and International Business

Dinu Cristina

Spiru Haret University

Faculty of Marketing and International Business

Abstract: This millennium, confronted with a globalization of means leading as fast as possible at certain pursued aims, highlights the importance of competitiveness from the perspective of the continuous fight against limitation of resources. In this context, "the machine of life evolution and economy" has got an engine named competitiveness. "The rules of circulation" should focus on all livings to whom, from the perspective of survival and natural, human and social life accomplishment, the well-known concept of health may be attached. At the same time, competitiveness through environment health should try to reach the convergent performances which means that any form of superior knowledge and experience should always take into consideration environment health.

Keywords: competitiveness, environmental health, living entity

JEL: O13, I10, Q5

1. Remember

This millennium, confronted with a globalization of means leading as fast as possible at certain pursued aims, highlights the importance of competitiveness from the perspective of the continuous fight against limitation of resources. In this context, "the machine of life evolution and economy" has got an engine named competitiveness. "The rules of circulation" should focus on all livings.

"All livings" known on the Earth consist of a diversity of life forms, with human and nonhuman features⁷⁴. People, families, environment, communities, organizations and institutions are common components of all livings. They are interrelated in an organic functionality, our existence depending on their normal development and purpose (desired) future. We raise the issue of analyzing all livings through the development of natural, human and social life. From the perspective of survival and fulfillment of human, natural and social life, the six components of "all livings" can be attached as a common denominator to the concept of "health."

"Extending the vision of human health on other components that define non-human life is meant to give a defining meaning to functionality without considering forms which manifest in terms of its purpose. This means, in our opinion, that as we talk about human health as a state of normality and harmony of life functions, we can also talk about family health, health organization, health communities, health institutions etc., as fully functional life status in these ways, in terms of their purpose as organic parts of all livings. While the concept of human's health is accepted as wellness excluding diseases, the other concepts, such as family health, organization health,

⁷⁴ Popescu, Constantin, *Raționalitate și speranță. Paradigma întregului viu*, Ed. Renaissance, București, 2006, p.34.

environment health and so on, do not reflect the values that they define, the criteria that differentiate them and the indicators that quantify their evolution.

The model (see fig. no.1) denoting the health of “all livings” and its components is a nonlinear and dynamic that has to permanently adjust itself to new requirements and imperatives that exist or may appear.

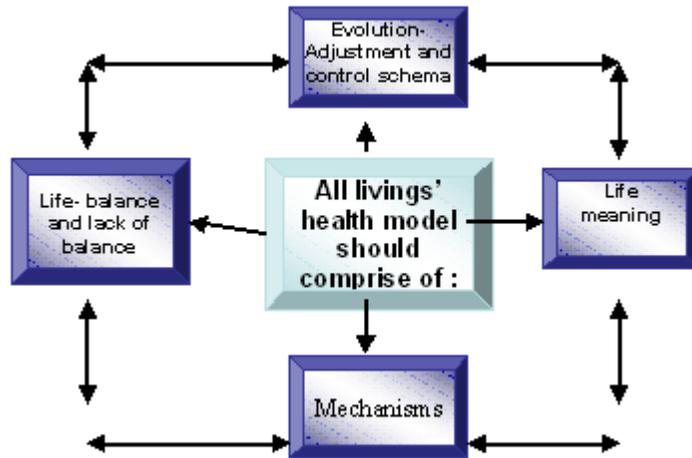


Fig. no. 1 Model of all livings' health

2. Competitiveness through environment health

The health of „all livings” is defined as an assembly of natural- social parameters of which constants give shape to the convergent evolutions in the time and the space of our common microcosm, for the phenomena and the processes generating life from the perspective of the paradigm presented above

For example, Hubert Reeves- physician and laureate of Albert Einstein prize wrote in 2005⁷⁵ that our Earth is sick. The planet is getting warmer and warmer, natural resources are getting fewer and fewer, soil and water are polluted and many species of plants and animals are either extinct or in prone of extinction. There are just negative effects of the damage that our civilization brought about in its race for development ignoring exactly the fundamental conditions of its own existence.

In other words, one of the components of the all living system- environment, is heavily affected by the action of other component- HUMAN. The consequence is the extinction of both components due to their interdependent relation. But, actually, what is environment or ecosystem made up?

The ecosystem is made up of communities of livings (biogenesis) occupying a space or a geophysical niche (biotope)⁷⁶. The interactions that take place within the system design and redesign a balance between the following moments entrance, birth, abandon and death.. The conflicts, adaptability, hierarchic organization are just several of the ecosystem principles and are similar to those of human society. The ecosystem relation is integrative between two open systems, which, actually, are part of the other one, but each of them stands for a whole system. At the same time, there is a direct relation between the autonomy of a living system and ecosystem: the bigger the degree of autonomy is, the more dependent on the ecosystem it is. At

⁷⁵ Reeves, Hubert, *Pământul e bolnav, ce șanse avem să supraviețuim*, Ed. Humanitas, București, 2005, p.26.

⁷⁶ Morin, Edgar, *Paradigma pierdută: natura umană*, Ed. Universității Alexandru Ioan Cuza, Iași, 1999, p. 22.

the same time, the greater the ecosystem complexity is, the more able it is to provide goods and products for society, implicitly to human

The relation man-society functions according to the principle autonomy through dependence, development and autonomy maintenance, being linked to educational dependences⁷⁷ (schooling and long socialization) cultural and technical. In other words, the degree of humans' ecologic independence and dependence is manifested at the level of social and natural, practically, at two heteronomous levels in a permanent interdependence.

In accordance with the whole living's vision paradigm, the parties can not be separated from the whole. Therefore, the whole concept of health gives the composing part alive, which we have named the same value as the whole environment. Therefore, the health of economy can not be separated from its natural support systems, namely the environment from where people get more of our resources.

More than half of the world's people depend directly on agricultural land, grassland and forests and natural sources of fish. And, there are more addicted to industries that are based on wood products, leather products, cotton textiles and food industry in terms of their jobs.⁷⁸

When defining competitiveness through environmental health, it is important to track the performance of meaning. Through performances of meaning we understand to use the conquests of knowledge and life experiences in order to improve environmental health service. For example, the strategy of development and of elimination of health may be a sense that environmental systems that support economy do not get worsen.

But ... unfortunately, farmland surfaces get even shorter with direct effect on agricultural crops, grasslands turn into desert areas which influences the food of animals or increases temperature. Lester Brown says that if the degradation of Earth still keeps on growing, then recovery will mean a huge international effort- even larger and more demanding than the Marshall Plan⁷⁹.

The divergent performances mean to use knowledge and understanding of life experience to destroy all forms of environmental biodiversity under all its expressions of identity. Unfortunately, these performances are now scattered across the Earth. For example, the manufacture and detonation of the atomic bomb is a divergent performance due to its damaging effects it can have on environment! The environmental effects revealed by the images captured after running experiments with nuclear bombs stand for such evidence.

Pharmaceutical and petrochemical industries have expanded so successfully the control on their consumers' products because they share the same mechanistic world views and the associated value system, which corresponds to their technologies and represents the basis of their economic and political motivation. And although their methods are generally against ecological principles being unhealthy, they are strongly supported by scientific authority, which subscribes to the same improper vision of the world. Changing this situation is now absolutely vital for our survival and welfare which will be possible only if people could get a new vision, a holistic and ecological one.⁸⁰

Pope John Paul II, referring to the environment problems, stated in his encyclical letter *Centesimus annus*, that humans, seized with their desires of possessing and using after their own pleasures, more than necessary, consume excessively and disorderly the resources of the planet and its own life. It is the anthropological error that destroys the natural environment which, unfortunately, is overspread significantly in our times. Discovering their capacity of transforming and creating life, humans seem to forget that it is done with full sacrifice. They think the planet can always be used for their benefits as if it had not got any shape or destination that they can

⁷⁷ *Ibid.*, p.24.

⁷⁸ Lash, Jonathan, *Dealing with the Tinder as well as the Flint*, Science, vol. 294, nr. 5548, 30 november 2001, p.1, 789

⁷⁹ Brown, Lester, *Planul B.2.0. Salvarea unei planete sub presiune și a unei civilizații în impas*, Ed. Tehnică, București, 2006, pp. 150-151.

⁸⁰ Capra, Fritjof, *Înțelepciune aparte, dialoguri cu oameni remarcabili*, Ed. Tehnică, București, 2004, p.208.

neither develop, nor ignore as well.... Thus, unfortunately people generate the revolt of nature that they hardly master in their intention of controlling everything. Under such circumstances, it is easily to remark human's poorness and meanness revealing the desire of mastering for own interest and benefits⁸¹.

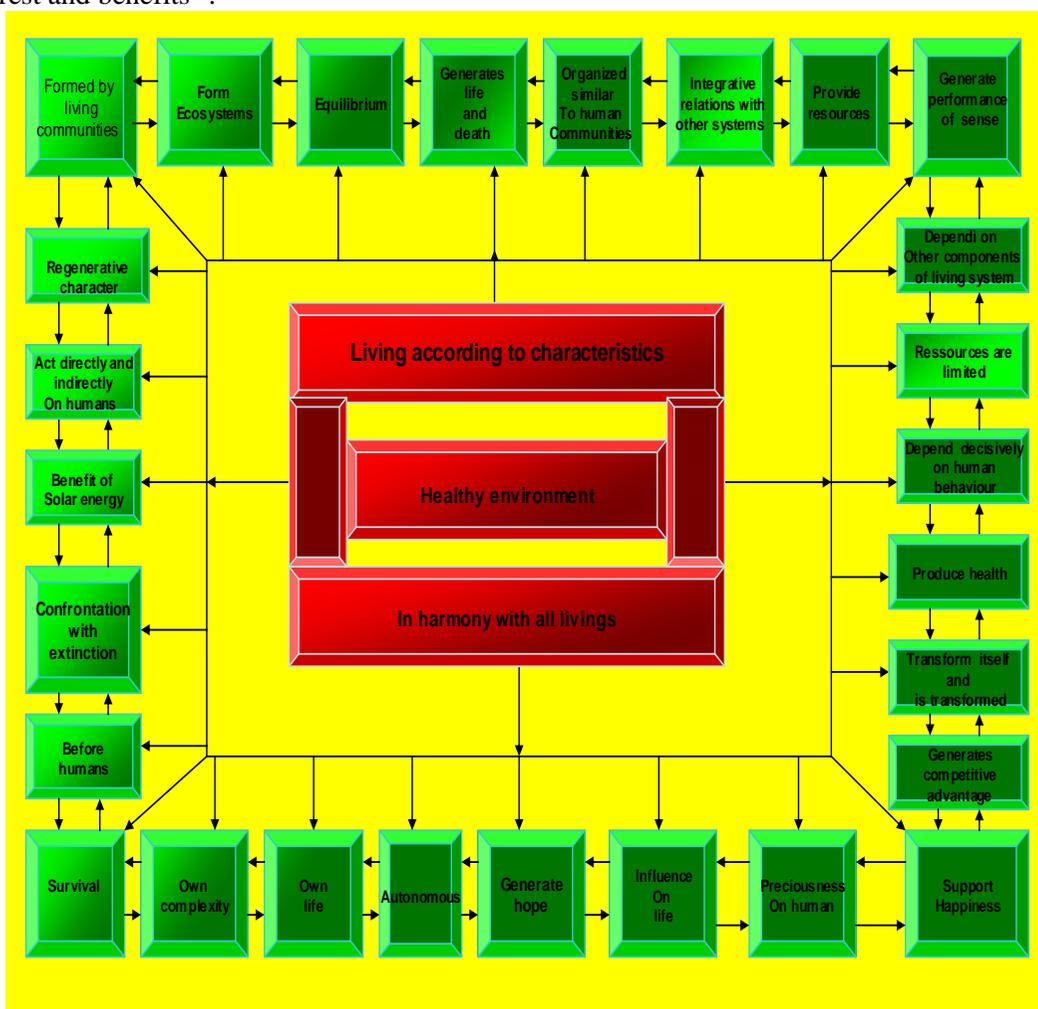


Fig no.2 Conditions for a healthy environment

3. Building a future together

We believe that it is time to reflect better of the consequences resulting from a rush at all costs after strict financial result competitiveness, whereas that environmental damage can quickly lead to economic decline, as it was the case with ancient civilizations that have shifted nature and have disregarded terms.

The solutions for the conflict between competitiveness and environment protection mentioned by several business people are generated, as Michael Porter asserted, by a narrow perspective on prosperity sources and static vision of competition. The strict regulations on environment do not end up the competitive advantage in front of rivals and certainly, it is often intensified. The properly established standards of results will encourage companies to redesign technology. In

⁸¹ Papa Ioan Paul al II-lea, Scrisoarea enciclică *Centesimus annus*, 1991, p.473-474 în *Enciclice*, Ed. ARCB, București, 2008.

many cases, it will lead to a process that does not pollute, but decrease costs and improve quality⁸².

It only depends on us the way in which we use democracy and power in order to understand amiably each other when approaching our future, world policies and customs to our children's benefits and the whole humanity. It is our duty to turn the 21st century in a flourishing epoch. Considering the context of this world economic crisis, we should free our imagination, invention capacity and spirituality with which we were also endowed. It is our responsibility. The future is ours⁸³, the ex-president of the USA Al Gore asserts.

We can conclude that when fighting to get more resources definitely decreasing in number, to be competitive is quite real, but to be competitive and healthy is more important for our future as living forms of Earth, than for the interest of certain organizations or institutions. As responsible citizens of human society, it is high time to think of our future.

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⁸² Porter, Michael. „American's Green Strategy”, în R. Welford și R. Starkey (eds.), *Business and the Environment*, London, Earthscan, 1996, p.31.

⁸³ Gore, Al, *Un adevăr incomod*, Ed. Rao, București, 2007, p.296.

**SUB-SECTION: THE IMPACT OF FOREIGN LANGUAGES ON THE
BUSINESS ENVIRONMENT**

VOCABULARY AND LANGUAGE TEACHING

Abrudan Cristina

Universitatea din Oradea Facultatea de Stiinte Economice

In this paper we have looked at the difference between teaching language structure and teaching vocabulary. We have discussed how counts of frequency alone are not enough to determine what words should be taught. We have seen that knowing a word means more than just knowing its meaning. Even that is problematical since meaning includes sense relations and context, for example. To know a word we also need to know about its use, how it is formed and what grammatical behavior it provokes. Above all, in this paper, we have approached the idea of how vocabulary teaching and learning need to be emphasized in order for students to be competent language users.

Keywords: vocabulary, teaching vocabulary, learning vocabulary, word selection.

Jel Code: Y8

To the non-language specialist, the common sense view of how languages are learned is that you substitute the words in your first language for the corresponding words in the second language. Words represent the building block upon which knowledge of the second language can be built. Armed with this common sense but naïve view, non-specialists would therefore be surprised if they were to survey the history of language teaching. Far from being regarded of pivotal importance in language learning, the status of vocabulary in the last 50 years has, on the whole, been relatively low. For many years, vocabulary was seen as incidental to the main purpose of language teaching – more exactly the acquisition of grammatical knowledge about the language. Vocabulary was absolutely necessary to give students something to hang on when learning structures, but was frequently not a main focus for learning itself. Recently, however, linguists have increasingly been turning their attention to vocabulary, stressing its importance in language teaching and reassessing some of the ways in which it is taught and learnt.

Nowadays, people are more and more aware of the fact that the acquisition of vocabulary is just as important as the acquisition of grammar, although the two are obviously interdependent. If language structures make up the skeleton of a language, the vocabulary provides the flesh and the vital organs. Vocabulary is the knowledge of words and word meanings. As Steven Stahl (2005) puts it, "Vocabulary knowledge is knowledge; the knowledge of a word not only implies a definition, but also implies how that word fits into the world." Vocabulary knowledge is not something that can ever be fully mastered; it is something that expands and deepens over the course of a lifetime. Instruction in vocabulary involves far more than looking up words in a dictionary and using the words in a sentence. Vocabulary is acquired incidentally through indirect exposure to words and intentionally through explicit instruction in specific words and word-learning strategies.

Unless words are used, an ability to manipulate language structures does not have any potential for expressing meaning. Here we talk about the importance of choosing one's words carefully. In the real life it is possible that where vocabulary is used correctly, it can cancel out grammatical inaccuracy. The need to study language structures is obvious, as grammatical knowledge allows us to generate correct sentences. However, at the same time, we must have meanings that we wish to express, and we need to have a store of words that we can select from when we wish to express these meanings.

A common problem in teaching vocabulary lies in the fact that whilst there is a consensus about at what levels grammatical structures should be taught, we can hardly say about teaching vocabulary. Of course, there are syllabuses that include word lists, but there is no guarantee that

the list for a set of students is the same with the list for another set of students at the same level. But, in the same time we can say students have to learn the use of the verb 'to be' before they learn its use as an auxiliary in the Present Continuous Tense.

One of the problems of vocabulary teaching is how to select what words to teach. Dictionaries for upper intermediate students frequently contain up to 55,000 words or even more, and a word may have many meanings. They represent just a small fraction of all the possible words in a language. For a second-language speaker to get to native-speaker level takes many years of hard work. One would have to double the size of the active vocabulary at least. Some linguists estimate that educated native speakers could have an active vocabulary of between 8,000 and 10,000 words. Good second-language speakers might have an active vocabulary of 3,500 words. That is quite a difference.

Frequency has been a general principle of vocabulary selection. The criteria of how frequently some certain words are used can help us decide which words we should teach. The words which are most commonly used are the ones we should teach first. Another principle that has been used in selecting the vocabulary is that of coverage. A word is more used if it covers more things than if it only has a specific meaning. In order to know which words are the most frequently used, we can read lists containing the most often used words in a certain language. This was done by Michael West who scanned newspapers and books in order to list his frequency tables.

Perhaps the greatest revolution in vocabulary investigation and design, however, has been the harnessing of the computer to the task of finding out which words are used and how they are used. The massive Cobuild computer-based corpus at Birmingham University has been used not only for the design of a learner's dictionary but also as a resource for a vocabulary driven course book. That is the usefulness of the computer, of course: you can key in a word and it will immediately give you examples showing you the sentences and phrases the word occurs in and how often it is used. The Internet itself is an almost perfect learning space. It should be possible, then, to design vocabulary syllabuses on the basis of computerized information. If we feed in enough text, from newspapers, magazines, books, letters, conversations, and so on, we will be able to make accurate statements about what words to teach. There is no doubt at all that the use of the computers has gained enormously from the information they have been able to access. But even with such scientific power at our fingertips, the problem of selection has not been completely solved.

The first thing to realize about vocabulary items is that they frequently have more than one meaning. The word "book" for example, obviously refers to something you use to read from, "a set of printed papers fastened together inside a cover, as a thing to be read." according to the Concise Oxford Dictionary. But the same dictionary continues in giving eight more meanings of the word as a noun, two more meanings of "book" as a verb and three meanings where "book" + preposition makes phrasal verbs. So, we will have to say that the word "book" means the kind of thing you read from but it can also mean a number of other things, too. What a word means can be changed, stretched or limited by how it is used and this is something students need to know about. Word meaning is frequently stretched through the use of *metaphor* and *idiom*. Word meaning is also governed by *collocation* – that is which words go with each other. But words can change their shape and their grammatical value, too. Students need to know facts about word formation and how to twist words to fit different grammatical contexts. And they also need to know how suffixes and prefixes work. How can we make the words potent and expensive opposite in meaning? Why do we preface one with *-im* and the other with *-in*? Students need to know also how words and spelt and how they sound. Indeed the way words are stressed – and the way that stress can change when their grammatical function is different – as with nouns and verbs, for example, is vital if students are able to understand words and use words in speech. Part of learning a word is learning its written and spoken form.

Thus, we come to the conclusion that teaching vocabulary is obviously more than just presenting new words. This may, of course, have its place, but there are some other things to be discussed, too. For example, students see a lot of words during one week, some of them are used straight away, others are not. The question is the following: Should we teach some words which we need for structure practice, for example, and not teach others which occur incidentally in reading texts, for example? Is there any way in which we can encourage students to really learn a word?

Experiments on vocabulary seem to suggest that students remember best when they have actually done something with the words they are learning. There is a definite advantage in getting students to do more than just repeat them. Tasks such as changing them to mean their opposites, making a noun an adjective, putting words together, etc, help to fix the words in the learners' minds. One way or another, we have to get students interact with words. We should get them to “adopt” words they like and that they want to use. We should get them to do things with words so that they become properly acquainted with them. Especially at intermediate levels and above, discovery techniques – where students have to work out rules and meanings for themselves, rather than being given everything by the teacher, represent an appropriate alternative to standard presentation techniques. This is certainly true of vocabulary learning where students will often be asked to discover for themselves what a word means and why and how it is being used.

At intermediate levels we can assume the students already have a considerable store of vocabulary. Rather than teach them new words we can show them examples of words in texts and ask them to use their previous knowledge to work out what words can go with others, when they should be used and what connotations they have. Discovery techniques used with vocabulary materials allow students to activate their previous knowledge and to share what they know (if they are working with others). The conclusion we can draw from this discussion about active and passive vocabulary and about interacting are best summed up by a quote from Adrian Underhill: “...engaging the learner... is essential to any activity that is to have a high learning yield.” (Underhill 1985:107)

We have already said that selecting words for teaching purposes is a very difficult task to do. We based this on the enormous number of words that any language contains. For the same certainly students will want to enlarge their vocabulary with many more words than we, their teachers, can teach them. Where can they get this information? Certainly dictionaries provide one of the best resources for students who wish to increase the number of words they understand, or at least for students who wish to understand what a word means when they come across it in a text or a conversation. Most students will consult a bilingual dictionary to find the equivalent in their language. There is nothing wrong with such dictionaries except for the fact that they do not usually provide sufficient information for the students to be able to use. Perhaps the greatest resource we can give our students is a good monolingual dictionary. They provide information about pronunciation, spelling, word formation, metaphorical and idiomatic use – the entire profile of a particular word. The fact that students do not use monolingual dictionaries very much is not just because of language difficulty, however. Dictionaries are very daunting precisely because they contain so much technical information. Unless we train students in how to understand the information and use the dictionaries, the money they spend in buying them will be largely wasted since they never open them.

The scientific research on vocabulary instruction reveals that most vocabulary is acquired incidentally through indirect exposure to words. Students can acquire vocabulary incidentally by engaging in rich oral-language experiences at home and at school, listening to books read aloud to them, and reading widely on their own. Reading volume is very important in terms of long-term vocabulary development. Extensive reading gives students repeated or multiple exposures to words and is also one of the means by which students see vocabulary in rich contexts. Cunningham (2005) recommends providing structured read-aloud and discussion sessions and

extending independent reading experiences outside school hours to encourage vocabulary growth in students.

It seems almost impossible to overstate the power of words; they literally have changed and will continue to change the course of world history. Perhaps the greatest tools we can give students for succeeding, not only in their education but more generally in life, is a large, rich vocabulary and the skills for using those words. Our ability to function in today's complex social and economic world is affected by our language skills and word knowledge. In addition to the vital importance of vocabulary for success in life, a large vocabulary is more specifically predictive and reflective of high levels of reading achievement.

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DER EINFLUSS DER ANGLIZISMEN AUF DIE DEUTSCHE WIRTSCHAFTSSPRACHE

Lavrits Patrick

Universitatea de Vest, Facultatea de Economie și de Administrare a Afacerilor, Timișoara

Boldea Monica

Universitatea de Vest, Facultatea de Economie și de Administrare a Afacerilor, Timișoara

Drăgoi Ionuț

Universitatea de Vest, Facultatea de Economie și de Administrare a Afacerilor, Timișoara

The present world has become small and manageable, in the era of modern means of transport and communication. The modern mass tourism brings millions of people each year to other countries. The economy, trade and transport are internationally intertwined, and mergers of large organizations do not represent any longer a rarity at the present time. More and more supranational organizations arise. States unite to form larger groups, such as the European Union. The word of the moment seems to be integration. Therefore, at least in the united Europe, a common language is necessary and the idea of multilingualism is becoming more and more important. In Europe today it is no longer enough to only master one language but someone must be able to at least speak one or two foreign languages fluently. The role of this common language seems to be inherited by the English language, because it is estimated that nearly two billion people routinely use English and the USA currently enjoy a dominant position in the world, politically, militarily, and economically. The Paper presents the influence of English words and the English Business vocabulary on the German Business environment.

Key Words: Business English, Lingua Franca, Semantics, International Business Context, German Business Environment

Einleitung

Die heutige Welt ist klein und überschaubar geworden, im Zeitalter modernster Verkehrs- und Kommunikationsmittel, welche schnellste Verständigung und Information ermöglichen. Der moderne Massentourismus führt jährlich Millionen Menschen in andere Länder. Die Wirtschaft, der Handel und der Verkehr sind international verflochten, so dass Zusammenschlüsse großer Organisationen in der gegenwärtigen Zeit keine Seltenheit mehr darstellen.

Immer mehr übernationale Organisationen entstehen. Staaten vereinigen sich zu größeren Verbänden, wie zum Beispiel die Staaten Europas zur Europäischen Union. Das Wort des Momentes scheint Integration zu sein. Deswegen ist, zumindest in dem vereinten Europa eine gemeinsame Sprache nicht mehr wegzudenken, welche nach der Auflösung der Grenzbarrieren, auch einen Fall der Sprachbarrieren mit sich bringt. Trotzdem gewinnt aber auch die Idee des Plurilinguismus im vereinten Europa immer mehr an Bedeutung (man denke da an die Einführung der Linguistischen Pässe). Es reicht also im gegenwärtigen Europa nicht mehr aus nur eine Sprache zu beherrschen, nebenbei muss man mindestens eine weitere Fremdsprache fließend sprechen können. Die Rolle der gemeinsamen Sprache scheint der englischen Sprache zuzukommen, da fast über zwei Milliarden Menschen, gut ein Drittel der Erdbevölkerung, laut Schätzungen routinemäßig mit der englischen Sprache in Berührung kommen und die USA gegenwärtig eine Vormachtstellung in der Welt, sowohl politisch und militärisch, wie auch wirtschaftlich genießt.

1.1 Geschichtliche Faktoren

Ein wichtiger Faktor in Sinne des Einflusses des Englischen auf die deutsche Sprache und Kultur ist die politisch-militärisch-wirtschaftliche Vormachtstellung der USA in Europa, zunächst in West-, nach dem Ende des Kalten Krieges zunehmend auch in Osteuropa, und die sich daraus ergebende massive Beeinflussung der europäischen Kulturen und Sprachen. Im besiegten und besetzten Deutschland war diese kulturelle und sprachliche Beeinflussung noch weitaus stärker und nachhaltiger als im übrigen Europa (Besatzungszonen), was zum Teil auch dadurch bedingt war, dass viele deutsche Intellektuelle durch die zwölfjährige Diktatur absurderweise die gesamte deutsche Geschichte entwertet und kompromittiert sahen, und versuchten sie zu verdrängen. Die Führungsschichten der Bundesrepublik orientierten sich daher von Anfang an ideologisch und kulturell an der atlantischen Führungsmacht.

1.2. Die wirtschaftlichen Faktoren

Um den Einfluss des Englischen auf der deutschen Sprache, und der Wirtschaftssprache überhaupt, darzustellen, muss man vorerst die wirtschaftlichen Faktoren, (und vor allem die außenwirtschaftlichen) berücksichtigen, welche Deutschland beeinflussen. Bei Deutschlands Handelspartnern steht Frankreich an erster Stelle, die USA und Großbritannien gemeinsam übertreffen es allerdings. Im Übrigen tauchen, abgesehen von den USA, an außereuropäischen Ländern lediglich Japan und die Volksrepublik China bei den Importen auf, was demonstriert, wie sehr trotz aller „Globalisierungsaktivitäten“ der „Exportweltmeister“ Deutschland doch eine in erster Linie europäisch und erst in zweiter Linie eine global agierende Ökonomie hat⁸⁴.

Chemieunternehmen, Autohersteller und -zulieferer, Maschinenbauer und IT(Information technology) -Firmen schließen sich zu Verbände zusammen, so dass Produktion, Forschung und Entwicklung (Research & Development) meistens ins Ausland verlegt werden. Und internationale Geschäftstätigkeit erfasst selbst Kleinbetriebe wie etwa die Entwickler von Computerspielen in allen Funktionsbereichen ihres Unternehmens von Finanzierung, Einkauf und Produktion bis Marketing und Absatz. Schon Tucholsky stellte fest: „Was die Weltwirtschaft angeht, so ist sie verflochten.“⁸⁵ Bei vielen Firmen wird es schwierig, eine Nationalität festzulegen. Sie verkaufen, forschen, entwickeln und produzieren in vielen Ländern „je nach profitabelster Kombination aus Kapital, Arbeitskraft und Gesetzgebung.“⁸⁶ Englisch wird generell zur Firmensprache, wie bei Bertelsmann, Beiersdorf, DaimlerChrysler, der Deutschen Bank und der „Zürich“ Versicherung oder zur Verkehrssprache zwischen verschiedenen Teilen des Unternehmens wie bei VW und Bayer. Selbst bei französischen Weltunternehmen wie Alcatel, Axa und L'Oréal hat sich Englisch als Firmensprache durchgesetzt. Verträge und technische Dokumentationen werden nur auf Englisch verfaßt, Konferenzen auf Englisch abgehalten.

In den letzten Jahrzehnten haben weitere Faktoren den Einfluss der USA auf der Welt bestimmt: die Computertechnik. Der stark zunehmende Einsatz von Computern an Arbeitsplätzen, und auch die private Nutzung von PCs in den letzten Jahren, ist mit großer Wahrscheinlichkeit eine der Hauptursachen für die zunehmende Verbreitung des Englischen weltweit, da die größten Erfindungen rund um den Computer aus den Vereinigten Staaten kamen. Die Software von Microsoft war zunächst nur in der englischen Version erhältlich, ebenso, wie englischsprachige Websites das World Wide Web von Anfang an dominierten.

⁸⁴ Karl-Heinz Stoll, *Megasprache Englische – Nischensprache Deutsch*, 2000 S.8.

⁸⁵ Janos Burghardt, *Sorry, sprechen Sie Englisch ?*, 2001, S. 1.

⁸⁶ Dieter Herberg, *Anglizismen : Kein Grund zur Panik*, 2001, S.3.

1.3 Die sprachlichen Faktoren

Es heißt, dass jeder vierte Erdbewohner inzwischen Englisch fließend und kompetent spricht. Faktisch stehen den rund 100 Millionen Menschen, für die Deutsch sowohl Mutter- als auch Amtssprache ist, etwa siebenmal so viele gegenüber, die Englisch als Mutter- bzw. Zweitsprache oder als Fremdsprache fließend beherrschen. Weltweit gibt es 1 Mrd. Englisch- lerner⁸⁷. Das Land mit der gewaltigsten Zuwachsrate ist derzeit China, in den Ländern der ehemaligen Sowjetunion lernen 50 Millionen Englisch⁸⁸. Fast jeder Jugendliche Europas wächst heute durch den Schulunterricht mit dem Englischen als erster Fremdsprache auf. Also ist die internationale Sprache da. Weltweit ist von Englisch als der Lingua Franca Universalis (Universelle Fachsprache) der Gegenwart die Rede. In der weltweiten Buchproduktion ist der Anteil englischsprachiger Bücher mehr als doppelt so hoch wie der in jeder anderen Sprache.

Auch Linguisten sahen in der „Flut der Amerikanismen“ kein Problem, keine Gefahr, vielmehr wurden sie zu Fürsprechern, zu Ideologen der neuen Entwicklung, in deren Bann sie selbst standen. Unter dem Eindruck der strukturalistischen und funktionalistischen amerikanischen Linguistik hatte die deutsche Linguistik und Sprachkritik seit den 60er Jahren eine völlige Abkehr von der bis dahin vorwiegend historischen und sprachloyalen Betrachtungsweise vollzogen. Sämtliche Wörter der Gegenwartssprache und gerade auch die sogenannten Fremdwörter dürften nur nach ihrer aktuellen kommunikativen Funktion, d.h. nur nach ihrem gegenwärtigen Nutz- und Gebrauchswert für den Sprecher bewertet werden. Das bedeutet also, dass z.B. Computer und Rechner, happy und glücklich, sorry und Verzeihung, Ticket und Fahrkarte, Information und Auskunft zunächst einmal grundsätzlich gleichberechtigt und gleichwertig sind. Bei einer sprachkritischen Beurteilung und Bewertung dieser Wörter dürfe ihre Geschichte, d.h. ob sie deutscher oder fremder Herkunft seien, nicht die geringste Rolle spielen. Wichtig sei nur, ob und inwieweit sie im jeweiligen Verwendungszusammenhang kommunikativ, funktionell und effizient seien. Und da könne das entlehnte Wort durchaus kommunikativer, funktioneller und effizienter sein als das deutsche Wort.

2.1. Argumente für den Gebrauch von Anglizismen

Menschen, die dem Gebrauch englischer Begriffe gelassener gegenüberstehen, vertreten die Auffassung, viele Dinge könne man im Deutschen nicht ebenso gut ausdrücken. Zudem sei Sprache ein lebendiger Organismus, der ständigen Einflüssen und Veränderungen unterworfen sei, während der Versuch der „Reinhaltung“ ein Verharren beim Vergangenen sei. Außerdem gebe es überhaupt keine „reine“ Sprache: Seit man überhaupt von einer deutschen Sprache reden kann, steht diese in ständigem Kontakt mit verschiedenen europäischen Sprachen, denen sie Tausende von Wörtern entlehnt hat. Schließlich sei der Kampf gegen das Denglische eher ein Scheingefecht, da es eigentlich um allgemeinen [Kulturpessimismus](#) und einen latenten [Anti Amerikanismus](#) gehe.

Der Gebrauch eines Anglizismus ist immer dann angebracht, wenn zur Bezeichnung des Gemeinten ein deutschsprachiges Äquivalent fehlt. In vielen dieser Fälle erspart die einfache Übernahme des fremdsprachlichen Ausdrucks eine semantisch ungenaue Übersetzung. Auch aus rein ökonomischen Gründen bietet sich der Import des fremdsprachlichen Ausdrucks an, wenn es (noch) kein deutsches Wort für den zu bezeichnenden Sachverhalt gibt. Zahllose Beispiele lassen sich sowohl in der Fachsprache, wie in der Allgemeinsprache finden: So benennt der wirtschaftssprachliche Fachbegriff Outsourcing die Übergabe von Firmenbereichen, die nicht zum Kernbereich eines Unternehmens gehören, an darauf spezialisierte Dienstleister, und auch Productplacement bedürfte der Umschreibung durch „im Film und Fernsehen eingesetzte Werbemaßnahme, bei der ein Produkt beiläufig, aber erkennbar ins Bild gebracht wird“. (oft wird aber der deutsche Ausdruck Schleichwerbung benutzt) Das im Zuge der gewachsenen Bedeutung

⁸⁷ Karl-Heinz Stoll, *Megasprache Englisch - Nischensprache Deutsch ?*, 2000, S.11.

⁸⁸ Ibidem.

des Umweltschutzes entlehnte Recycling ist eben nicht mit „Wiederverwertung“ oder „Aufbereitung“ identisch, sondern bezeichnet das Zurückführen einer stofflichen Substanz in einen bereits vorhandenen Kreislauf.

Denglisch-Befürworter halten es außerdem für positiv, dass neu entstandene Begriffe, etwa in der Technik, international einheitlich verwendet werden. Gerade im Internet fördere dies die Verständlichkeit. Für Menschen, die Fremdsprachen erlernen oder sprechen, stelle es eine große Erleichterung dar, wenn neue Begriffe (Neologismen) nicht übersetzt werden müssen. Wirtschaftsräume, die sich sprachlich dem vorherrschenden angloamerikanischen Sprachraum anpassen, genießen Wettbewerbsvorteile gegenüber isolierten Sprachräumen, was letztendlich Arbeitsplätze sichere.

Wichtige Funktionen erfüllen Anglizismen auch, wenn sich damit häufige Wortwiederholungen vermeiden, Aussagen stilistisch variieren oder syntaktisch straffen lassen. Je nach Äußerungskontext oder Textsorte kann auch der unübersehbare Trend zur Kürze im Sprachgebrauch – nicht nur in E-Mails wird der Telegrammstil gepflegt – einen Anglizismus rechtfertigen. So beansprucht der Trucker gerade zwei Sprechsilben, während es der „Lastwagenfahrer“ immerhin auf fünf Silben bringt. Entsprechendes gilt für die Synonyme Jointventure und Gemeinschaftsunternehmen und Management - „Unternehmensleitungen“. Letztlich entscheidenden Aufschluss über den Gebrauchswert eines Anglizismus bringt die Frage, ob das Fremdwort von seinen (möglichen) Adressaten eindeutig und ohne Schwierigkeiten verstanden wird. Ein Anglizismus sollte folglich vermieden werden, wenn Verständigungs- und Verständnisschwierigkeiten wahrscheinlich sind.

Leute, die dem Denglisch gelassen gegenüber stehen, unternehmen zum Teil den Versuch, Denglisch-Kritiker herabzuwürdigen, indem sie ihnen offenkundig unsinnige Übersetzungsversuche vorhalten bzw. unterstellen (*motherboard* = „Mutterbrett“). Denglisch-Kritiker hingegen versuchen, deutsche Wörter, die vor dem Auftreten eines bestimmten Anglizismus bereits vorhanden waren, weiter zu verwenden oder neu zu beleben bzw. Wörter zu finden oder zu erfinden, die stimmig und alltagstauglich sind (*motherboard* = „Hauptplatine“). Diese Vorgehensweise überzeugt dort, wo ein verständlicher Begriff gefunden wird. Puristen würden jedoch auch hier einwenden, „Platine“ könne kaum als ursprünglich deutsches Wort bezeichnet werden. Abgesehen davon können nicht alle dieser Versuche als gelungen bezeichnet werden, da es an allgemeiner Anerkennung und Verbreitung mangelt.

2.2. Argumente gegen den Gebrauch von Anglizismen

Fragwürdig wird der Gebrauch von Anglizismen, wenn sie nicht von sprachlichen Gründen bestimmt werden, also keine besondere inhaltliche, stilistische oder syntaktische Funktion haben. So müssen Anglizismen oftmals zur Prahlerei und Imagepflege herhalten, weil sich Sprachteilhaber davon eine Aufwertung des eigenen sozialen oder intellektuellen Ansehens versprechen⁸⁹. Bei näherer Betrachtung gibt es für zahlreiche Anglizismen deutsche Entsprechungen und längst etablierte Lehnwörter: Die häufig befahrene Datenautobahn bedarf kaum einer sprachlichen Abwertung zum Datenhighway. Ein Feeling ist ein Gefühl, der Airport bleibt ein Flughafen, ein Deal ist nicht gewinnbringender als ein Handel. Die Rückmeldung ist gewiss nicht weniger treffend als das Feedback. Die News sind präziser entweder mit „Nachrichten“ oder „Neuigkeiten“ übersetzt, ein „nicht zuletzt“ ist sogar kürzer als last, (but) not least, und auch relaxen bietet im Vergleich zu „aus-“, oder „entspannen“ keinen semantischen Mehrwert. Die nicht-deutsche Aussprache der englischsprachigen Wörter ist einer der Hauptgründe für die Ablehnung von Anglizismen. Die deutsche Sprache lebt und erfährt durch die Übernahme treffender Ausdrücke aus anderen Sprachen eine Bereicherung. Diese Erkenntnis

⁸⁹ Claudia Döhner, *Für und wider des angloamerikanischen Einflusses auf den deutschen Wortschatz*, 2000, S.4.

hat heute in ihrer Anwendung auf Begriffe der Wirtschaft, der Technik und der Wissenschaft, deren Übernahme im Zuge der Globalisierung unvermeidbar erscheint, eine besondere Aktualität. Der Ende 1997 gegründete und schnell auf 10.000 Mitglieder angewachsene „Verein Deutsche Sprache“ (VDS) kämpft gegen „Denglisch“ bzw. „Engleutsch“ und wählt jeweils einen „Sprachhunzer des Monats“ und einen „Sprachpanscher des Jahres“. 2000 wurde die zweifelhafte Ehre dem Rektor der Münchner Universität zuteil für seinen Vorschlag, „Departments“ einzuführen. 1997 hatte den damals noch "Sprachschuster des Jahres" genannten Preis die Hamburger Modeschöpferin Jil Sander erhalten, für die früher genannte Aussage. Wenn man sich die Sätze jedoch etwas genauer ansieht, stellt man fest: Es sind deutsche Sätze, ihre Grundstruktur ist deutsch, die Amerikanismen sind Fremdkörper. Auch die „Moonshine“- und „Sunshine“-tarife der Telekom haben den begehrten Preis erhalten. 1998 erhielt den "Sprachpanscher" der Telekom-Manager Ron Sommer für eine Werbeaktion mit Sunshine- und Moonshine-Tarifen, City-Call, Free-Call, German-Call. Für ähnliche Leistungen wie Ron Sommer ist ein Jahr später der damalige Vorstandschef der deutschen Bahn AG Johannes Ludwig als "Sprachpanscher des Jahres" ausgezeichnet worden.

Gemäßigtere Kritiker akzeptieren generell, dass sich mit wachsender Mobilität der Menschen auch die Sprachen vermischen. Sie geben aber zu bedenken, dass es der Alphabetisierung nicht gerade dienlich sei, wenn die bei Nichtmuttersprachlern durchaus geschätzte ziemlich lautgerechte Schreibung des Deutschen aufgeweicht werde, weil beispielsweise englische Wörter (wo es kaum eindeutige Beziehungen zwischen Schreibweise und Aussprache gibt) unverändert übernommen würden (siehe *computer* vs. „Kompjuter“ u. a.). Bei Begriffen aus Sprachen mit nichtlateinischen Schriften (z. B. Griechisch, Russisch, Japanisch) werde schließlich auch nicht die Originalschreibung beibehalten.

3. Der Einfluss des Englischen auf die deutsche Wirtschaftssprache an Beispielen

In der Gegenwart spielt der zunehmende Bedarf nach einem internationalen, ja globalen Verständigungsmittel eine große Rolle. Als Ursache dafür wird immer wieder die Globalisierung genannt. Globalisierung erfordert eine Globalsprache - und diese Globalsprache ist die englische Sprache. Ihren Siegeszug als Globalsprache hat das Englische 1919 begonnen. Der 28. Präsident der USA, Thomas Woodrow Wilson, hatte Englisch als zweite Vertragssprache neben Französisch für den Versailler Vertrag durchsetzen können⁹⁰.

Vor allem die Bereiche Wirtschaft, Wissenschaft und Bildung sind es, die mit großem Tempo auf Englisch als Globalsprache hinarbeiten. International warnen Linguisten schon lange vor den Folgen der Globalisierung und den weltweiten Vernetzungen wie dem Internet. In vielen Bereichen der Wirtschaft, der Wissenschaft und der Bildung dient Englisch bereits nicht nur international, sondern auch national als Lingua franca. Harald Weinrich, Mitglied der "Deutschen Akademie für Sprache und Dichtung", bringt das auf einen Nenner: "Verschiedene Wirtschaftsunternehmen mit klingenden Namen, jedoch multinational fusioniert und mit Firmensitz irgendwo in Byzanz, haben es in den letzten Jahren für richtig erachtet, Englisch als Konzernsprache einzuführen."⁹¹ Ein Beispiel: Die Lufthansa Technik AG hat einem Techniker mit Entlassung gedroht, wenn er weiter deutsch statt englisch im dienstinternen Schriftwechsel verwenden würde. Klar und unbestritten ist, dass die Verkehrssprache der Piloten und Lotsen Englisch ("Airspeak") sein muss.

In der Werbung ist sogenanntes „Denglisch“ ganz normal. (slogan, headline, product placement, billboard, direktmarketing, coupon, publicity, tele-shopping, PR). Das liegt natürlich daran, dass dieser gesamte Wirtschaftszweig aus einem englischsprachigen Kulturgebiet stammt. Die Werbeagenturen gehen davon aus, dass die beworbene Zielgruppe so viel Englisch beherrscht, um ihre Werbebotschaft zu verstehen. Das mag bei Werbung für die IT-Branche vielleicht noch

⁹⁰ Christian Meier, *Sprache in Not ?*, 1999, S.9.

⁹¹ Thomas Niehr, *Anmerkungen zu einer populären Anglizismen-Kritik*, 2002, S.1.

stimmen (z.B. IBM: "Solutions for a small planet"). Desweiteren ist man in den Werbeagenturen beharrlich der Meinung, dass sich die englische Sprache wesentlich besser verdichten lasse als die deutsche, sie sei komplexer und treffe besser den Punkt. Betrachtet man jedoch die folgenden Werbesprüche, so fällt es sehr schwer, das zu glauben: "Nichts bewegt Sie wie ein Citroen", "Neckermann macht's möglich", "Nichts ist unmöglich! Toyota". Schon allein durch die Verwendung des Stabreims lassen sich originelle, witzige Werbesprüche texten. Eine Funktion von Werbesprüchen ist, durch Abweichung vom gewohnten Sprachgebrauch Aufmerksamkeit zu erzeugen. Das erreicht man sowohl durch englische als auch durch deutsche Werbesprüche.

Aber nicht nur dieser Zweig, sondern die gesamte Wirtschaft wird sprachlich von der Supermacht beeinflusst. Auf dem internationalen Markt macht man sich dann doch eher mit "Outsourcing" (Ausgründung), "Joint Ventures" (Gemeinschaftsunternehmen) oder "Cost-Benefit-Analysis" (Kosten-Nutzen-Analyse) verständlich, um den "Break-even-Point" (Gewinnschwelle) überschreiten zu können. Ein "Goal" (Ziel), das natürlich nur mit viel "Support" (Unterstützung) erreicht werden kann. Darum "recruitet" (anheuern) das "Human Resources Department" (Personalabteilung) nach dem "Career Check" (Lebenslaufbewertung) nicht nur "Consulter" (Berater) oder eine "Office-Managerin" (Sekretärin), sondern auch "High Potentials" (hoch qualifizierte Nachwuchskräfte) in edlen "Outfits" (Kleidung), die ihren "Eigenvalue" (Wert) kennen und "Soft Skills" (Schlüsselkompetenzen wie Team- oder Kommunikationsfähigkeit) mitbringen. Und wenn die dann dank ihrer "Performance" (Leistung) oder "Mailings" (Aussendungen) einen "Leverage-Effect" (Hebelwirkung) erreicht haben, stimmt - hoffentlich - ihre "Work-Life-Balance" (ausgeglichenes Leben) und der "Cashflow" (Zahlungsfähigkeit) des Unternehmens. Und falls nicht, werden die "Young Professionals" (junge Fachkräfte mit Berufserfahrung) zwar aufgrund mangelnder "Credibility" (Glaubwürdigkeit) "vom Boss gefired" (entlassen) ⁹². Für die meisten solcher Anglizismen spricht das oben genannte Argument der Bezeichnungsangemessenheit: Anstatt nach einer häufig längeren und umständlicheren deutschen Übersetzung zu suchen, bedient man sich, indem man die Bezeichnungen der Herkunftssprache übernimmt, der Sprachkonvention der fremden Sprache und erreicht so in Bezug auf das Bezeichnete Eindeutigkeit. Aber, Computer, Service point, monitor, Facility manager, cargo, newcomer sind länger als "Rechner", "Auskunft", "Bildschirm", "Liegenschaftsverwalter", "Fracht" oder "Neuling".

Man findet aber Anglizismen aus der Wirtschaftssprache auch in der Alltagssprache, sie begegnen uns im täglichen Leben. Begriffe wie Onlinebanking, alle Arten von Service,, Teamwork, Know-how, Marketing und Workshop sind jedem vertraut. Für die firmeninterne Kommunikation in global agierenden Unternehmen ist die englische Sprache sinnvoll. Ein Nebeneffekt dieser Entwicklung ist jedoch, dass viele Amerikanismen aus der Fachsprache der Wirtschaft in die Alltagssprache übergehen, weil wirtschaftliche Prozesse im Alltagsleben der Menschen eine immer größere Rolle spielen. Der "Manager" fällt heute kaum noch auf, aber auch Wörter wie "Aktiensplit", "Broker", "Boom", "Börsencrash" gehören mittlerweile zur Alltagssprache. Allerdings wird der Anteil der Amerikanismen in der wirtschaftlich geprägten Alltagssprache erheblich überschätzt.

5. Schlussfolgerungen

Die heutige Anglisierung scheint auf den ersten Blick auf einzelne sachliche oder soziale Bereiche beschränkt. Beim zweiten Blick aber sieht man, dass niemand mehr un sie herumkommt. Die Lebensbereiche in denen die Internationalismen häufig vorkommen, sind : die Wissenschaften, die sich internationaler Konkurrenz stellen, der Computerbereich, der Bereich Reise/Verkehr/Tourismus, viele Zonen der Wirtschaft, die stark trendbestimmte Bereiche Werbung, Mode, Musik. In diesen Bereichen ist heute ein großer Teil, in den extremeren Fällen

⁹² Claudia Döhner, *Für und wider des angloamerikanischen Einflusses auf den deutschen Wortschatz*, 2000, S.6.

schon die Mehrzahl aller sinntragender Wörter englisch. Das Englische dringt über alle Kanäle in unsere Sprache. Die Ursachen für die Verbreitung amerikanischer und britischer Fachausdrücke sind vielfach beschrieben worden. Durch die Globalisierung der Wirtschaft, den starken Einfluß von Popkultur, Werbung und Computertechnik auf unser Alltagsleben haben englische und amerikanische Ausdrücke und Satzstrukturen in die deutsche Sprache Einzug gehalten. Jugendliche haben heute einen weitaus größeren Wortschatz als die Generationen vor ihnen, aber aktiv benutzen sie weniger Worte. Es ist zu bezweifeln, ob durch Verbot von unnötigen Fremdwörter der aktive Wortschatz mitsamt deutscher Worte vergrößert wird. Es ist doch viel mehr zu begrüßen, wichtige Wörter aus dem Englischen, die Unsinnig wären zu übersetzen, zu übernehmen und gleichzeitig bewährte Wörter zu behalten. Sprachveränderungen konnten und können aber weder von Organisationen noch durch Verordnungen aufgehalten werden - das gilt auch für das Englische. Im Unterschied zu früheren Jahrhunderten, als Fremdwörter zumeist nur in der Sprache bestimmter sozialer Schichten (z.B. Adlige, Bildungsbürger) vorkamen, betreffen sie heute nahezu die gesamte Bevölkerung. Und das nicht nur in bestimmten Teilen der Welt, sondern global: Englisch ist die erste Sprache überhaupt, die in der ganzen Welt dominant ist, und Anglizismen sind daher häufig zugleich Internationalismen.

Neue Erfindungen bedeuten natürlich auch neue Benennungen und es liegt auf der Hand, das diese Wörter zunächst englisch sind, wenn die neu zu benennenden Produkte in den USA entwickelt wurden. Doch es sind auch Vorteile in der Sprache selbst zu finden. Englisch hat zwar ein riesiges Vokabular, doch kann man von einer „leichten Erlernbarkeit bis zu einer kommunikativ befriedigenden Verständigung“ sprechen. Die Sprache ist außerdem beliebt, weil Begriffe aus dem Englischen oft „kürzer und so bequemer anzuwenden“ sind⁹³. Die englische Sprache verfügt über eine große Fülle an einsilbigen Wörtern und „cash klingt nun einmal flotter als Bargeld“. Auch von der „phonosymbolischen“ Kraft englischer Wörter ist öfter die Rede, man findet sie in Wörtern wie crash, boom, bounce oder splash.

Aber die deutschen Ausdrücke bieten nicht nur den Vorteil, anschaulich und sofort verständlich zu sein. Sie lassen sich auch mühelos in vollständige Sätze einbauen, dort bewegen und variieren.

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⁹³ Christian Meier, *Sprache in Not ?*, 1999, S.14.

THE IMPACT OF THE ENGLISH ECONOMIC TERMS IN THE BUSINESS ENVIRONMENT

Museanu Elena

Romanian – American University

Coancă Mariana

Romanian – American University

In terms of quantity, the English (American) influence in the economic language is striking, remarkable. The adjustment of these terms is brief, relative, which is not a factor favoring the assimilation of loans, but is permissible, in principle, for Anglicisms. In what concerns the need for these loans, it can be deemed that the demarcation between “necessary loans” and “luxury loans” is not yet solid. Low frequency or isolated Anglicisms may be classified into the second category (some may even affect proper specialized communication). Even if enough Anglicisms recorded in the economic press will not remain in Romanian, “the era of the Internet, of globalization”⁹⁴, we may consider a greater influence of English in the economy (perhaps similar to computer science).

Keywords: Anglicisms, economic terms, specialized communication

I.1. Our research is focused on analyzing the importance of economic terminology for broader socio-professional groups. An observation that emerges is the representative presence and use of *English terms* in texts which seek their spread beyond the field of specialists. Such texts belong, in general, to a certain type of media – the “popularizing” press, eventually the press of “scientific popularization”. The interest in such cases is amplified when there is an obvious extra linguistic reasoning, such as the case of a part of economic terminology in Romania since 1990, a period characterized by profound economic changes. These extra linguistic realities sometimes need to be defined by explicit terms (and the scientific terms must generally be mono-semantic and, therefore, precise). Explaining the meaning of specialized terms to ensure the accuracy of their interpretation and use by laypersons requires greater than in other terminology, careful analysis of the relation between specialized definition, lexicographical definition of and texts⁹⁵. The analysis has started from a corpus of English terms⁹⁶ which distinguish themselves by high frequency and, hence by their significance for expressing various concepts. The general economic press or the economic popularizing press represents an objective source for determining important English terms.

A survey has been carried out upon the economic press intended for laypersons. English terms, frequently used in the business environment, have been excerpted, which have been classified according to their occurrence in various publications or weekly newspapers: **Ziarul Financiar**, **Capital (Capital TV)**, **Adevărul economic**, **Săptămâna financiară**, **Averea**, **Bursa**, **Banii Noștri**, **Business Standard**⁹⁷. These terms with English form, marked as novelty both by form and meaning, are generally mono-semantic, which grants them an obvious specialized nature. The presence of specialized English terms can be a challenge as they occur frequently in mass media and the layperson has no means (dictionaries do not list them, in general) to understand

⁹⁴ See A.Stoichițoiu-Ichim 2006: 24 – 25.

⁹⁵ Concerning various issues of scientific terminologies in terms of the interest for linguistics, on one hand, and for ordinary communication, see A Bidu-Vrânceanu 2007.

⁹⁶ The analysis hereby will consider the works analyzing the importance of the English influence in the current Romanian. See in this respect A. Stoichițoiu-Ichim 2006.

⁹⁷ To be mentioned that this publication overtakes TV shows of channels specialized in economy (Money Channel)

their mere broad meaning. However, some contexts attempt an explanation of the term's use, which triggers the advantage of some sort of decoding and even assimilation. For example: "if last year only TV channels were SOLD-OUT (their advertising space had been already sold – ed. note), **Capital**, 2007, no. 29, or a YIELD of 7.25%, namely return of 7.25%" (paraphrasing), **Capital**, 2006, no. 27, pp. 17 or "Tax DUMPING, respectively a lower taxation level than the European average..."", **Saptamana financiara**, 2006, June 19, pp. 14 or "EPS – EARNING PER SHARE", **Bursa**, 2007, no. 87, pp. 3, etc. However, it is not a rule to attempt explaining the new English terms in the context where they appear. The focus is on what happens with the other classes of English terms.

I.2. The Anglicization is a trend in existing languages, namely to let the vocabulary assimilate the English influence. This is a highly interesting phenomenon given the internationalization trend, which displays a new dimension of the contact between languages. We should underline here the significance of English words, which we have also analyzed in our approach of the economic terms deriving from French⁹⁸. Considering a different approach, most of the terms falling into this class (such as BUSINESS TREND, TARGET, etc.) are deemed by A. Stoichitoiu-Ichim 2006 as "luxury loans", which does not arise from our analysis. What interests here is, at what extent, some terms – noted by specialists, appear as less necessary.

Therefore, experts insist that Anglicisms are loans both from British English and American English, which – for different and complex reasons – are "under adjustment"⁹⁹. Therefore, they cannot be classified in the category of *completely assimilated loans*, nor as non-assimilated called **xenisms** or **foreignists**¹⁰⁰. Other experts consider Anglicisms as "foreign words that maintain the foreign look in spelling, pronunciation or inflexion"¹⁰¹. According to the latter perspective, adjustment problems would not constitute a failure of this category of loans. The analysis of the economic terms of English origin carried out hereby is useful to determine the influence of the English language in the Romanian vocabulary, and especially in the economic vocabulary, although "certainly many of these words will not remain in the language as they do not meet the requirements for assimilation in the Romanian language"¹⁰². The current Romanian press uses many Anglicisms whose definitions are not found in general or specialized dictionaries, although they belong to different terminologies, which proves that in some cases, they have exceeded the boundaries of strict specialization, migrating to the common language.

I.3. Based on broad materials¹⁰³ provided by the aforementioned widespread press, we will handle the following issues regarding Anglicisms: their form adjustment – in terms of phonetics, spelling, morphology (II and III); terms are mainly grouped according to their higher (II 1) or lower (II 2) frequency. Given that economic Anglicisms are used as simple terms, as well as in complex forms of different types (composed and syntagmas), we will also attempt to classify the material according to this approach (IV). The Anglicisms' decoding by laypersons could be favored if these terms are to be listed in dictionaries (specialized, but mainly general), however the analysis does not have a positive answer for such requirement (V). Finally, the semantic areas to which belong the economic terms deriving from English words could increase their linguistic chances and, implicitly, the significance of such type of influence in the Romanian language.

⁹⁸ See. A.Stoichitoiu-Ichim 2006: 16 – 17.

⁹⁹ See. A.Stoichitoiu-Ichim 2006: 29.

¹⁰⁰ See. A.Stoichitoiu-Ichim 2006: 28, even if the solid demarcation of these classes is deemed difficult, the incomplete adjustments keeps its significance (see A.Stoichitoiu-Ichim 2006: 34), which is not an advantage in terms of loans' implementation.

¹⁰¹ See discussions in A.Stoichitoiu-Ichim 2006: 32.

¹⁰² See A.Stoichitoiu-Ichim 2006: 19.

¹⁰³ We shall not list here all occurrences recorded, but only in strictly necessary and relevant situations.

II. We will try below to see what issues arise from the English words from the economic press. Our intention is to ascertain the difficulties Anglicisms have to adjust to the Romanian phonetic, inflexion system, etc. fluctuations in their writing, meaning extending or restricting and similar situations.

1. A first class of Anglicisms, whose presence is noticed repeatedly and which appear quite often in the economic press (in every issue and even several times in the same newspaper) gathers the following terms: TREND, BROKER, BRAND, LEASING, BUSINESS, RETAIL (RETAILER, RETAILING), RATING, TRAINING, HOLDING, TRUST, SPONSOR, DEALER (DEAL), TARGET, DISCOUNT, TRADE, JOB, BOOM, DUMPING, PLANNING etc. We have listed in the following several examples for these terms, highly used in the economic press under investigation and, therefore, in the economic environment:

„The Bucharest Stock Exchange might resume an *upward* TREND”, **Business Standard**, 2007, no. 92, or „a closing of almost 1.3400 of the EUR/USD rate might lead to a continuation of the *downward* TREND”, **Capital**, 2007, no. 23, pp.34, „TREND The domestic media market is developing by integrating operations in large entities”, **Capital**, 2007, no.7, pp.20. We can note the term’s linguistic integration both by sound and spelling forms, which do not pose any issues, and, also, by an inflexion typical to Romania; moreover, a positive role is played by the term’s establishment in somewhat stable syntagmas.

„BROKERS expect increases after the nine month results”, **Business Standard**, 2007, no.92, or „Basically, the BROKER, not the client shall demand the release of the statements of account. In short time, all agencies of BROKERAGE companies in the country will be able to demand such services”, **Capital**, 2007, no.15, pp.25. In this case, the form of English loans does not trigger any sort of problems, which can be deemed as an advantage, together with the necessary specialized meaning.

Another frequent term of LEASING: „Personnel LEASING is a segment which has significantly contributed to the development of both companies”, **Capital**, 2006, no.22, pp.22, or „My clients, whose LEASING contract for non-European cars would have ended in January...”, **Capital**, 2007, no.7, pp.6. (We can notice here a sort of definition or explanation of the term LEASING). The term poses some issues as regards its form (differences between writing and pronunciation), but its considering and broad significance at the level of ordinary speakers has led to its integration due to the concept thereof.

The term BUSINESS: „The increase is due to the involvement of NEW BUSINESS in a field that is about to emerge on the market”, **Business Standard**, 2007, no. 88, pp.19, „The watchword seems to be concentrating BUSINESS operations under the umbrella of a trust”, **Capital**, 2007, no. 7, pp.20, „For BUSINESS clients, it is highly important to simplify the offer, **Capital**, 2006, no.22, pp.20”. This term has one of the most increased frequencies: titles of pages, articles of the economic press impose it through stability. The term withstands competition with its older and very frequent synonym: AFACERE.

Other terms, more recently appeared, such as RETAIL try to occupy a significant position based on their frequency: “EUR 3 billion represents the investments of major RETAILERS, expected in the coming years in Romania ... Kaufland, Auchan, Real and Interspar also land in the Romanian RETAIL environment”, **Capital**, 2006, no. 22, pp.61, or „a group of investors will build a mixed center, with luxury apartments, offices and RETAIL on the ground floor.”, **Capital**, 2007, no. 7, pp. 5, or in **Business Standard**, 2007, no. 88, pp.19 „Programs for RETAIL and shopper marketing have been those boosting the BUSINESS”. Also, in this case, the form issues and even a less necessary meaning do not hinder the term’s high frequency. A correlation is noted with a form with which can be associated in terms of form and semantics (RETAILER) and, especially in the last quote, we note the association, the simultaneous presence of several English terms in a close context (some of them frequent such as BUSINESS, others – isolated such as **shopper marketing**).

For terms such as: „TRAINING for the employees of the Commercial and Sales Departments. The successes obtained by Butan Gas Romania in the first six months of this year are mostly the outcome of such *specialized classes...*”, **Banii Noștri**, 2005, no. 34, pp.10, where they explain the English term with the help of a synonym Romanian expression. The same we see in **Bursa**, 2007, no. 87, pp.8: „Egedex brings an innovative concept of TRAINING solutions through specialized training programs for various professional fields...”. The word TRAINER shares the same situation, with a Romanian plural: “The Company has over 40 years of expertise in human resources development consulting and over 3000 TRAINERS (TRAINERI) certified in over 38 countries.”, **Business Standard**, 2007, no. 88, pp.13. The frequency of such terms (especially TRAINING) is quite high and the linguistic means concerning its implementation are similar to the examples discussed above¹⁰⁴.

2. The second class we have identified, gathers English terms with a lower frequency of even isolated occurrences (one, two occurrences and not necessary in every issue): PROVIDER, FREE-LANCER, PACKAGING, FACTORING, CONSULTING, LOW-COST, START-UP, KNOW-HOW, OUTSOURCING, OFF-SHORE, SOLD-OUT, BOND, COMMODITIES, OFFSET, YIELD, LOHN, HEDGING, TOKEN, HUB etc. The specific English spelling is highly obvious, with pronunciation issues in Romanian and difficult decoding, except for terms which are of interest for the common language and whose meaning becomes known through extra linguistic knowledge, for instance LOW-COST flights. We list below several examples in this respect:

“... Waiting for heavy OFFSET investments”, **Capital**, 2007, no. 29; „Yahoo! Has recently purchased a START-UP Company specialized in movie publishing”, **Săptămâna Financiară**, 2007, July, 9; „... capitals circulated through OFF-SHORES by current magnates...” **Capital**, 2006, no. 36, pp.8; „Teodor Droșcaru is convinced he can make the difference on the FREE-LANCER’s market”, **Banii Noștri**, 2005, no. 34, pp.17; „... he worked as designer, afterwards he switched to FREELANCING, because he didn’t manage to handle projects.”, **Capital**, 2007, no. 6, pp.22; „... movement of the dollar increase was synchronous with the steep decline in oil, gold, copper and other COMMODITIES...”, **Capital**, 2006, no. 21, pp.34; „FACTORING companies are most interested in this products, as they intend to insure the invoices purchased from their clients”, **Capital**, 2007, no. 7, pp.17.

III. 1. The phonetic and graphic adjustment of English terms depends on several factors: entry into language, linguistic consciousness of speakers (knowledge or lack of knowledge of English). The international character of these terms probably grounds their use in the original form (just to be an easy communication tool between specialists and not only¹⁰⁵). We have tried to show in the examples cited in II such adjustment problems. The result is that in most cases, English terms trigger graphic and phonetic problems.

2. The Romanian writing and pronunciation occurs for very few economic terms, such as: TREND, HOLDING, SPONSOR, FACTORING or TRUST – as assimilated term. Otherwise, the terms, we have selected, have English writing and pronunciation (BROKER, LEASING, BUSINESS, RETAIL TRAINING, RATING, BRAND etc.), as we have commented during the previous analysis. As seen from the Anglicisms’ definition (I 2), experts agree, in principle, their

¹⁰⁴ Even though some experts (v. A.Stoichițoiu-Ichim 2006: 61) consider them luxury Anglicisms.

¹⁰⁵ V B. Thiry 2004: 171-172, who quotes numerous Anglicisms from the current literature in the economic field: BUSINESS, BUSINESS PLAN, BROKER, CASH FLOW, DUMPING, FACTORING, HOLDING, JOINT VENTURE, LEADER, LEASING, LOBBY, LOCK-OUT, MANAGEMENT, MANAGER, etc. See also A. Stoichițoiu-Ichim 2006, pp.18-19, who gives several examples from the economic-financial terminology concerning the assault of Anglicisms in the context of relations with international institutions: RATING, CARD, CATERING, DEALER, STAND-BY AGREEMENT, LEASING etc.

incomplete adjustment to the Romanian phonological and spelling system¹⁰⁶. Causes can be **objective** (distance between the Romanian and English linguistic system, restricted movement) or **subjective**¹⁰⁷ (insufficient knowledge of English and convenience). The terms we have analyzed, highlight such issues.

Some English terms present various degrees of adjustment through articulation, but unadjusted through orthography¹⁰⁸, such as: LEASING, BRAND, BUSINESS, RETAILER, BROKER, KNOW-HOW, BOOM, OUTSOURCING, etc.

3. Another problem regarding morphological adjustment, in addition to those already reported, deals with the Romanian grammar mark to be added in a graphic form¹⁰⁹, which draws attention on the foreign nature of the term, trying to replace the absence of a phonetic adjustment. As regards the gender of nouns (which are the most numerous), most terms designating inanimate fall within the Romanian neutral: TREND(s), BRAND(s), BUSINESS(es), TRAINING(s), RATING(s), etc. Male English words are fewer, but they cannot be overlooked. For example: BROKER, DEALER, PLANNER, TRAINER, PROVIDER, FREE-LANCER, etc. Female English terms are not in the material under research.

IV.1. The interest for Anglicisms and their implementation into Romanian may be justified by the need expressed by their meaning. From this point of view, the focus is on the semantic areas where they belong.

A category of terms distinguished by their frequency in the press under survey is represented by the *name of professions* (capacities), usually held by economists in national and multinational companies, borrowed almost entirely from English, probably from a desire to express more precisely the specialized economic meaning (particularly with respect to international relations), or conversely, out of convenience or snobbery (to impress the reader or the audience).

We list below several *names of professions* commonly found in the investigated material:

TOP MANAGER, GENERAL MANAGER, EXECUTIVE MANAGER, MARKETING ASSISTANT, INTEGRATION COMMUNICATION DIRECTOR, DEPUTY MANAGING DIRECTOR, HEAD OF PLANNING, CLIENT SERVICE and NEW BUSINESS DIRECTOR, BUSINESS DEVELOPMENT MANAGER, ACCOUNT PLANNING MANAGER, COUNTRY MANAGER, SENIOR TAX MANAGER, MANAGING DIRECTOR, ACCOUNT MANAGER, ACCOUNT EXECUTIVE, ACCOUNT PLANNER, DEALER, CUSTOMER SERVICE SPECIALIST etc. Some of these terms are defined or analyzed in general or specialized dictionaries¹¹⁰ (*manager, broker, dealer, account executive, account manager, customer service specialist*).

A detailed analysis shows that only few of these terms are necessary loans.

2. Another class of Anglicisms, which occur often in the economic press, is represented by the types of companies met in the press under analysis: LEASING *companies*, OFF-SHORE *companies*, ASSET MANAGEMENT *companies*, PRIVATE EQUITY *companies*, JOINT-VENTURES, BROKERAGE *companies*, RETAIL *companies*, RATING *companies*, etc.

The same class includes names of companies headquartered in Romania and which have English names: the *international company* WILSON LEARNING, BIG FOUR, HEAD HUNTER MMV *Company from Galati*, MENTOR TRAINING *Company from Piatra Neamt*, PROFESSIONAL *Company*, MANPOWER *Company*, etc.

¹⁰⁶ See A.Stoichițoiu-Ichim 2006: 32.

¹⁰⁷ See A.Stoichițoiu-Ichim 2006: 35.

¹⁰⁸ See. A.Stoichițoiu-Ichim 2006: 22, who notes the tendency of keeping and even going back to the English spelling (for instance, LEADER).

¹⁰⁹ Phenomenon also noticed by A.Stoichițoiu-Ichim 2006: 47, especially regarding plurals' expression.

¹¹⁰ We refer to DEX, as general dictionary, Dictionar de Economie 1999, and also Dictionar de terminologie a profesiiilor, C.Călărășu, Ed. Universității of Bucharest, 2004.

The economic concepts expressed by English terms are represented in the relevant examples above.

V. The Anglicisms' meaning issues can be many and varied and we will approach (additionally to those already debated) those which are important for assessing their status in the economic terminology. The frequency and the ability to assign *denotative* values to meet the referential and communicative functions of specialized languages may be factors favoring the implementation of several economic terms of English origin¹¹¹.

The semantic areas of Anglicisms from the economic press display predominantly a denotative interest (names of professions: TOP MANAGER, GENERAL MANAGER, EXECUTIVE MANAGER, MARKETING ASSISTANT, etc. or institution names: WILSON LEARNING, Big Four, etc.). Designating new necessary economic concepts is not always obvious, which may lead to the removal of many of these terms from the Romanian language¹¹².

Moreover, the general interest of regular speakers for economic terminology leads to the economic Anglicisms' implementation into the common language. This expansion results into the development of connotative meanings, which may affect the terminology's accuracy. We have not noticed such situations in the wide-spread economic press, which can be distinguished only on different types of texts (without specialized profile and only for specialized terms such as TREND, BRAND).

VI. Based on the analysis above, we may reach the following conclusions:

In terms of quantity, the English (American) influence in the economic language is striking, remarkable.

The adjustment of these terms is brief, relative, which is not a factor favoring the assimilation of loans, but is permissible, in principle, for Anglicisms.

In what concerns the need for these loans, it can be deemed that the demarcation between "necessary loans" and "luxury loans" is not yet solid. Low frequency or isolated Anglicisms may be classified into the second category (some may even affect proper specialized communication¹¹³).

Even if enough Anglicisms recorded in the economic press will not remain in Romanian, "the era of the Internet, of globalization"¹¹⁴, we may consider a greater influence of English in the **economy** (perhaps similar to **computer science**).

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¹¹¹ Therefore, in our opinion terms such as BUSINESS, TREND should not be considered "luxury loans" or cultism (See A.Stoichițoiu-Ichim 2006: 20). Moreover, we deem that BUSINESS is justified in terms of terminology in order to avoid the ambiguities of the synonym AFACERE (business in Romanian).

¹¹² The observation is also made by A.Stoichițoiu-Ichim 2006: 24 – 25 with respect to other fields. Also, the dynamics of Anglicisms' meaning should be studied; See A.Stoichițoiu-Ichim 2006: 105 – 106, 111.

¹¹³ See A.Stoichițoiu-Ichim 2006: 33.

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EINFLUSSE DES ENGLISCHEN AUF DIE DEUTSCHE WIRTSCHAFTSSPRACHE UND JUGENDSPRACHE

Sacara-Onita Adina

Universitatea din Oradea, Facultatea de Științe Economice

The paper presents the historical evolution of borrowings in the German language from the Greeks or Romans to the 20th century. The paper underlines the English borrowings present in the everyday speech from academic milieu to teenager medium and its social impact. The paper focuses on economical terms used in an economic magazine called Siemens Welt and on an teenagers everyday speech in magazine Bravo.

Keywords: borrowings denglisch economic terms teenager speech.

Durch ihre zentrale Lage in Europa wurde die deutsche Sprache über die Jahrhunderte durch andere Sprachen beeinflusst. Bereits in der Frühzeit der deutschen Sprachgeschichte finden sich fremdsprachliche Ausdrücke, vor allem aus dem Griechischen und Lateinischen.

Aus dem Lateinischen sind z. B. viele alltägliche Wörter, vor allem aus Architektur, Religion, Kriegswesen und Weinbau entlehnt. Auch die griechische Sprache hat das Deutsche in Religion, Wissenschaft und Philosophie stark beeinflusst.

Später war es dann vor allem die französische Sprache, die großen Einfluss auf das Deutsche ausübte. Im hohem Mittelalter kamen viele Bezeichnungen – vor allem in Verbindung mit dem Rittertum – aus dem Französischen ins Deutsche.

Im Spätmittelalter und in der frühen Neuzeit finden sich viele gelehrte Bildungen lateinischer Herkunft (z. B. *Centrum, Disciplin, Klasse, Universität*)

Im 17. und im 18. Jahrhundert herrscht wieder der französische Einfluss vor (*Alamodewesen*). Frankreich war in dieser Zeit die kulturell führende Nation Europas. Ausdrücke wurden u. a. übernommen in den Bereichen der Diplomatie und Verwaltung (*Depesche*), des Handels (*Fabrik*), des Transportwesens (*Karossee, Chaise*), der Esskultur (*Bouillon, Kotelett, Konfitüre*), der Mode (*Frisur, Garderobe*) sowie des gesellschaftlichen Auftretens (*Etikette*).

Nach dem Dreißigjährigen Krieg wurde an vielen Höfen französisch gesprochen und selbst preußische Könige beherrschten diese Sprache besser als Deutsch. Um 1750 berichtet Voltaire vom Hof des Preußenkönigs Friedrich II.: „Ich bin hier in Frankreich: Man spricht unsere Sprache, das Deutsche ist nur für die Soldaten und die Pferde“

Das 19. Jh. ist gekennzeichnet durch die Ablösung der französischen durch englische Wortschatzerweiterung. Großbritannien galt als Vorbild u. a. im Bereich der Wirtschaft (*Trust*) und der Presse (*Interview, Reporter*). Das Verkehrswesen verwendet weitgehend noch französische Ausdrücke (*Billet, Perron*), wobei allerdings auch hier der angelsächsische Einfluss auf dem Vormarsch ist (*Tender, Tunnel*). Ende des 19. Jh.s löst das Englische das Französische als Gesellschaftssprache weithin ab, was auch im Fremdwortschatz seinen Niederschlag findet: *Dandy, Flirt, Smoking, Cocktail*.

Man war – schreibt Peter von Polenz - *Gentleman, Snob, Dandy* oder *Selmademan*, gehörte einem *Club* an, benahm sich *fair*, fand die Dinge *allright* oder *tiptop*, trug den *Cutaway, Frack, Smoking* oder die *Breeches*, aß *Beefsteak, Toast, Keks* oder *Pudding*, trank in der *Bar* einen *Whisky, Sherry* oder *Cocktail*, trieb *Sport*, spielte *Tennis* oder *Hockey*, machte *Picknick* und erlaubte sich einen *Flirt* oder gar einen *Spleen*.

Im 20. Jh. gewinnt das Englische auch in Form des Angloamerikanischen weiter an Bedeutung und wirkt bis in den privaten Lebensbereich hinein: *Bestseller, Jazz, Make-up, Pullover, Rocker, Sex, Teenager*.

Ab Mitte des 20. Jahrhunderts nahm in Deutschland das Englische zunehmend Einfluss auf die deutsche Sprache (Anglizismen). Diese Entwicklung wird von einigen skeptisch betrachtet, insbesondere dann, wenn es genügend deutsche Synonyme gibt. Kritiker merken auch an, es handle sich oftmals (z. B. bei Handy) um Pseudo-Englisch.

Auch technische Zwänge bei der Synchronisation englischsprachiger Filme üben mittlerweile einen Einfluss auf das Deutsche aus. Um Lippensynchronizität zu gewährleisten, werden Worte und Redewendungen kreiert, die zuvor im Deutschen nicht üblich waren, sich dann aber später in der Umgangssprache durchsetzen (z. B. „Oh mein Gott“ statt „Um Gottes Willen“ als Übersetzung für „Oh my God“). „Verdeckte“ Anglizismen“ gibt es mittlerweile auch aus anderen Gründen: So ist der heute sehr gebräuchliche Ausdruck „nicht wirklich“ die wortwörtliche Übersetzung von „not really“ und bedeutet demzufolge soviel wie „eigentlich nicht“ – allerdings hat sich der Ausdruck inzwischen verselbständigt. (aus Wikipedia, der freien Enzyklopädie.)

Früher hatte man noch Rollschuhe. Heute kaufen die Eltern ihren *Kids* lieber *Inline-skates*, alles andere wäre schließlich *out* und vollkommen *uncool*. Ihre Freunde rufen sie auf dem *Handy* an, ob man sich mal wieder zum *shoppen* verabreden könnte, um ein neues *Outfit* für die *Party* zu suchen. Danach gehen sie vielleicht zum *Hip Hop Event*, falls sie nicht damit beschäftigt sind, zu *jobben*, im *Internet* zu *surfen*, oder einem anderen *Hobby* zu frönen.

Englische Wörter sind aus unserem Alltag nicht mehr wegzudenken. Englisch ist nicht nur die *Lingua Franca* der Welt, sie verändert auch andere Sprachen.

Wer meint, das Englische im deutschen Wortschatz bliebe, wie in obigem Beispiel, auf die Sprache der Jugend beschränkt, der hat verpasst, dass der Rektor der traditionsreichen Münchner LMU die Fakultäten und Fachbereiche der Universität in *Departments* umbenannt hat und man heute schon beim täglichen Einkauf im Supermarkt an zahlreichen *Specials*, *Family Packs* und *Body Lotions* vorbeiläuft. Einigen scheint das gar nicht aufzufallen, andere protestieren heftig gegen die „Invasion“ von Anglizismen, die sie zu beobachten meinen. Der „Verein deutsche Sprache“ (VDS) etwa verlieh dem Münchner Uni-Rektor kurzerhand die Auszeichnung zum „Sprachpanscher“ des Jahres 2000 und startete nebenbei eine Unterschriftenaktion gegen „Denglisch“. Hat denn die englische Sprache tatsächlich einen so großen Einfluss auf das Deutsche, dass man schon vom „Denglischen“ sprechen kann? Einige Sprachforscher meinen: Ja, die deutsche Sprache würde durch den starken Einfluss des Englischen sogar „pidginisiert“. Andere sehen in der Aufnahme von Anglizismen in den deutschen Wortschatz eine Bereicherung und meinen in Aktionen wie die des VDS nichts als sprachliche Xenophobie und Kulturchauvinismus zu erkennen. Wer hat Recht, und wer liegt falsch? Schon die Fragestellung verrät: Eine eindeutige Antwort auf die Frage kann es nicht geben.

Sprache ist eine zu komplexe Sache, als dass es möglich wäre, solche klaren Verhältnisse schaffen zu können. Doch diese Arbeit hat sich auch nicht zum Ziel gesetzt, Urteile zu fällen, sie möchte eine Übersicht über die Veränderung der deutschen Sprache durch den englischen Einfluss verschaffen und mögliche Erklärungen für die bisherige Entwicklung beleuchten. Ein Vergleich mit unserem Nachbarland Frankreich soll aufzeigen, wie unterschiedlich verschiedene europäische Länder auf das „Phänomen Anglizismen“ reagieren und wie sich die Internationalismen im fremden Sprachgebrauch verändern, beziehungsweise wie sie verändert werden. Ein Blick in die Zukunft ist leider nicht möglich, denn was Prognosen der Sprachentwicklung angeht, kann nie eine sichere Aussage getroffen werden. Trotzdem sollen hier die Meinungen verschiedener Publizisten und Institutionen zur Zukunft der deutschen Sprache berücksichtigt werden.

Das eigentliche Bestreben dieser Arbeit ist die Schärfung des Bewusstseins im Umgang mit Sprache. Wenn es ihr gelingt, die Faszination der Sprache, nicht nur als Informationsträger, sondern als eigenen, lebendigen Organismus ins Gedächtnis zu rufen, dann wäre das Ziel erreicht, nicht nur in schulischer Hinsicht der Aufgabenstellung dieser Facharbeit genüge zu tun, sondern auch einen Dienst an unserer Sprachkultur zu leisten.

Zur Illustration des Vorkommens des Englischen in Wirtschaft und Marketing wird hier die SiemensWelt, die Mitarbeiterzeitschrift der Firma Siemens verwendet.

Bereits auf der zweiten Seite der SiemensWelt findet sich eine reiche Auswahl an Beispielen für den Gebrauch des Englischen in deutschen Publikationen. Die Zeitschrift ist dort nämlich in Rubriken eingeteilt, die folgende Namen tragen: „Coverstory“, „Team“, „Partner“, „Trends“, „Business“ und „Family“. Zusätzlich werden noch Seiten mit den Bezeichnungen „Zoom“, „Mailbox“, „Blackboard“ und „Spotlight“ angekündigt. Es handelt sich hierbei jedoch keineswegs um eine englischsprachige Zeitschrift, auch wenn sie auf dem Titelbild als „International Edition“ bezeichnet wird. Die Artikel sind, bis auf die zahlreichen Anglizismen, in deutscher Sprache verfasst. Begriffe wie *Management*, *Investment* und *Trend* lassen sich in fast jedem Artikel finden.

Ein Bericht über ein Projekt der Firma in Afrika enthält etwa den Satz: „Unternehmen wie Siemens sind hier Trendsetter.“ Besonders viele englische Begriffe werden in Artikeln gebraucht, die von Abteilungen und Konzepten der Firma berichten. „VDO verstärkte den Bereich Production and Logistic Systems und Demag Delaval das Industrieturbinengeschäft des Bereichs Power Generation.“

Die in der Zeitschrift aufgeführten Tabellen enthalten fast gar keine deutschen Wörter. „Ebit-Margen-Ziele der Bereiche“, eine Liste mit Zielsetzungen verschiedener Abteilungen der Firma führt unter anderem diese an: „Information and Communication Networks“, „Automation and Drives“, „Transportation System“ und „Medical Solutions“.

Auch die Werbeanzeigen in der Zeitschrift, oder zumindest ihre Werbesprüche, sind fast sämtlich englischsprachig. „Enter the race“ wirbt für ein einen „Netracer“, „commitment“ für „Fujitsu-Siemens-Computers“.

Man findet Anglizismen in der Wirtschaftssprache aber nicht nur in Fachzeitschriften. Sie begegnen uns im täglichen Leben. Begriffe wie *Onlinebanking*, alle Arten von *Service*, *Controlling*, *Teamwork*, *Know-how*, *Marketing* und *Workshop* sind jedem vertraut.

Dieter E. Zimmer führt in seinem Buch „Deutsch und anders - die Sprache im Modernisierungsfieber“ einen besonders illustrativen Satz über Englisch in der Wirtschaftssprache an: „Praktische Erfahrungen im Total Quality Management und/oder Business Process Re-engineering haben unsere Senior Berater/innen als externe Consultants oder in einem in-house-Team erworben.“

Das nächste Gebiet, an dem der Einfluss des Englischen auf die deutsche Sprache veranschaulicht werden soll, die Jugendsprache, unterscheidet sich in seinen Themen und seiner Zielgruppe stark von denen der Wirtschaft und ist deshalb gut geeignet, die ausgedehnte Verbreitung englischer Wörter im deutschen Sprachgebrauch zu demonstrieren.

Als Anschauungsmaterial zum Thema findet hier die Jugendzeitschrift Bravo Verwendung.

Besonders interessant für diese Untersuchung ist der „Bravo-Foto-Roman“, da darin Geschichten aus dem Alltag junger Jugendlicher erzählt werden. Der darin vorkommende Text sollte also zumindest bedingt repräsentativ sein für die Sprache von Jugendlichen allgemein.

Der Einfluss des Englischen auf die Jugendsprache ist in den Dialogen der dargestellten Mädchen und Jungen nicht zu übersehen. „Easy! Ich hab doch sein Handy!“ meint ein Mädchen in der Geschichte. Außerdem finden sich Bildunterschriften wie

„Meike stürzt wie eine Irre zur Haustür und sieht einen Boy auf einem Bike flüchten...“ oder, zwei Seiten später, „Meikes Bruder macht sofort ein Date mit dem Typen aus...“.

Auch im Rest der Zeitschrift finden sich zahlreiche englische Ausdrücke, besonders im Bereich rund um Musik und *Stars*. Die *Outfits* und der *Style* der Idole wird dort besprochen, die *Newcomer* und die *Megastars*.

Im Bereich rund um populäre Musik, der ein wichtiger Bestandteil der jugendlichen Kultur und Sprache ist, lässt sich der Einfluss des Englischen auf die Sprache nicht übersehen. Das könnte natürlich auf die Dominanz des Englischen in den Liedtexten selbst zurückzuführen sein.

Deutschsprachige Musik scheint wenig beliebt zu sein, bedenkt man, dass sogar eine Vielzahl deutscher Musiker auf Englisch, statt in ihrer Muttersprache singen.

In einer Ausgabe des Jugendmagazins „jetzt“ gibt es eine Rubrik, die sich „gute frage“ nennt. Jede Woche wird die Frage eines Lesers abgedruckt, dazu mehrere Antworten, ebenfalls von Lesern eingeschickt. Die „gute frage“ der Ausgabe 42/2000 lautete: „Ich finde, Pop Songs mit deutschen Texten hören sich kacke an. Du auch?“

Die Frage selbst, sowie die Tatsache, dass sie gedruckt wurde, sprechen eigentlich für sich und gegen die Beliebtheit deutschsprachiger (Pop-)Musik.

Martin Gauger, Romanist an der Universität Freiburg meint dazu: „Man muss einem 10-jährigen nicht mehr erklären, warum er Englisch lernen soll. Er ist schon durch die Musik motiviert.“

Wird ein englisches Wort in den deutschen Wortschatz übernommen, so behält es nicht immer seine ursprüngliche Bedeutung und Form. Da sich Englisch und Deutsch in ihrer Grammatik und Morphologie unterscheiden, werden Anglizismen häufig in ihrer Orthographie und Flexion an die deutsche Sprache angepasst. Gleichzeitig werden manche Regeln der englischen Sprache in die deutsche übernommen.

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INTERCULTURAL COMPETENCES AND INTERCULTURAL DIALOGUE. CASE STUDY ON ACADEMY OF ECONOMIC STUDIES BUCHAREST

Suciu Marta-Christina

*Bucharest Academy of Economic Studies
Faculty of Economics, Economics & Economic Policies Department*

Dărăbănt Maria

*Bucharest Academy of Economic Studies
Faculty of International Economics Relations,
Foreign Languages Department*

Trocmaer Neagu Ana-Maria

*Politehnica University of Bucharest
Management Department*

Ivanovici Mina

*Bucharest Academy of Economic Studies
Faculty of Economics, Economics & Economic Policies Department*

The paper debates the topics of intercultural competences and intercultural dialogue. The main research whose results are being disseminated through this paper are part of a national research project, "Equality of chances and intercultural dialogue", project granted by competition and which benefits from the expertise of a dynamic team of University Professors and lecturers as well as enthusiastic PhD students. The authors present the results of their academic and research activities involving students (both Romanian and foreign) studying Economics in foreign languages (at the Faculty of Business Administration taught in foreign languages, English section within the Bucharest University of Economics).

Key words: intercultural dialogue, intercultural competence, intercultural sensitivity, knowledge-based society

The article's JEL code: A20, A22, A23, A29.

1. Introduction

MOTTO: "We want to go beyond multicultural societies, where cultures and cultural groups simply coexist side by side, where they live 'parallel lives'. We need to become intercultural societies where plurality of cultures cooperates in dialogue and in shared responsibility. 2008 as the European Year of Intercultural Dialogue is an important part of the effort to move beyond tolerance and towards a genuine intercultural Europe." (Ján Figel, Commissioner for Education, Training, Culture, and Youth, Intercultural dialogue as a long-term priority for the EU, "Intercultural Dialogue as the Fundamental Value of the EU", Ljubljana, 7 January 2008)

*The issues of intercultural dialogue and intercultural competence play a key role in shaping and reshaping the future. Intercultural rhetoric uses cultural difference to build knowledge and support wise action. This paper examines examples of good practices used to design an intercultural dialogue, to manage diversity, and to build *intercultural knowledge competences* within one of the most important higher education institutions from Romania.*

*Promoting a diverse multiethnic student groups demands more elaborate pedagogical approaches to facilitate every student's acquisition of *intercultural competencies within the framework of intercultural dialogue*. Due to its importance 2008 was declared the *European Year of Intercultural Dialogue*.*

Drawing from a case study regarding learning in foreign languages economics subjects and one based on learning a foreign language dedicated to support economics competences the paper argued that *intercultural communication* and *dialogue* can play a key role for a knowledge-based society. The paper stresses the need for *intercultural communication education (ICE)* that concerns several academic disciplines - psychology, social psychology, sociology, education, media studies, cultural anthropology and management (Stier, 2003).

2.Higher Education and intercultural dialogue. From intercultural sensitivity to intercultural competence and effectiveness

Recent debates tended to be more practically oriented. Good intercultural teaching practice (for example in languages) focus on the intercultural competence which requires shifting from "intercultural awareness and sensitivity" to "intercultural effectiveness" (Salo-Lee, 2007). A constructive intercultural dialogue within a university is becoming essential to perform successfully in the long-run. Universities should promote "cultural respect" that requires respect for all persons involved in intercultural communication, regardless of their origins and cultural choices. G. Chen and W. J. Starosta (1996) describe a model which focuses on four elements: communication skills, personal attributes (including the capacity for "social relaxation"), psychological adaptation (including the ability to cope with stress), and cultural sensitivity. Kim (2001) examines the importance for intercultural communication of: cognitive components, affective components and operational components.

Intercultural competence can be divided into: *content-competencies* and *processual competencies* (Stier 2003). *Content-competencies* have a one-dimensional or static character and refer to knowing a specific aspect. *Processual competencies* consider the *dynamic character of intercultural competence* and its *interaction context* (Hall 1976; Stier, 2004). This *knowing how-aspect* of intercultural competence, involves *intrapersonal* and *interpersonal competencies*. *Intrapersonal competencies* involve *cognitive* and *emotional skills*, coping with diverse feelings - xenophobia, frustration, ethnocentrism (Gudykunst 2003).

Interpersonal competencies refer to *interactive skills* being aware of one's own interaction style (*communication competence*) and adequately responding to *contextual meanings (situational sensitivity)*. *Intercultural communication education (ICE)* should enhance students' understanding of the *dynamics of intercultural interactions*. It should enable them to obtain *intercultural competence*. *Intercultural Programmes' Student Outcomes (IPSO)* refer to *meta-competences* and extend beyond '*knowing that*' and '*knowing how-aspects of culture*'.

Instead they are about *knowing why and or even knowing why one knows why*. The *Features of Academic Curricula and Teaching Orientations (FACTO)* make up a fertile ground for *intercultural learning* and acquisition of *intercultural competence* (Stier 2006).

3.Intercultural Competence when all the subjects are taught in foreign language and when we deal with diverse multiethnic student groups. The cases of the Faculty of Business Administration (taught in foreign language), at the Bucharest University of Economics

The majority of courses offered in our universities are taught in Romanian. However, there are faculties where all the subjects are taught in foreign languages. We focused our research on the *Faculty of Business Administration (taught in foreign languages)* that offers courses taught in foreign languages (English, French, German). This faculty was created in 1990 and now there are both Romanian and foreign students (from more than 50 countries). We consider that this faculty is *an example of good practice* for a *multilingual university* that facilitates *intercultural dialogue*. We had applied the questionnaire method.

In the case of the *Faculty of Business Administration (taught in foreign languages)*, English section we applied a questionnaire on a number of 98 respondents, all of whom are students at the *Faculty of Business Administration (taught in foreign languages)*, English section, at the Bucharest University of Economics. Most of the respondents taking part in this study are aged 19 years old (64% out of a total of 98 students) and they are first year students. As for the respondents' nationality, at the *Faculty of Business Administration (taught in foreign languages)*, 86% are Romanian. 4% of the respondents did not declare their nationality, while the others have Israeli (3%), American (2%), Turkish (2%), Lebanese (1%), Palestinian (1%), and Belarusian nationality (1%). Their citizenship is almost the same as their nationality with very few exceptions. Most of the Romanian students (having Romanian citizenship and/or nationality) have Romanian parents. Almost all of the foreign students have parents of different nationalities from the Romanian one with only very few exceptions (one Israeli student having parents of Romanian nationality). The nationality declared for the parents are: Lebanese, Israeli, Romanian, Palestinian, Belarusian, Turkish, American and German, while 6% of the respondents chose not to declare their parents' nationality and citizenship.

When asked *whether they interact with foreign students or not*, at the *Faculty of Business Administration (taught in foreign languages)* the large majority declared that they do interact with foreign students (Romanians and foreign students alike)-figure 1.

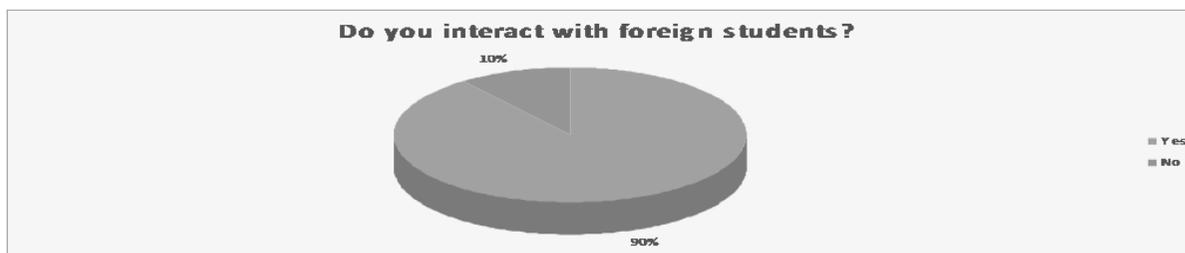


Figure 1. Answers of students from the *Faculty of Business Administration* to the question "Do you interact with foreign students?"

However, 10% of the respondents did not give a positive answer. It seems that they feel just like they *coexist* in a "multicultural situation" (Taylor, 1992; Semprini, 1997). It is very likely that their answer explains or reveals the lack of communication with their foreign colleagues despite the fact that they are students in the same year and series with foreign students. All of the negative answers were given by Romanian students meaning that all foreign students interact with Romanians and not only with students of their own nationality and/or citizenship. Out of the 88 students having stated that they interact with foreign students, 71% said that they interact with less than 10 foreign students, 13% said they interact with more than 11 students but with less than 50 students and only 1% said they interact with more than 50 foreign students. However, a part of the respondents (15%) did not provide any figure at all. The circumstances under which the students of the *Faculty of Business Administration (taught in foreign languages)* declared that they interacted with foreign students were: university activities (an expectedly large proportion 71%) and other activities and circumstances (17%) – figure 2.

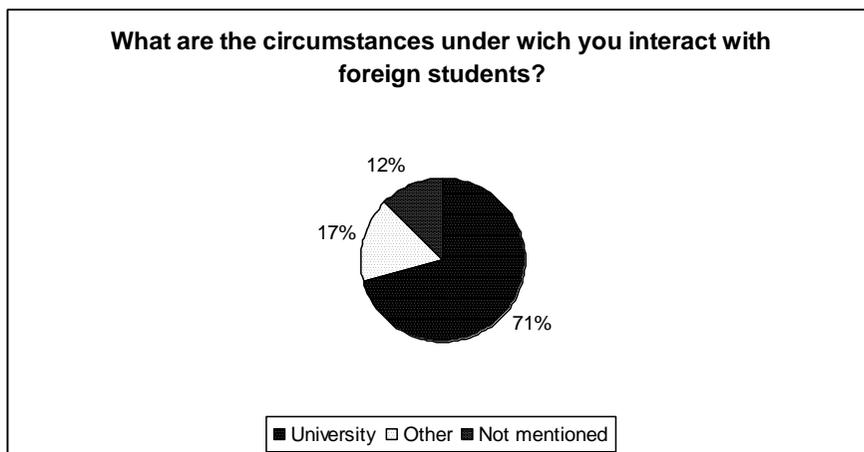


Figure 2. Answers of students from the Faculty of Business Administration to the question “*What are the circumstances under which you interact with foreign students?*”

12% of the respondents, however, did not want to state what these circumstances were. Within the category “*other circumstances*” fell: leisure activities, extracurricular activities or both.

When asked to point to the main difficulties that foreign students face, the answers were almost equally shared among the four alternatives: understanding the language (27%), adapting (23%), socializing (23%) and the academic environment (27%). Asked to say *what policies or measures they would suggest in order for the Faculty/University to improve or resolve such difficulties*, students said that the best policy to be applied would be promoting courses to boost intercultural dialogue and sensitivity focusing on the cultural specificity of each student (37%). Then followed the organization of workshops with all the students of different nationalities (25%), special preparation programs (22%) and the dissemination of materials with useful information (15%). It is more than obvious that the need for more communication would be a possible solution to these difficulties.

When asked to provide more such solutions, students suggested the following: mixing students of different origins (nationality, citizenship) in groups and series; organizing tour guides for foreign students; “*showing around*” sessions for first year students; organizing more language courses (Romanian); offering more language courses (other than English and Romanian); organizing trips to facilitate communication among students of different nationalities; group and team-building activities; sports events; cultural workshops in music, arts; team projects; different workshops; English as compulsory communication language; socializing and extracurricular activities; brainstorming sessions; better prepared administrative personnel; special advisers for foreign students; after school classes; making more room for NGOs to deal with this problem; encouraging more communication in seminars; having more dialogue in classes; cultural exchange programs and intercultural activities; spending more time with Romanian students; informal meetings for students; culturally-diverse menu at the cafeteria; Romanians offering volunteer to help foreign students adapt.

Asked whether there is any specific policy meant to promote intercultural dialogue in the university, in the case of students in economics the large majority (60%) admitted having no idea about any such policy, while 28% said there is such a policy and 12% said there is no such policy. This question is very useful in understanding the degree of information of students on such issues. For the question “*How much does your University/faculty focus on supporting management of diversity, inclusive treatment and equal opportunities?*” the answers were: “*a lot*” (11%), “*to some extent*” (45%), “*not enough*” (27%), “*I don't know*” (17%).

For the question “What are the communication difficulties that you encountered in the relationship with students of other nationalities?” the answers were: different perceptions on things (41%), “the language” (24%), “the culture” (18%), “preconceived opinions” (16%), other (1%).

When asked whether there are any benefits for students to be taught in a foreign language, at the Faculty of Business Administration (taught in foreign languages), 87% said there are benefits, 3% said there are no benefits, while the remaining 10% did not know what to answer - figure 3.

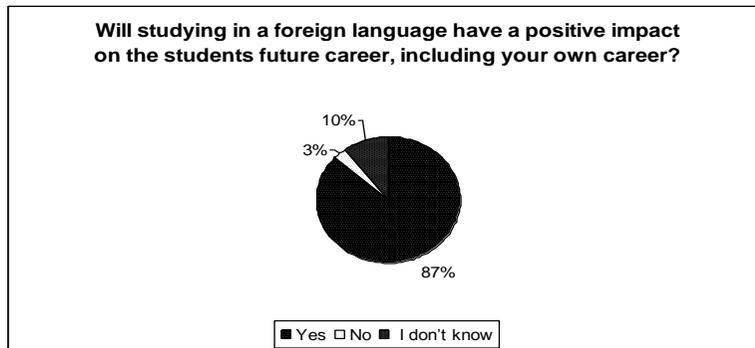


Figure 3. Answers of students from the Faculty of Business Administration to the question “Will studying in a foreign language have a positive impact on student’s future career ?”

Most of the positive answers (32%) were in favour of a better preparation to face any future challenges related to intercultural dialogue. 25% of the answers referred to better and improved language skills due to courses taught in a foreign language; 22% of the answers pointed to an easier socialisation due to courses taught in a foreign language; 20% of the answers referred to openness to communicate. Other students (2%) suggested that enlarging career opportunities and learning about other cultures would be other benefits. The respondents consider that the academic curricula taught in foreign languages are adapted to internationally agreed contents and standards (58%). 23% marked the “not the case” variant, while the remaining 19% chose “I do not know”.

When asked what students should focus more on in order to make the best of the intercultural dialogue to work in favour of stimulating creative and innovative potential of foreign students, their answers were: displaying an inclusive and supporting behaviour (33% for economics and 29% for engineering), forming diverse teams (23%), having an international experience of their own in order to understand cultural diversity (19%), asking for their help (11%), just being tolerant (9%), learning their language (5%).

Conclusions

In our case study students were very confident and said that studies in foreign languages and studying a foreign language like English could contribute to make them *feel better prepared to face any future challenges*. Some suggested that intercultural competences and dialogue could be a means of better adapting to a foreign country, as well as an opportunity to study topics of professional interest in the original. *The interpersonal aspect* was not ignored, as many students mentioned *socializing easier* as a plus of studies in foreign languages, while a lot of students remarked that students participating in such studies were *much more open to communication*.

We consider that we need to work on various fronts: *first*, making people and universities aware of what they can gain from *lifelong learning investing in language training* and in adopting a strategic approach to *knowledge management based on intercultural dialogue and competences*. *Second*, as English is seen more as a *'basic competence'* that everyone needs in the labour market.

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SECTION: ECONOMICS AND BUSINESS ADMINISTRATION

SUB-SECTION: ECONOMICS

STRESS AT THE WORK IN ROMANIAN BANKING SISTEM

Breje Cristina

University of Oradea, Faculty of Economics

In a period when the banks are struggling to survive we can realize that stress management becomes a problem. Stress at work can bring real business problems, management and labor productivity can be seriously affected and the level of motivation and conflict between colleagues may weaken professionalism. One of the most important factors in reducing stress levels of employees is helping them maintain a healthy balance-service Life. To effectively manage stress we need to know the causes that led it, which are symptoms of stress, how to effectively manage time at work and which are the ways to reduce stress level. Long-term stress cause psychological, behavioral, physical effects for the employee and also the banks results would suffer.

Key words: stress, human resources, work, motivation

JEL codes: J240; J280

Literature Review

Work

Work is and has always been an active and decisive factor of production whereby all other factors of production are driven, combined and employed effectively. People with their abilities and skills, with their experience and acquired knowledge, are the producers of all economic goods.

Work Productivity

The productivity of the workforce is a decisive factor for a bank to be successful. Productivity, at its turn, depends on the quality of the workforce. In a dynamic and competitive world man is faced with all types of stress.

Human resource is complex, it cannot be weighed easily, and for it to be effective it requires constant efforts of support and development on the part of the company. The work force in the banking system is a priceless asset, it is crucial for the success, performance and competitiveness of a bank. The workforce in the banking system is very important in promoting the products and the services of a bank unit. In the banking system the only element that matters in the long run for the economic growth is the human resource. The advantage of competitiveness in the long run gives the quality of the workforce. Each strategy of development must start with the human resource and education. The profits of the Romanian banking system in 2009 dropped to 772, 3 million lei (a little less than 200 million Euros), as apposed to 4, 4 billion lei (1, 2 billion Euros) representing the profits of the banking system in 2008¹¹⁵. The drop in profits is due to a decrease in the economical activity which led to the closing down of many companies and to the provisioning by the banks of credit loss. Last year the number of employees in the banking system dropped by 3.724. In 2009 the number of employees in the central offices decreased by 256 employees respectively by 1.20% to 20.394 people. Romania currently has a solid banking system, which did not display weaknesses in its system during the financial crisis, but the fact

¹¹⁵ http://economie.hotnews.ro/stiri-finante_banci-6876971-sistemul-bancar-romanesc-2009-profituri-sub-200-mil-euro-retea-bancara-scadere-3700-angajati-mai-putin.htm

that the banks are trying to maintain their profits renders us more aware that work related stress became a problem.

Work-related stress

The notion of *stress* was introduced to physiology in 1930 by Hans Selye, who defined it as being the organism's non-specific answer to pressure or request¹¹⁶. This notion refers not only to a theoretical issue but approaches a real and critical aspect of our lives. *The European Agency for Safety and Health at Work* defined it as follows: "work-related stress is experienced when the demands of the work environment exceed the employees' ability to cope with (or control) them."¹¹⁷ Work-related stress can be defined as the most harmful physical, psychical and behavioral response which emerges when the demands of the job do not match the resources, the abilities or the needs of the employee. Stress is not a disease; it is an intense and unpleasant state which in the long run can have negative effects on mental and physical health, on performances and productivity. Stress is not only the effect of negative events; it can be the result of daily tensions. The fact that we concentrate when we work can lead to improvement in performance and to work satisfaction, by achieving the established goals. Work-related stress can sometimes be considered a positive element and mistaken for a competition, but these two notions are not identical. Competition gives us energy and motivates us to improve our work. When a competition ends we feel relaxed and content. Stress is a state of tension which occurs when a person responds to the demands of the work environment, family and other external sources when these are generated by his/her internal needs, obligations and self-critique. This situation is convenient for neither the employees nor the company. Stress is both additive and cumulative. It cumulates in time to the point of a crisis outburst when symptoms emerge. Untreated, the symptoms can lead to illness and even death. Stress causes considerable disorders at the level of productivity, creativity and competitiveness. Every one of us can be the victim of work-related stress, regardless of the field of activity or the size of the organization we work for. Stress is a psychological reaction to the inherent demands of the stress factors which has the potential of making a person feel anxious and tensioned, because he/she is not able to cope with these demands. Some employees consider stressful work conditions as being "a necessary evil". Still, the company has to cope with the pressure on the part of the employees and to ensure their health in order for it to remain productive and profitable within the conditions of the current economy. There is stress resulting from employees being overloaded or under loaded. A moderate quantity of stress stimulates the body, but going beyond the physical and emotional limits of stress coping, causes not only a drop in one's performances but also a drop in one's ability to communicate and collaborate. The number of poor decisions increases, whereas the willingness to assume and fix the mistakes decreases. Stress is a personal and subjective reaction to tension, depending on each person's perception of both the size of the problem he/she is facing and the personal ability to cope with it.

Stressful working conditions are currently associated with an increase in absenteeism, employees being late to work, and their intentions to leave work, all these having a negative effect on the company. Stress ranks second when it comes to frequently reported health problems at work, affecting 22% of the workers belonging to the 27 member states of the European Union. Research shows that stress is a factor prevalent in a ratio of 50% - 60% in all lost workdays. The report of the European Commission reveals that 70 % of the Romanians are faced with high

¹¹⁶ Selye, H. *The Stress of Life*, New York, McGraw-Hill, 1956.

¹¹⁷ Factsheet 22: Work-related stress, European Agency for Safety and Health at Work; <http://osha.europa.eu/en/publications/factsheets/22/view>

work-related stress and that they work weekly more than 48 hours as established by European regulations. Stress at work can be related to age, sex, working field, and work status. The highest levels of stress can be noticed among middle age workers, and the lowest among older and younger workers. Physical violence is most frequently reported by workers aged 25-39, while harassment and unwanted sexual attentions are reported by the younger employees. Women are more exposed to harassment than men, but the prevalence of physical violence is similar for both sexes. Among employees stress is dependent on the type of work contract. Workers with permanent work contract display the highest levels of stress.

Stress always stems from combining three key characteristics:

- the prevalence of stress factors;
- personal resources to cope with stress factors;
- types of reaction to stress

Stress can be caused by different stressors at both the workplace and outside. It can have different causes and manifestations.

Causes of stress

Among stress causes we can mention: health, fatigue, lack of personal organization, lack of control, deadlines, the fear of failure, insecurity at work, the feeling of not fitting in with the culture of organization, traffic, driving, money, the ageing process, unfinished things, unclear direction in profession or life, a disorganized environment at home or work, relationships. Each manager and employee must know the factors that lead to stress, how it can be identified and how it can be done away with.

There are stress factors that are equally felt by each employee. Interpersonal conflicts are a strong factor, especially for those strong tendencies to avoid it. The whole range of conflicts, starting from personality clash and ending with fights among groups, is likely to cause stress. Among the causes of stress rank to a larger or lesser extent the inner triggers of personality, which are found in our subconscious and which control our actions: hurry, please others, be perfect, strive yourself, and be strong. These triggers are conveyed by children's parents when they are young.

Another stress factor at work is the way in which individuals perceive the possible results of their professional activity. If the results are considered both uncertain and important, such as signing an important contract, drafting a crucial report, or merely the ability to "please the boss", enhance the chances for the onset of stress.

In the family- work conflict, the stress stems from a clash of roles- that of being a member of a family and that of being a member of an organization. The Romanian society undergoes changes that have a negative impact on professional and family life. Because the traditional roles in family and at work have changed, both men and women desire to build a career and at the same time to achieve their personal family goals. A rise in the level of expectations and the living costs make a lot of people work harder, despite the personal needs and responsibilities that they acknowledge and state. The imbalance between the professional and family life affects the employee, the family and the organization he/she works for. For many families time management has become a problem, particularly the aspects regarding the carrying out of shared family activities, dividing the time between work and family. Both men and women are influenced by the impact of the conflict between work and family. The consequences of this conflict manifest themselves at the level of the employee in the decrease of professional performance and the increase of physical and emotional health, and at the level of the organization by a decrease in productivity, the rise of absenteeism, and of the number of quitting people. The lack of effectiveness at the professional and personal level of the employees represents a major problem for human resource specialists and managers. They can develop and implement organizational practices whereby to create an optimum work environment for the employees, women and men, with considerable benefits for the bank.

Among the stress factors at work in the Romanian bank system we can mention:

- the style of leadership: a poor communication and lack of information within the company, the lack of clear-stated objectives, the lack of support on the part of the team of managers, employees not being involved in changes occurring at work;
- decision and control: a poor involvement in taking decisions, the lack of control over one's work;
- the role in the organization: the unclear status in the organization, contradictory objectives and priorities, a great level of responsibility at work;
- work schedule: inflexible work schedule, unplanned overtime work, shift work, excessive extra work, the unexpected overloading of work tasks.
- career: uncertain career evolution, frustrations in the development of the career, uncertain status and a lack of acknowledgement, the uncertainty of the job, insufficient training programs, changes in the job within the organization;
- the relationships at work: poor relationships with superiors, lack of communication, interpersonal conflicts, harassment, verbal aggressiveness, physical or social isolation;
- work tasks and pace: lack of control over the work pace, overloaded or under loaded work tasks, lack of a priority of activities;
- work performance: a decrease in work performance, lack of decision, irritability;
- workload;
- time;
- work intruding;
- telephone;
- flood of emails;
- the cult of performance;
- changes;
- the man being a stress factor for the man: clients, lack of politeness, daily aggressiveness, work atmosphere, harassment;
- deadline pressure can become extremely stressful, deadlines for projects done in collaboration with other people who did not fulfill their tasks on time can become a source of stress for the employer who though has fulfilled his/her tasks cannot hand in the work in time.
- Too many "bosses". When an employee has several superiors, each of whom asks him/her to do a series of reports or actions, some of these even overlapping or coming into contradiction, he/she becomes disoriented, being confused as to whom he/she should submit or what he/she should do.
- supervision by means of cameras. The "big brother" effect is extremely strong particularly in initial phase when employees become aware that their every move is being noticed and analyzed by means of cameras.

Personal resources to cope with stressors

Personal resources to cope with stress are represented by the cognitive, emotional and behavioral capacity of each individual to reduce, control, or tolerate internal and external demands which exceed the organism's automatic capacity for response. Most of the times, it stems from the self-evaluation of one's own resources to face the events considered to be negative or threatening. Individual factors such as self-esteem, assertiveness, optimism, or the feeling of self-sufficiency, are protection factors against stress. The European Working Conditions Surveys from 1991-2005

show that there is a continuous growth in the number of respondents who report that they work at least around 0.75% of the time at very high speed¹¹⁸

Some people are acutely reactive to stress, other people can experience symptoms in time. Acute reaction can take different forms: panic, anxiety, increase in the pulse rate, sweat, dry mouth, or trembling. In the long run stress can cause: headaches, dizziness, seeing disorders, skin itch, pain in the back of the head and shoulders. Differences in individual characteristics such as personality and way of dealing with problems play an important part in the way we are influenced by stress factors- some are more influenced and some less. Personality can have a major importance stress sensation. It affects both the degree of perception of possible agents as being stressful and the type of ensuing reactions. Most people like to think that they are in control of what happens to them. They are more likely to face directly the stressors because they start with the premise their response can change something. Those who do not keep everything under control are more prone to adopt strategies meant to reduce anxiety which give results only in the short run.

Stress symptoms can be: physical symptoms, intellectual symptoms, emotional symptoms, behavioural changes.

The effects of stress at work can manifest behaviorally, physiologically as well as psychologically.

Behavioral effects materialize in ways of dealing with problems. In the short run, these could be: irritability, disorganization, poor work organization, alcohol, and tobacco and food abuse. In the long run, they could materialize in: drug abuse, intolerance towards other people, ineffective work and time organization, inability to take quick decisions, overweight/underweight.

Psychological effects involve first of all, emotional and cerebral processes. In the short run, they manifest themselves through poor memory, low self-esteem, and inability to concentrate; in the long run: depression, memory problems, poor tolerance, panic attacks, and anxiety.

Physiological effects in the short could be: sweat, cold and trembling hands, dry mouth, quick and superficial breath, red face, stomach ache, and in the long run: hypertension, allergies, headaches, heart attack.

Tendencies

Lately some changes have been registered in the structure of work time because of the information-based society, work time floods free time, there are no clear-cut borders due to e-mail and blackberry. The fact that employees can fulfill certain tasks from their homes; they can access electronic mail from work, from no matter where, extends professional stress over to free time.

The financial crisis which led to Wall Street crash left thousands of specialists in the banking system jobless, other thousands sharing the same fate. A research conducted on 1.200 top managers, shows that 65% of these people state to have managed in their careers by sacrificing their family lives. Building organizational programs intended to balance work and private life, have to bear in mind the following changes: there is a growth in the number of single parents, of divorces, of women who work, of couples wherein both partners have a career, of fathers involved in the upbringing of children.

In Europe, 28% of the employees experience a high level of stress at work. Stress at work leads to a growth in the risks of anxiety, depression or burnout. Working conditions that negatively affect the mental health of employees include negative management style, low social support,

¹¹⁸ European Foundation for the Improvement of Living and Working Conditions
Fifteen years of working conditions in the EU: Charting the trends, Office for Official
Publications of the European Communities, Luxembourg, 2007.
<http://www.eurofound.europa.eu/publications/htmlfiles/ef0685.htm>

time pressure, repetitive tasks, interpersonal conflicts, insecurity of the job, lack of control and autonomy.

The most frequent problems of mental illness in European countries are anxiety and depression; it is estimated that by 2020 depression will be the main health problem among adults and children in developed countries.¹¹⁹

Legislation

The European Commission applied certain measures meant to guarantee the safety and health of workers. The frame directive (89/391) stipulates fundamental regulations in the field of work safety and health; the obligation on the part of employers to ensure safety and health at work, including references to effects of work-related stress. All member states have implemented this directive in their legislations and some have issued guides to prevent work-related stress. In conjunction with the approaches of the frame directive, in order to do away with or reduce stress employers have to:

- prevent stress risks at work;
- evaluate stress risks at work through identifying those demands and pressures of activity which might generate high and long-term levels of stress and through identifying the possibly affected employees.
- To adequately take measures to prevent stress induced harm.

Work-related stress can be avoided and efforts to reduce it can be highly profitable. Evaluating stress risks at work involves the same basic principles and processes such as evaluating the other risks at work. Including the employees and their representatives in the process of assessment is essential to their success; they have to be consulted in order to identify the causes of stress, the groups that are potential victims, and also the solutions that need to be adopted in order to help.

The stages of assessment of risks can be summarized as follows:

- identifying the risks;
- establishing the people who can be affected by stress and in what way they can be affected.
- assessing the risk through: identifying the measures that have already been sufficient and if they are not sufficient, establishing additional measures that can be adopted;
- reexamining these assessments at on a regular basis

Managers with a sound thinking have an attitude of collaboration between the employee and the manager in achieving the professional and personal benefits both for the company and the private lives of employees and managers. These managers are guided by three major objectives¹²⁰:

- the clear information of the employees regarding the business priorities and encouraging the employees to establish personal priorities;
- acknowledging and supporting the employees for their roles and responsibilities at work and outside work;
- the permanent improvement of employees' performances and of the organization at the same time with reaching the personal objectives of the employers.

In order to create a healthy work environment banks have to direct their shares in favor of employees' health which will result in benefits for the company. A healthy organization is an organization with a low rate of illness, of disabilities of the workforce, with a low level of stress at work and a high level of productivity. A healthy organization acknowledges employees' rights, creates opportunities for career development and has an organizational culture that emphasizes

¹¹⁹ Green Paper - Improving the mental health of the population: Towards a strategy on mental health for the European Union, 2005

¹²⁰ Harvard Business Review on Work and Life Balance, 2000

the employee. The first step in establishing the level of pressure that would lead to an optimum productivity resides in a constructive dialogue between the managers and working teams. Monitoring the communication in view of establishing the excess of conflict will allow the managers to be better equipped in order to make the necessary changes.

Prevention of work-related stress in Romanian banking system:

Stress can be fought against almost in every situation through a convenient combination of recreational exercises, physical exercises, a healthy diet, a better time-keeping and the improvement of social abilities. First of all we have to reduce the stressors; preventive measures for maintaining a healthy balance could be:

- identifying then changing the way in which we perceive the stressors;
- learning to say 'I can't, I don't know how to, I need help';
- being surrounded by optimistic people;
- laughing;
- ensuring a healthy diet: avoiding excess of sugar, fats, salt, caffeine and alcohol;
- putting a greater emphasis on rest;
- exercising;
- respecting breaks. A short walk, a conversation with a fellow worker on topics other than work or a simple relaxation technique;

Preventing stress at work is one of the main aspects of the fundamental objective of International Labor Organization in promoting as many opportunities as possible for men and women to get a decent and productive job in conditions of freedom, equity, safety and human dignity;

Ways of managing stress in the banking system:

- information regarding the sources of stress;
- becoming aware of reactions to stress;
- developing abilities and behaviors of stress management: developing assertiveness, a positive communication with other people; identifying and sorting out conflicts when they emerge, learning the methods to sort out problems and taking decisions, learning relaxation techniques;
- establishing and maintaining an adequate social support;
- developing a healthy lifestyle: keeping a normal weight, exercising on a regular basis, giving up on alcohol and tobacco;
- boosting the self-esteem: establishing priorities and limits, taking part in activities that grow one's self-esteem, establishing realistic goals;
- time management.

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REDUCING POVERTY AS A DRIVER OF DEVELOPMENT

Castagna Alina

University of Chieti-Pescara

Faculty of Management Sciences

Ciommi Mariateresa

University of Chieti-Pescara

Faculty of Management Sciences

Furia Donatella

University of Chieti-Pescara

Faculty of Management Sciences

Odoardi Iacopo

University of Chieti-Pescara

Faculty of Management Sciences

It is ten years after Lisbon and in the year dedicated to poverty alleviation that this paper is written in order to investigate the implications of the decisions regarding poverty reduction taken by the EU. We present a simple comparison of the "risks of poverty" in European countries in 2000 and 2008, before and after transfers, and our finding is a positive effect of the policies towards poverty alleviation, even if the risk of poverty is increasing. By studying the correlation between percentage of people that fall below the poverty line and GDP per capita, we do not observe a whole diverse situation in Europe, with only few minor differences between rich and poor countries. We also discuss the importance of alternative approaches in estimating poverty, by means of a multidimensional method which considers a multitude of aspects in the quality of life.

Keywords: poverty, risk of poverty, GDP, European Integration, Globalization.

JEL code: I3, P3

1. Introduction

"Solidarity is one of the guiding principles of the European Union, meaning that all citizens should be able to share in the benefits of prosperous times, while also sharing the burden of times of difficulty."¹²¹

The European Council, held in Lisbon in March 2000, identified the fight against poverty and social inclusion as one of the key commitments of the European Union and its Member States.

To this end, the European Council has designated 2010 as "the European Year¹²² for Combating Poverty and Social Exclusion¹²³", in order to give voice to the concerns of people who have to live with poverty and social exclusion, and promote discussion on these issues. The international economic and financial crisis that revealed major impact from 2008 is having and will have long-run consequences for growth and employment in the EU. The most vulnerable part of our society will suffer most from these effects. In this work we want to integrate the issues of average

¹²¹ Eurobarometer survey on poverty and social exclusion, 2009.

¹²² Since 1983, every year was defined, by the European Council, as a "European Year" with the aim to inform the citizens of Europe and to pay attention to social themes, in order to change mentalities and behavior of citizens.

¹²³ Decision n° 1098/2008/EC of the European Parliament and of the Council of 22 October 2008 on the European Year for Combating Poverty and Social Exclusion (2010).

income and public purposes, in order to analyze them more thoroughly. Indeed, both of them relate to and explain a problem that afflicts significant shares of population of European countries, as well as the rest of the world: the problem of poverty.

2. Measuring poverty

In order to assess the effectiveness of a policy, it is necessary to observe changes in the level of poverty over time: this means that poverty must be, in some way, measured. According to Sen (1976), the measurement of poverty consists in solving two distinct problems: the identification and the aggregation. In the economic literature the first problem has been solved by using income as a proxy. In fact, in 1905, Lorentz introduced the Lorentz curve to describe as income might be compared in terms of inequality. By using income, in 1880 Charles Booth introduced the notion of poverty line in order to distinguish people living in London from those in poverty and in comfort. This threshold was defined in 1891 by Rowntree in terms of a minimum level of income that was necessary to access to the basic needs. During the last century, studies on measures of poverty have followed essentially two different approaches: the construction of an indicator and the ordering of distribution. Nevertheless in both path, income or consumption expenditures were considered as the only variable representing the welfare level of an individual. The first approach has produced several indices (Clark, Hemming and Ulph, 1981), which are essentially based on dividing the population into two subgroups depending on whether the income is below or above a threshold value. However, the second one has dealt mainly with ordering and distribution of income and, in order to eliminate a degree of subjectivity, several postulates were introduced (Sen, 1976; Tsui 2002; Bourguignon and Chakravarty, 2003). There are two main ways of setting poverty lines absolute¹²⁴ or relative¹²⁵, subjective¹²⁶ or public standards¹²⁷. In 1995, at the World Summit on Social Development in Copenhagen¹²⁸ scientists have defined extreme poverty as: “[...] a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information”. In 2004, the European Council¹²⁹ presented a relative definition of poverty “[...] Because of their poverty they may experience multiple disadvantages through unemployment, low income, poor housing, inadequate health care and barriers to lifelong learning, culture, sport and recreation. They are often excluded and marginalized from participating in activities (economic, social and cultural) that are the norm for other people and their access to fundamental rights may be restricted”. We observe that, while extreme poverty affects only certain groups within the EU, the most widespread form of poverty within the EU tends to be relative poverty, both in monetary and non-monetary terms. The characteristics of relative poverty can vary between genders, age groups, household types, etc. In this light, a genuine poverty measure should depend on an income indicator as well as on non-income indicators.

3. The risk of poverty: evidence from data

One particularly interesting aspect of the quantitative distribution of income is the one concerning the living conditions of the poorest people. The analysis of poverty pays attention to the size and characteristics of the left tail of the distribution, while ignoring other aspects.

¹²⁴ The absolute standard (basic needs approach) is usually used to define poverty in developing economies by World Bank and Onu.

¹²⁵ According to this criterion, poverty state is defined in relation to the community standard life average, so, to be poor means having less than other.

¹²⁶ In the subjective standard, individuals or families are poor if they declare themselves to be poor.

¹²⁷ The public standard requires that the maximum level of income is set by exogenous measures of public welfare assistance

¹²⁸ A/CONF.166/9 - Final Report of the World Summit for Social Development- Copenhagen, 1995.

¹²⁹ European Commission, Joint report on social inclusion, 2004.

Our analysis starts considering the “risk of poverty” in UE in two different years: before (2000) and after (2008) the implementations of Lisbon strategies, in order to collect some evidence about the effectiveness of these strategies. In particular we calculate the percentage variation of this indicator. Then we analyze the correlation between income level and percentage of population which falls below the poverty line (computed relative to the country).

The EU is a relatively rich and prosperous part of the world, with an average GDP per capita of \$32.600 and a rate of unemployment of 9,2%, compared to U.S. \$ 46.400 and \$ 32.600 for Japan, with respectively 9,3% and 5,6% of unemployment rates (2009, CIA, The World Factbook). Nevertheless, it is estimated that around 80 million Europeans (19 million of whom are children, the gender gap is approximately two percentage points) live at risk of poverty¹³⁰, which is about 17% of the population¹³¹. Nevertheless in the economic analysis we are interested in knowing how income is distributed among people. In Europe the average Gini coefficient is lower (31, 2006) than the other two examples above (45 for U.S., 2007, and 38,1 for Japan, 2002, CIA), but it takes different values in different countries.

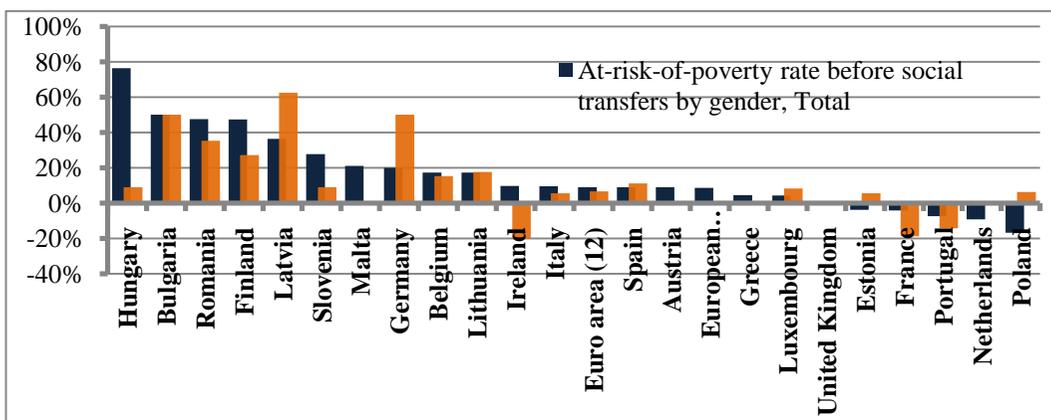
In some Eastern European countries the Eurostat index “Inequality of Income Distribution¹³²” is almost double compared to Western countries. In this first group of States, characterized by low income, high inequality means a higher risk to fall in poverty. Several studies on the relationship between globalization and changes in the indices of poverty (Sala-i-Martin, 2002) showed an increase in poverty levels, because of growing inequality in different countries. There are in fact vulnerable groups, which already constitute the poorest part of population, that cannot benefit from the improvements in levels of economy, such as taking advantage from larger international exchange relationships or exploiting human capital to achieve better social and economic position. By and large, the process of globalization has reduced absolute poverty levels in the world, in a complex relationship, that led in some cases to greater concentration of income and wealth. This relationship is however complex and intricate, since these two phenomena have been evolving in recent years. This paper underlines the role played by poverty on future possibilities for community development, joint and harmonious. Using Eurostat data we highlight the increase in the level of risk of poverty that is evident in many member countries, especially in calculating the pre-transfer. This refers in particular to Eastern European nations like Hungary, Bulgaria, Romania, and northern countries like Sweden and Finland, which have increased their chance of falling in poverty from a rate of 40% to over 70%. On the other hand, the number of countries with a decreasing level of this index during the same period were few and with low values. Concerning the importance of EU and national policies for integration and growth, it is necessary to examine the data after transfer, to assess the effectiveness of at least national relevance, which is also the remit of national decision-makers. Countries with high levels of increase in the first indicator, Sweden and Finland, but also Denmark, Ireland, Hungary and Austria, reach more than 50% decrease in risk of poverty before and after the transfers, bringing the indicator "At-risk-of- Poverty rate after social transfers" well below the European average, which for the year 2008 was around 17%.

¹³⁰The ‘at risk of poverty’ indicator identifies households or people who fall below a certain income threshold, the EU sets this cut-off at 60% of the median income.

¹³¹ European Commission, Joint Report on Social Protection and Social Inclusion 2008.

¹³² Eurostat defines the “Inequality of income distribution” as the ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (lowest quintile).

Fig. 1 - Change (%) of indicators at risk of poverty before and after the transfers in 2000 and 2008



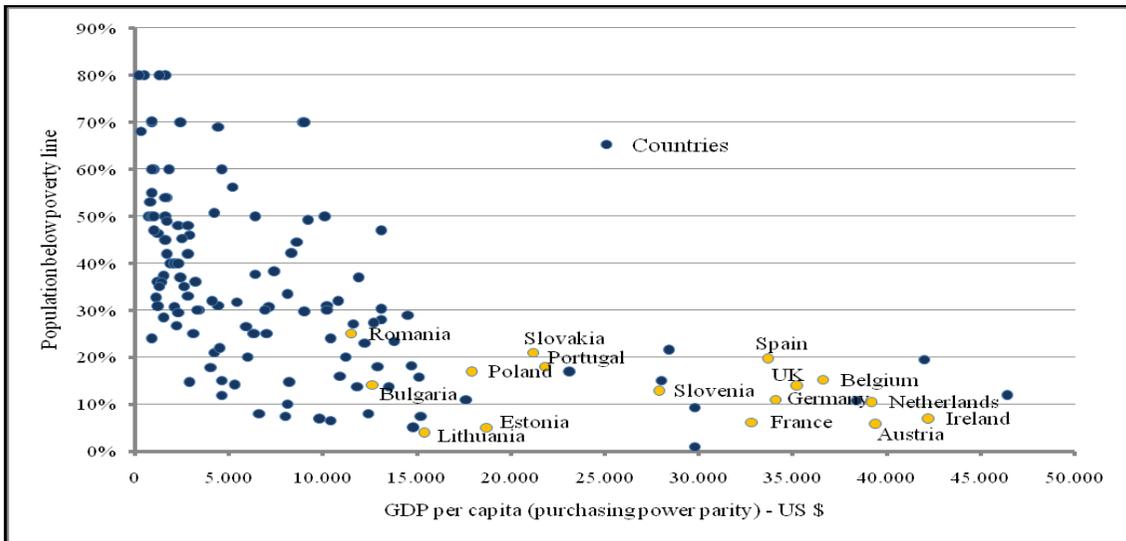
The level of risk increases for women, on average 1 to 3 percentage points, and decreases with improvements in education, especially in Eastern countries such as Romania and Bulgaria, where people with primary education had about 40% of risk of falling below the national poverty line; however, this is reduced to less than 5% for those countries showing a higher level of human capital. Differences persist among social groups within States, which, as already discussed in Lisbon, are a disturbing factor to the growth process, as they form areas of marked differences between single countries, both in terms of wealth and labor productivity, which affects the mutual relations of exchange and cooperation. As it is clear from the data, the role of education in Europe is essential, also due to the approach taken in the strategies that should improve the socio-economic background in the EU, directed to invest into the knowledge economy and human capital formation and establishing a solid foundation for long-run development.

Finally, it is important to consider the “poverty risk” for particular social groups, the children and the elder, which in most member States support a higher than average risk of poverty, markedly in Eastern countries (Eurostat 2010).

In the following chart, we observe the location of many worldwide countries arranged according to the variable “Population below poverty line”¹³³, compared with the level of GDP per capita (in purchasing power parity, US \$). The EU member states are located mostly in the richest segment, in many cases marking minimum levels of population in poverty (less than 15%). Moreover, several Eastern European countries are characterized by median income levels between \$ 11.500 (Romania) and \$ 21.200 (Slovakia), but they share similar levels in poverty rates with other richer countries (with minimum levels for Lithuania and Estonia to around 5%, less than some richer countries, and maximum for Romania, 25%) (CIA, The World Factbook).

¹³³ National estimates of percentage of the population falling below the poverty line are based on surveys of sub-groups, with the results weighted by the number of people in each group, definitions of poverty vary considerably among nations. (CIA)

Fig. 2 - Graph of Population below poverty line vs. GDP per capita PPP (US \$) of the corresponding country (recent years available)



4. Conclusive remarks

The measurement of poverty, and more generally of social problems, is one of the liveliest topics in economic statistics, as evidenced by the commitment made by Eurostat and the European Commission. However, as mentioned earlier, the estimation of poverty involves complex methodological choices, sometimes fragile, and too conventional. These observations must be considered when interpreting the data and building on them intervention policies.

Data show that, generally, at high levels of GDP per capita correspond a low poverty risk, but this is not true for each country. Some consideration must be given to the positive variation of the poverty risk in 2000 and 2008: firstly, we observed a positive effect of social policies brought by the EU, in agreement with the member States. Secondly, also because of global economic slowdown, there is still a high percentage of people at risk of being in poverty, or to remain marginalized from different aspects of social life.

Many economists (Sen, 1976; Tsui 2002; Bourguignon and Chakravarty, 2003) do not consider the average income level, as well as its distribution, an appropriate method to estimate the poverty. They study poverty as a multidimensional phenomenon which takes into account not only the monetary factor but also non monetary factors (as health, educational, life expectancy...). In this way, the unidimensional threshold is substituted by a multidimensional one that allows to define as poor people that have an adequate income but do not have access to some of the so-called “basic needs”. Appropriate social policies should therefore consider a variety of aspects of social and economic life, especially in the EU, where in addition to integration between countries, it is necessary to achieve cohesion and equal conditions of life among all EU citizens.

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INTERNATIONALIZATION AND INNOVATION: THE CHALLENGES FOR EUROPE IN A CHANGING WORLD

Colantonio Emiliano

University of Chieti-Pescara Faculty of Management Sciences

D'Angelo Francesca

University of Chieti-Pescara Faculty of Management Sciences

Odoardi Iacopo

University of Chieti-Pescara Faculty of Management Sciences

Scamuffa Domenico

University of Chieti-Pescara Faculty of Management Sciences

A large part of the economic literature is unanimous in believing technological progress and openness to foreign trade are key variables to trigger the processes of stable and persistent economic growth. An in-depth analysis of these factors, thus, becomes necessary both to meet the challenges of the international market, and to strengthen the European integration process.

This paper aims to provide an empirical analysis of the interaction between foreign trade and technological progress by performing a multidimensional scaling. This technique is used to produce a graphical representation of the 27 EU member states, in accordance to the degree of similarity or dissimilarity between them.

The indicators used, and the indexes calculated, reflect the different degree of internationalization of each country's economy, the regulation of trade flows, investment in specific R&D and technological progress.

Keywords: International trade, integration, technological progress

JEL code: F1, F4, O1

1. Introduction

Arguably, investment in research and development – either of public or private nature - is the main engine of innovation and progress in technology and one of the crucial sources of sustainable and stable growth over the long term.

Throughout history, economic growth has unfolded in a number of progressive stages, marked by dramatic improvements in technology, which have allowed direct increases in labour productivity and ensured growth and greater prosperity for larger and larger shares of population.

Technological progress has been included in major studies in the field of economic growth, both within the neoclassical approach (Solow 1956) and the more recent endogenous growth theory (Lucas 1988; Romer 1990), that best explained the processes of technical change and growth by using the proper economic tools of analysis. As this literature predicts, improvements in technology available to workers are able to generate prolonged economic growth, especially when technologically advanced means are used by a highly skilled labour force.

Of course, the developmental stage of the economy makes the process of investment in research and innovation non-homogeneous, which may consequently impact on growth rates with different outcomes. This means that special conditions must exist for which the productive investments above mentioned have the desired effects.

In the context of economic growth a significant role is played by exports, which positively affect the long-run rate of growth through a variety of channels. By building and

strengthening relationships with foreign partners, countries may gain comparative advantages, have incentives to specialize in larger markets, exploit appropriate economies of scale, and absorb technology and knowledge from abroad.

In this connection, Grossman and Helpman (1991) analyse the positive effect of openness to foreign trade, not only as being induced by the exchange of technologies and ideas (Chuang 1998), but also as resulting from effect of increased competition in wider markets, with the need to invest in research and development in order to retain competitive advantages and improve efficiency.

In addition, companies that decide to participate in international trade are those that may gain productivity advantages through constructive processes, such as learning-by-exporting (Goldberg & Pavnik 2007). Other studies (Young 1991) focus on the role played by learning-by-doing, which results from specialization and optimization of production. Human capital has also come into prominence as a major source of market integration (Chuang 2000; Frantzen 2000; Wang 2007).

An important channel for the exchange and circulation of knowledge is, therefore, represented by international trade. In this context a central role is played by information and communication technologies in a twofold manner: on the one hand, they have enabled the expansion of economic relations, on the other they represent a growing share of global trade. There is, indeed, a reciprocal relationship: exchanges allow the acquisition of more knowledge, and this favours in turn the process of import-export. In this light, exports of ICTs represent an indicator of technological progress, for only countries that have continuously committed resources to R&D over the years can compete in a difficult and evolving market and be successful in this sector. The U.S. are an enlightening example, being net exporters only in the most technologically advanced sectors.

This notwithstanding, economically backward countries have the opportunity to receive knowledge and technologies through transnational exchanges, without incurring the initial cost of developing innovations.

2. Methodology and results

Multidimensional scaling (MDS) is a useful tool through which it is possible to produce a graphical representation of a pattern of objects, in this case the 27 EU member countries, based on the degree of similarity/dissimilarity between them.

The goal is to provide a representative map that best approximates the distances observed between countries, concerning international market openness, barriers to foreign trade, investment in specific research and support to technological progress.

This statistical method attempts to build a configuration of the various entities, merged in a small number of dimensions. This is done by defining relations between countries in terms of proximity/distance with respect to the indicators considered. The resulting positioning map has the property to partition the countries into homogeneous groups, so as that the degree of association between two countries is maximal if they belong to the same group and minimal otherwise.

We considered a matrix of 27 countries and 9 indicators, representing 3 distinct sets of variables: openness to international trade, trade barriers and investment in R&D and human capital (Tab. 3). The model's goodness of fit was assessed via the RSQ¹³⁴ (0,95) and the S-Stress¹³⁵ (0,10). The two-dimensional model was judged to be acceptable according to the values of the Kruskal's Stress index, reported in Table 1. Further investigation provided additional basis for choosing a two-dimensional solution: the "elbow" rule suggests to choose the number of dimensions in

¹³⁴ RSQ indicates the proportion of variability explained by the corresponding dissimilarity distances.

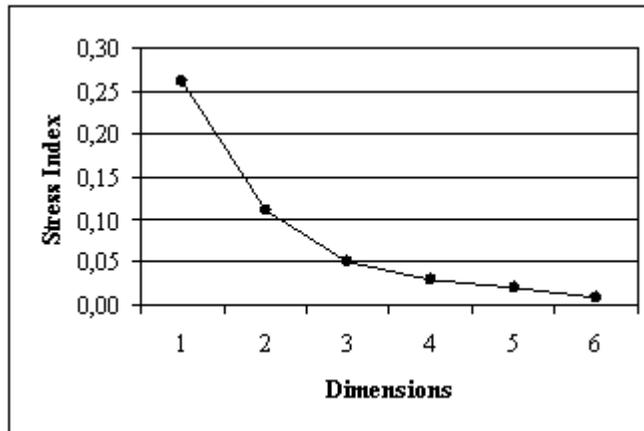
¹³⁵ As general rule, results are found to be robust when the size k achieves an S-stress value lower than 0,15.

correspondence to where the diagram yields an “elbow”, beyond which the broken line flattens (Fig. 1).

Tab. 1 – Stress index and map configuration

Dimensions	Stress Index
1	0,26
2	0,11
3	0,05
4	0,03
5	0,02
6	0,01

Fig. 1 – Scree plot



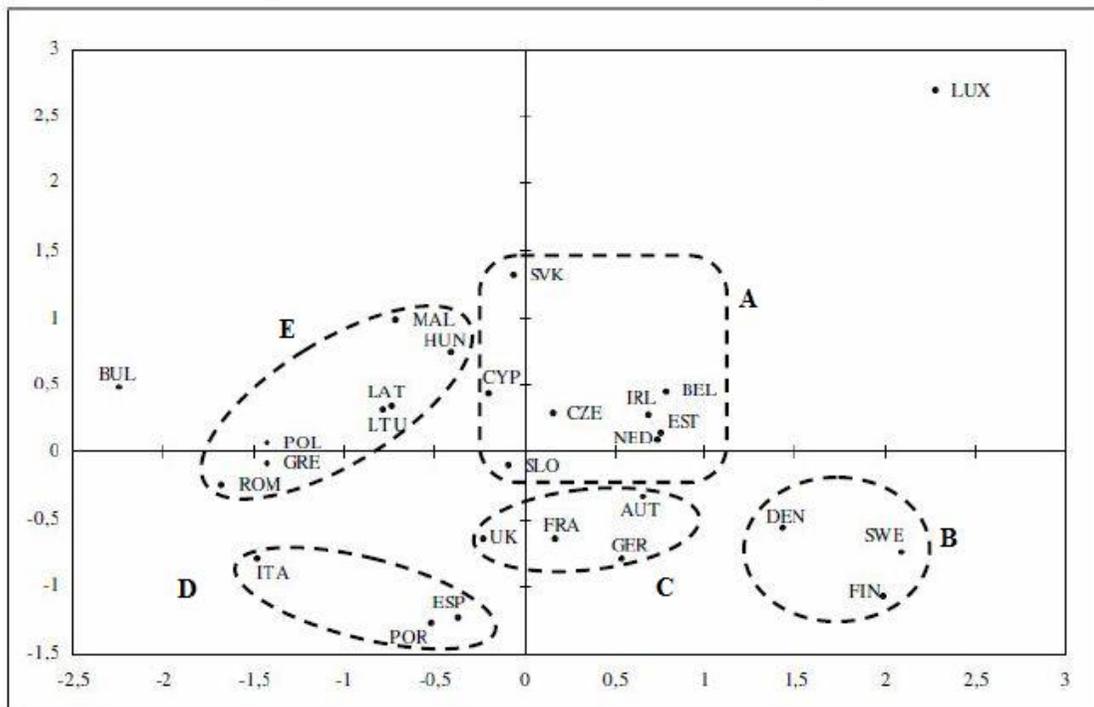
Tab. 2 – Correlations between variables and dimensions

Variables	Dimension 1	Dimension 2
Human resources in science and technology as a share of labour force	0,76	0,01
Research and development expenditure (% of GDP)	0,77	-0,46
Share of government budget appropriations or outlays on R&D	0,46	-0,66
Exports of goods and services (% of GDP)	0,46	0,86
Imports of goods and services (% of GDP)	0,25	0,90
Foreign Direct Investment (FDI) intensity	0,40	0,65
Burden of custom procedures (Rating scale 0-7)	0,90	0,01
Prevalence of foreign ownership (Rating scale 0-7)	0,72	0,24
Prevalence of trade barriers (Rating scale 0-7)	0,81	0,23

The correlations between dimensions and variables (Tab. 2) were useful for naming the axes. The resulting two-dimensional image is shown in Fig. 2. The horizontal axis represents the variables concerning technological progress and trade restrictions, the vertical one the variables related to trade flows. At the bottom of the chart are the Scandinavian cluster (B), which shows high technological values but low volumes of import and export; the grouping of central Europe (C), with levels of technology and trade close to the average values of the sample; and the cluster of Southern Europe (D), which is low on the measures of trade volumes, investment in R&D and human resources in R&D. The two clusters at the top of the chart constitute the best compromise

for the observed variables. Cluster A consists of countries which score fairly in terms of investments in the research field and highly in terms of technological progress and trade flows. The last grouping, cluster E, is made up of mainly Eastern countries which have achieved good positions in the recent past, thanks to grants and funding from EU and domestic investment.

Fig. 2 – Cluster of countries in a two-dimensional space



3. Conclusive remarks

The analysis has shown the relationships between investments in R&D and openness to international trade in the EU member states. The arguments presented above suggest that, under proper conditions, these variables are crucial to secure growth and prosperity of countries.

Among the countries that have most benefited from integration are Eastern European countries, that are rapidly approaching Southern Europe. The economic growth these countries are nowadays experiencing is in turn a useful vehicle for further integration, which is helping fill in the gap between European countries and release the brakes for future joint development.

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IMMANUEL WALLERSTEIN'S WORLD SYSTEM THEORY

Cosma Sorinel

**„Ovidius” University Constanța
Faculty of Economic Sciences**

World-systems analysis is not a theory, but an approach to social analysis and social change developed, among others by the Immanuel Wallerstein. Professor Wallerstein writes in three domains of world-systems analysis: the historical development of the modern world-system; the contemporary crisis of the capitalist world-economy; the structures of knowledge. The American analyst rejects the notion of a "Third World", claiming there is only one world connected by a complex network of economic exchange relationship. Our world system is characterized by mechanisms which bring about a redistribution of resources from the periphery to the core. His analytical approach has made a significant impact and established an institutional base devoted to the general approach.

World system, core, semi-periphery, periphery, external regions

World-system theory is a macro sociological perspective that seeks to explain the dynamics of the “capitalist world economy” as a “total social system”.

World-system theory is both a political and an intellectual endeavor. It simultaneously falls into the fields of historical sociology and economic history. In addition, because of its emphasis on development and unequal opportunities across nations, it has been embraced by development theorists and practitioners.

Immanuel Wallerstein's name is associated with this approach. He first published the paper *The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis*, in 1974. Then, his most important work - *The Modern World System I: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century* appeared in three volumes in 1974, 1980, and 1989. This is his landmark contribution to sociological and historical thought and spawned debates lasting three decades over the best way to interpret history, society, and economy in global perspective.

His work is methodologically somewhere in between Marx and Weber, both of whom were important inspirations for his own work.

The time when Wallerstein's work appeared development, modernization theory, was under attack from many fronts. He himself attacked it and tried to create an alternative explanation. He aimed at achieving a clear conceptual break with theories of ‘modernization’ and thus providing a new theoretical paradigm to guide the investigations of the emergence and development of capitalism, industrialism, and national states.

Criticisms to modernization include

- the reification of the nation-state as the sole unit of analysis,
- assumption that all countries can follow only a single path of evolutionary development,
- disregard of the world-historical development of transnational structures that constrain local and national development,
- explaining in terms of a-historical ideal types of “tradition” versus “modernity”, which are elaborated and applied to national cases.

In his *Modern World-System*, Wallerstein mainly draws on three intellectual influences. There is Karl Marx, from whom took over the dichotomy between capital and labor, the staged view of world economic development through stages such as feudalism and capitalism, belief in the accumulation of capital, dialectics and more. Then there is the French historian Fernand Braudel, who had described the development and political implications of extensive networks of economic

exchange in the European world between 1400 and 1800. And also there is the dependency theory, most obviously its concepts of "core" and "periphery"; and — presumably — the practical experience and impressions gained from his own work regarding post-colonial Africa.

From Marx, Wallerstein learned that (1) the fundamental reality of social conflict among materially based human groups, (2) the concern with a relevant totality, (3) the transitory nature of social forms and theories about them, (4) the centrality of the accumulation process and competitive class struggles that result from it, (5) a dialectical sense of motion through conflict and contradiction.

World-system theory owes to the *Annales School*, whose major representative is Fernand Braudel, its historical approach. Wallerstein got from Braudel's his insistence on the long term (*la longue durée*). He also learned to focus on geo-ecological regions as units of analysis, attention to rural history, and reliance on empirical materials from Braudel. The impact of the *Annales* is at the general methodological level.

World-system theory is in many ways an adaptation of dependency theory. Wallerstein draws heavily from dependency theory, a neo-Marxist explanation of development processes, popular in the developing world. Dependency theory focuses on understanding the "periphery" by looking at core-periphery relations, and it has flourished in peripheral regions like Latin America. It is from a dependency theory perspective that many contemporary critiques to global capitalism come from.

Other important influences in Wallerstein's work, still present in contemporary world system research, are Karl Polanyi and Joseph Schumpeter. From the latter comes world system interest in business cycles, and from the former, the notion of three basic modes of economic organization: reciprocal, redistributive, and market modes. These are analogous to Wallerstein's concepts of mini-systems, world-empires, and world-economies.

Historically speaking, the modern world system, essentially capitalist in nature, followed the crisis of the feudal system and helps explain the rise of Western Europe to world supremacy between 1450 and 1670.

Before the sixteenth century, when Western Europe embarked on a path of capitalist development, "feudalism" dominated West European society. Between 1150 and 1300, both population as well as commerce expanded within the confines of the feudal system. However, from 1300 to 1450, this expansion ceased, creating a severe economic crisis. According to Wallerstein, the feudal crisis was probably precipitated by the interaction of the following factors: fall or stagnation of the agricultural production, the reaching of the peak level of the economic cycle of the feudal economy; a change of climate conditions which brought low agricultural productivity and epidemics within the population.

In response to the feudal crisis, by the late fifteenth and early sixteenth centuries, the world economic system emerged. The new capitalist world system was based on an international division of labor that determined relationships between different regions as well as the types of labor conditions within each region.

For Wallerstein, "a world-system is a social system, one that has boundaries, structures, member groups, rules of legitimation, and coherence. Its life is made up of the conflicting forces which hold it together by tension and tear it apart as each group seeks eternally to remold it to its advantage. It has the characteristics of an organism, in that it has a lifespan over which its characteristics change in some respects and remain stable in others...

Life within it is largely self-contained, and the dynamics of its development are largely internal". A world-system is what Wallerstein terms a "world economy", integrated through the market rather than a political center, in which two or more regions are interdependent with respect to necessities like food, fuel, and protection, and two or more polities compete for domination without the emergence of one single center forever.

His world-systems theory provided a model for understanding both change in the global system and the relationship between its parts. He was among the first to suggest that we depart from the relatively newly developed unit of the nation-state and to study global interaction instead. In his own first definition, Wallerstein said that a world-system is a "multicultural territorial division of labor in which the production and exchange of basic goods and raw materials is necessary for the everyday life of its inhabitants."

This division of labor refers to the forces and relations of production of the world economy as a whole. Wallerstein proposes four different categories, core, semi-periphery, periphery, and external, into which all regions of the world can be placed. Of them four, two are of the uttermost importance: core and periphery. These are geographically and culturally different, one focusing on labor-intensive, and the other on capital-intensive production. The core-periphery relationship is structural. Semi-peripheral states acts as a buffer zone between core and periphery, and has a mix of the kinds of activities and institutions that exist on them.

The core regions benefited the most from the capitalist world economy. For the period under discussion, much of northwestern Europe (England, France, and Holland) developed as the first core region. Politically, the states within this part of Europe developed strong central governments, extensive bureaucracies, and large mercenary armies. This permitted the local bourgeoisie to obtain control over international commerce and extract capital surpluses from this trade for their own benefit. As the rural population expanded, the small but increasing number of landless wage earners provided labor for farms and manufacturing activities. The switch from feudal obligations to money rents in the aftermath of the feudal crisis encouraged the rise of independent or yeoman farmers but squeezed out many other peasants off the land. These impoverished peasants often moved to the cities, providing cheap labor essential for the growth in urban manufacturing. Agricultural productivity increased with the growing predominance of the commercially-oriented independent farmer, the rise of pastoralism, and improved farm technology.

On the other end of the scale lay *the peripheral zones*. These areas lacked strong central governments or were controlled by other states, exported raw materials to the core, and relied on coercive labor practices. The core expropriated much of the capital surplus generated by the periphery through unequal trade relations. Two areas, Eastern Europe (especially Poland) and Latin America exhibited characteristics of peripheral regions. In Poland, kings lost power to the nobility as the region became a prime exporter of wheat to the rest of Europe. To gain sufficient cheap and easily controlled labor, landlords forced rural workers into a "second serfdom" on their commercial estates. In Latin America, the Spanish and Portuguese conquests destroyed indigenous authority structures and replaced them with weak bureaucracies under the control of these European states. Powerful local landlords of Hispanic origin became aristocratic capitalist farmers. Enslavement of the native populations, the importation of African slaves, and the coercive labor practices such as the *encomienda* and forced mine labor made possible the export of cheap raw materials to Europe. Labor systems in both peripheral areas differed from earlier forms in medieval Europe in that they were established to produce goods for a capitalist world economy and not merely for internal consumption. Furthermore, the aristocracy both in Eastern Europe and Latin America grew wealthy from their relationship with the world economy and could draw on the strength of a central core region to maintain control.

Between the two extremes lie *the semi-peripheries*. These areas represented either core regions in decline or peripheries attempting to improve their relative position in the world economic system. They often also served as buffers between the core and the peripheries. As such, semi-peripheries exhibited tensions between the central government and a strong local landed class. Good examples of declining cores that became semi-peripheries during the period under study are Portugal and Spain. Other semi-peripheries at this time were Italy, southern Germany, and southern France. Economically, these regions retained limited but declining access to

international banking and the production of high-cost high-quality manufactured goods. Unlike the core, however, they failed to predominate in international trade and thus did not benefit to the same extent as the core. With a weak capitalist rural economy, landlords in semi-peripheries resorted to sharecropping. This lessened the risk of crop failure for landowners, and made it possible at the same time to enjoy profits from the land as well as the prestige that went with landownership.

According to Wallerstein, the semi-peripheries were exploited by the core but, as in the case of the American empires of Spain and Portugal, often were exploiters of peripheries themselves. Spain, for example, imported silver and gold from its American colonies, obtained largely through coercive labor practices, but most of this specie went to paying for manufactured goods from core countries such as England and France rather than encouraging the formation of a domestic manufacturing sector.

These areas maintained their own economic systems and, for the most part, managed to remain outside the modern world economy. Russia fits this case well. Unlike Poland, Russia's wheat served primarily to supply its internal market. It traded with Asia as well as Europe; internal commerce remained more important than trade with outside regions. Also, the considerable power of the Russian state helped regulate the economy and limited foreign commercial influence.

Dependency theorists first articulated a relationship of "unequal exchange" in which the rich nations of the world enforced trade relationships with the poor, in which the former extracted surpluses from the latter.

Among the most important structures of the current world-system is a power hierarchy between core and periphery, in which powerful and wealthy "core" societies dominate and exploit weak and poor "peripheral" societies.

Technology is a central factor in the positioning of a region in the core or the periphery. Advanced or developed countries are the core, and the less developed are in the periphery. Peripheral countries are structurally constrained to experience a kind of development that reproduces their subordinate status. The differential strength of the multiple states within the system is crucial to maintain the system as a whole, because strong states reinforce and increase the differential flow of surplus to the core zone. This is what Wallerstein called *unequal exchange*, the systematic transfer of surplus from semi-proletarian sectors in the periphery to the high-technology, industrialized core. This leads to a process of capital accumulation at a global scale, and necessarily involves the appropriation and transformation of peripheral surplus.

On the political side of the world-system a few concepts deem highlighting. For Wallerstein, nation-states are variables, elements within the system. States are used by class forces to pursue their interest, in the case of core countries. Imperialism refers to the domination of weak peripheral regions by strong core states. Hegemony refers to the existence of one core state temporarily outstripping the rest. Hegemonic powers maintain a stable balance of power and enforce free trade as long as it is to their advantage. However, hegemony is temporary due to class struggles and the diffusion of technical advantages. Finally, there is a global class struggle.

The current world-economy is characterized by regular cyclical rhythms, which provide the basis of Wallerstein's periodization of modern history. After our current stage, Wallerstein envisions the emergence of a socialist world-government, which is the only-alternative world-system that could maintain a high level of productivity and change the distribution, by integrating the levels of political and economic decision-making.

As a conclusion, it is relevant to notice what Wallerstein said in an interview on his book *European Universalism*, in March 2008,: "Rather, we have lived in a "world-system" since the beginning of the époque called modernity in the 16th century when the capitalist economy was born in an embryonic form in a small part of the world, Europe. The world is thus a unit of analysis vaster than the state. The capitalist system has gradually succeeded, by its internal

processes, in extending itself to the totality of the world. You can in fact see that, since the end of the 19th century, the whole world has been governed by this capitalist system, to this day. Studying this world-system, in my opinion, makes it possible to enrich the approach of social sciences, by considering states as elements constituting themselves within this system. But they are not the only elements of the system, in which races, classes, nations, households, etc. also exist. All are institutions within this capitalist world-economy. Above all, this concept allows me to show that, like any structure, it has gone through various phases: initially its emergence and establishment, then its development, finally the moment of its structural crisis, before that of its disappearance. I think that we are currently living this moment of structural crisis, and, while I won't venture to guess a precise date or time, we shall witness (perhaps twenty-five to fifty years from now) its disappearance – or rather its replacement by another thing. One cannot say by what, for the time being, but the process is inexorably moving.”

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L'EUROPE SAINT-SIMONIENNE

Cosma Sorinel

L'Universitaté „Ovidius” Constanta
Facultaté des Sciences Economiques

Many people have been preoccupied with Europe ever since the beginnings of time. Their ideas can be traced back as far as ancient mythology, as attempts to explain the world. But as of the 18th century, they looked at it differently, as an organized, unified, political institution. Numerous essays have influenced the history of the “European” idea, among them the work of Saint-Simon who, in 1814, thought of a European Parliament governing the national parliaments. In his essay on reorganizing the European society he brought forth ideas such as Europe rebuilt as a confederation, the establishment of a “general parliament” responsible for making decisions concerning the common interests of the whole European society. He strongly believed that putting the great political issues to the test is the aim of all contemporary efforts. If the previous century’s philosophy was revolutionary, the 19th’s century’s philosophy had to be organizing.

Keywords: Industrialization, modernization, social engineering, European Parliament

Claude Henri de Rouvroy, compte de Saint-Simon est sans doute une figure remarquable de la sociologie. Tout de même, le titre de père de la sociologie est souvent attribué à son compatriote, Auguste Comte, qui a lancé le terme « sociologie » dans son ouvrage *Cours de philosophie positive* (1830-1842). Mais au niveau des idées, c’est bien Saint-Simon qui est la première et la plus riche source d’inspiration pour la sociologie. Comte a été son ami et plusieurs fois co-auteur pour quelques publications.

Chez Saint-Simon on retrouve les grains de tous les courants de la pensée du dix-neuvième siècle. Les idées du socialisme à venir se trouvent dans ses ouvrages au début de leur carrière. Le socialisme qu’il représente est souvent appelé socialisme étique ou utopique. Il cherche à établir des sociétés co-opératives modèle. Il est mort vingt-trois ans avant la publication du Manifeste du Parti communiste par Marx et Engels.

Après sa mort, ses disciples (parmi eux Prosper Enfantin) on continué à développer ses idées. Leurs principes étaient de plus en plus communistes (l’abolition de la propriété privée ou la collectivisation de la société) et mélangeaient aussi les idées religieuses de Saint-Simon. Mais leur succès n’a pas duré et le Saint-simonisme comme doctrine politique et religieuse a échoué. Saint-Simon a introduit le concept de l’industrialisation et il a écrit sur le développement social et la différenciation. Il a écrit sur le rôle des classes tout au long de l’histoire et a analysé comment les élites doivent s’adapter au développement social.

Dès les années 1820, Saint-Simon voit dans le début de l’industrialisation le moteur du progrès social. Saint-Simon était à la recherche d’un nouveau système social qu’il a appelé système industriel, opposé au système féodal et militaire précédant. La nouvelle société serait égalitariste avec la division du travail à remplacer les divisions sociales.

Pragmatique, il prône un mode de gouvernement contrôlé par un conseil formé de savants, d’artistes, d’artisans et de chefs d’entreprise et dominé par l’économie qu’il convient de planifier pour créer des richesses et faire progresser le niveau de vie. Il appartient aux capitalistes d’œuvrer à l’élévation matérielle et morale du prolétariat.

Ça se passait au moment où les pays de l’Europe de Ouest démarraient le processus de modernisation. C’était la période où les fabriques devenaient la nouvelle institution dominante dans certaines communautés locales en expansion. La place de travail et l’habitation étaient séparés et les villes avec leur banlieues devenaient réalité quotidienne pur une génération qui avait vécu dans une communauté villageoise. La classe née par la naissance du capital vivait une

bonne vie, mais la grande majorité de la population n'étaient capables de garder un standard raisonnable que pendant leurs meilleures années de travail.

En dépit de ses qualités destructives, la Révolution française serait le précédent d'une période de créativité scientifique. Dans cette nouvelle ordre, la société serait gouvernée par un groupe hiérarchique de technocrates connu comme le Conseil de Newton qui aurait un pouvoir international.

Précisément, une telle volonté de rationalisation du pouvoir, basée sur la prédominance de l'activité économique, est un précepte que l'on retrouve tout particulièrement dans le socialisme saint-simonien. La réflexion de Saint-Simon sur le rôle des dirigeants, sur l'organisation de la société, et sur la place accordée aux « masses » dans celle-ci.

Le monde est, selon Saint-Simon, entré dans une nouvelle phase historique, caractérisée par l'industrialisation. Saint-Simon considère en effet que la production et l'organisation du travail sont les buts ultimes de la société « moderne », qu'il observe au XVIIIe siècle.

Sur ce plan, le socialisme est encore une fois plutôt proche du libéralisme, à tel point que Saint-Simon prendra soin de se distinguer des théories libérales par l'invention du terme « industrialisme ».

L'industrialisme de Saint-Simon combine pourtant idées socialistes (par exemple, il veut organiser le travail afin d'assurer l'amélioration de l'existence des plus défavorisés), et idées libérales (ainsi, l'organisation économique doit absolument être distincte et indépendante de l'organisation politique).

Ce qu'il veut en réalité, c'est que l'industrie s'organise par elle-même, à l'abri des interventions nécessairement maladroites des pouvoirs établis. Et le moment viendra où l'administration des choses pourra remplacer entièrement le gouvernement des personnes. Pour préparer ce moment, dit Saint-Simon, il faut confier le pouvoir politique aux industriels. Dans la thèse du remplacement du gouvernement des personnes par l'administration des choses, on retrouve l'idée du dépérissement de l'Etat.

Cette vision du monde, et du rôle collectif exigé de la part des individus, aboutit logiquement à considérer la société comme un laboratoire permanent de recherches et d'expérimentations visant à diriger les populations dans le sens désiré.

C'est dans ce contexte que s'est développé ce que l'on appelle l'ingénierie sociale, c'est-à-dire un ensemble de domaines et de disciplines permettant l'analyse et le développement de techniques cherchant, au mieux, à prévoir les actions et réactions des individus, au pire, à influencer directement ces derniers, et à modifier leur comportement.

La vision saint-simonienne de l'organisation sociale, politique et économique, tout comme l'ingénierie sociale qui lui correspond, aboutit à la subordination des individus à un processus déterminé par la Science et l'Industrie, processus dans lequel l'Etat (républicain) ne peut pas, à terme, être le principal élément organisateur de la société.

Le syncrétisme idéologique se poursuit donc, non seulement en matière économique, mais également dans la nécessité de domestiquer le pouvoir politique, finalement considéré comme un « trouble-fête ». Henri Denis précise même que pour Saint-Simon, le problème social sera résolu lorsque les techniciens de l'économie capitaliste recevront le pouvoir.

L'ouvrage qu'il a écrit en 1814 avec Augustin Thierry - *De la réorganisation de la société européenne, ou de la nécessité et des moyens de rassembler les peuples de l'Europe en un seul corps politique, en conservant à chacun son indépendance nationale* - contient ses idées pour une Europe fédérale dominée par des idées françaises de rationalité révolutionnaire et des idées anglaises d'organisation industrielle. Il n'a par compris que le succès industriel anglais était dû aux idées de liberté économique et sociale qui étaient directement opposées aux idées révolutionnaires françaises.

Et dès années 1814-1815, Saint-Simon montre non seulement de l'audace politique, mais en plus du courage personnel : que ce soit en 1814, pendant l'occupation des troupes alliées dans Paris,

ou en 1815 pendant les Cent Jours ou après Waterloo, quand il proclame que l'union de la France, de l'Angleterre et de l'Allemagne est nécessaire, et que c'est la seule voie pour le développement et la paix en Europe.

« Vouloir que l'Europe soit en paix par les traités et les congrès, c'est vouloir qu'un corps social subsiste par des conventions et des accords ; des deux côtés, il faut une force coactive qui unisse les volontés, concerte les mouvements, rende les intérêts communs et les engagements solides. » Avant le Congrès de Vienne il a publié *De la réorganisation de la société européenne* où il a théorisé une Europe unie sous la forme d'une confédération comme le premier pas vers une association universelle.

En 1814, on était en plein Congrès de Vienne, les souverains d'Europe essayaient de trouver la recette miracle pour éviter le retour des guerres atroces que l'Europe avait connues sous Napoléon. Et Saint-Simon présente une idée neuve, osée : réconcilier Français et Anglais pour créer, autour de la France et de l'Angleterre, une Europe stable et économiquement forte grâce au libre-échange. L'Allemagne devra suivre dès qu'elle aura trouvé son unité.

Un beau projet, mais que le Congrès n'accepta pas, lui préférant l'équilibre des grandes puissances, le fameux concert européen. On aurait peut-être évité trois guerres sanglantes. Cent cinquante ans plus tard, on bâtit l'Europe autour de la réconciliation franco-allemande.

Le concept à la mode de « réseau » fut utilisé, dans son sens moderne, pour la première fois, par Saint-Simon entre 1800 et 1820. Les ingénieurs et industrialistes saint-simoniens érigèrent le principe de l'« organisation - réseau » en véritable religion. Des réseaux de communication auraient dû faciliter le développement de ce nouveau système par la libre circulation des idées et des richesses.

Ainsi chez Saint-Simon, le réseau est un concept avec lequel est pensé le changement social. Il y a une volonté revendiquée d'un changement de société. Le concept de réseau permet de déceler l'endroit le plus propice où faire porter l'action politique dans un système social pour obtenir la plus grande efficacité de changement. L'invention même du concept de réseau par Saint-Simon a précisément pour but la transformation sociale au profit des industriels ; faire ce que la Révolution française n'a pas achevé de faire.

Dans un deuxième temps, les saint-simoniens vont dégrader le concept en objet. Ainsi les réseaux de communications considérés par Saint-Simon comme un moyen de transformation sociale et politique permettant la valorisation du territoire, devient chez ses héritiers le but premier ayant pour effet le changement social et politique. De moyen, les réseaux techniques sont devenus une fin. Pour les héritiers de Saint-Simon, les réseaux de communications sont intrinsèquement producteurs de rapports sociaux et font donc nécessairement évoluer la société vers l'utopie saint-simonienne, l'Association Universelle.

Beaucoup d'industrialistes, de banquiers et d'ingénieurs ont été influencé par Saint-Simon et ont eu des contributions significatives au développement des réseaux des voies ferrées, des compagnies de l'eau, de télécommunications.

Les services publics sous la forme des réseaux étaient une condition importante pour la création des richesses mais aussi pour la cohésion sociale et territoriale. Au 19^e siècle, la révolution industrielle paraît à mettre en danger la cohésion interne de la société.

Le texte, *De la réorganisation de la société européenne*, destiné aux Parlements de France et d'Angleterre (1814), propose ce que l'on appellerait aujourd'hui un « axe » franco-britannique, sous la forme d'une confédération appelée à s'élargir à d'autres régimes parlementaires, avec, pour coiffer le tout, un Parlement européen servant de moteur à une unification du Vieux Continent.

Ce Parlement serait construit sur le modèle britannique, avec une Chambre des Communes réunissant les représentants des associations locales, et une Chambre des Lords ayant des membres nommés par un Monarque européen.

Fervent admirateur de l'Angleterre politique et industrielle, Saint-Simon prône le modèle anglais pour son Europe future. Il propose donc:

- une Chambre des députés du Parlement européen, pour légiférer en matière d'intérêts particuliers, bâtie sur le modèle de la chambre des Communes ;
- un Roi de l'Europe (par exemple le roi d'Angleterre) et son Premier ministre électif, pour exercer les pouvoirs d'intérêt général, comme les infrastructures, l'éducation, les impôts communs ;
- une Chambre des Pairs européens, pour régler les conflits et les abus - et éviter de glisser soit vers le despotisme, soit vers l'Etat populaire.

Le Parlement qu'il place au sommet de son édifice a 240 membres : « L'Europe aurait la meilleure organisation possible si toutes les nations qu'elle renferme, étant gouvernées chacune par un parlement, reconnaissaient la suprématie d'un parlement général placé au-dessus de tous les gouvernements nationaux et investi du pouvoir de juger leurs différends ».

L'utopie de l'« Association universelle sous le point de vue de l'industrie », l'exploitation du globe terrestre par les « hommes associés », travaillant, sous une impulsion commune, à l'accomplissement d'un but commun. La planète doit être « administrée » par les industriels comme une « grande société d'industrie » et non plus « gouvernée » par un État tutélaire. Cet axiome fonde le « savoir positif » sur la gestion des hommes qui doit aider à enrayer la crise du « savoir négatif » des Lumières et de ses dérives révolutionnaires. Légitime lorsqu'il s'agissait de saper l'ordre ancien, l'attitude critique est devenue contre-productive pour créer un nouvel ordre social et assurer le « passage du système féodal et théologique au système industriel et scientifique ». Dans cette doctrine gestionnaire de sortie de crise, les « réseaux spirituels » ou de crédit et les « réseaux matériels » ou de communication ont une fonction organisatrice de ce grand corps qu'est l'organisme social.

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INTERNATIONAL TOURISM MARKET – THE REAL FORM OF EXISTENCE FOR EXCHANGE RELATIONS

Cosmescu Ioan

“Lucian Blaga” University of Sibiu

Faculty of Economic Sciences

Tileagă Cosmin

“Lucian Blaga” University of Sibiu

Faculty of Economic Sciences

Dudău Denisa

General Manager Express casa S.R.L

Abstract: In a limited way of approaching the term “market” is defined as a certain geographic place, a physical point where, at certain hours and certain days, buyers and sellers meet in order to buy and sell goods. For example, tourism has become one of the major international trade categories. Over time, an increasing number of destinations have opened up and invested in tourism development, turning modern tourism into a key driver for social-economic progress, through the creation of jobs and enterprises, infrastructure development, and the export income earned.

Key words: Services, market, services market, international tourism, commercial services, goods and services.

JEL Classification: L8, L83

1. Service market – a key to economic development, well-being and social prosperity

The large majority of people think that the term “market” appoints to agro alimentary places where peasants sell their products directly to customers. In other words, the market represents a certain geographic position, a physical point where, at certain hours and certain days, buyers and sellers meet in order to buy and sell goods. Considering the market as a material, concrete place is a limited way of approaching this term.

At present, the word “market” has more meanings even if it originally comes from the reason of those points of sell, which can be found today in certain places.

Nowadays, in developed economies, only a small part of selling and buying activities are carried out in concrete markets, the majority of them being achieved through retail and wholesale, import-export firms, salesmen, agencies of large companies. In such cases, the word “market” does not mean anymore a point that can be geographically and physically located, but the universality of relations that take place between the representatives of approaching the term “market”. If today specialists speak about market analysis, market making, labour market, capital market, oil, copper, cereal market, consumer goods and services market, the physical points of sell for products are no longer taken into consideration, but there is a desire for observing a higher or lower buying trend relating to a higher supply.

In conclusion, we can say that nowadays the term “market”, in its abstract sense, refers to general economic relations established between producers that provide production conditions within the market economy and consumers representing human necessity bearers, associated with people’s capacity of buying offered goods which are suitable for them, relations with frontiers not necessarily defined only through geographic area or conventional product classifications.

Selling and buying actions, pointed out through market economic relations, together with processes linked with the structure of demand and supply objectives, are in connection with the space and time they are taking place.

These entire functions specific to the market make possible the optimum exchange of different products, achieving in this way the main role of the market. But it is utopian to state the fact that markets are able to mediate these functions and role in an ideal way. Extreme situations, periods of under and over-production of major technical discoveries demonstrate the fact that markets are no longer able to automatically fulfill the role of economic stability regulator. But beside these limit situations political economy reached the conclusion that even in the so called "normal periods" the stability on certain markets can not be defined as being optimum. That is why today it goes without saying that the state has to interfere in several markets more or less intensively. This interference is obvious generally on the agricultural market, in mining, in the credit system and transport.

Sawn in the light of goods nature that represents the objective of commercial transactions, the goods market under the form of flows has as object both physical/substantial products and non-substantial products. Services as a socio-economic domain is one of those that offer invisible, abstract products which can be defined quantitatively only part and indirectly. However, just like the other useful economic goods producing activities, services had formed in time a personal market for the "products" they provide defined through factors with specific manifestation and determined by geographic, socio-economic and politic nature.

Sawn in the light of contemporary sense of the word market, the service market represents the economic sphere of interface between the interests of service suppliers materialized into service production and the interests of service buyers materialized into consumption. And as in case of services supply and consumption happen at the same place, the interference is going to be transformed in superposition in time and space of these to factors through service consumption.

But even if the service market is alike through its functions and role to other existing form of the market in general, however there are several particularities that distinguish it from the others, referring to quantitative or qualitative aspects:

- a) service market does not include in all the sphere of services because there are non-good services of noncommercial service formed of public and private services firm of public and private services that are not marketable and free of charge services provided by people to themselves;
- b) the difficulty is measuring the dimension and dynamic of service market comparatively with possibilities in this field regarding substantial product market comparatively with possibilities in this field regarding substantial product market.

Consequently, in order to determine supply, demand and the volume of transactions on the service market we must appeal to a succession of indicators. For example, in order to evaluate the tourism market as a representative subsystem of service market we have to use a subsystem of indicators regarding tourism resources both through the occupation point of view (the number of cultural-historical moments, average annual value of fixed and circulating funds, production capacity in tourism, working time) and through the consumption point of view (labor expenses, rent, total expenses, expenses generated by arranging and maintaining tourist objectives). We must also use the subsystem of indicators regarding the economic and social effects of tourism activities (net revenue, earnings from offering tourist services, contribution to national income and growth of the social labor productivity) ;

- c) The particular meaning of qualitative elements in estimating the position of a producer of country on the service market. For example, in comparative evaluation of tourist services regarding accommodation provided by several types of tourist structures, a special position are going to have qualitative criteria, meaning: convenience, safety, hygiene,

conditions for developing social relations, the diversity and quality of complementary food services, the fervency and quality of cultural artistic and recreation services;

- d) The particular way of competition expressed on the service market, which presents the following aspects:
- if in case of physical product market competition is firstly materialized in price, value being determined by subjective needs of each individual and the rarity of a certain product, in case of service market the rarity of the service does not has a significant role in price determination and accordingly not within competition because services are not homogenous and can not be compared. Therefore, competition by price is more varied, price estimation being related to several qualitative, physiological aspects often influenced by personal relation between service provider and customer. Consequently, taking into consideration the permanent differences among services regarding their quality prices used by different firms are various, but their fairness in accordance with production overheads is neither proved nor invalidated;
 - the greater frequency of monopoly and oligopoly situations determined by considerable entering and output costs form the service market, by objective economic difficulties regarding free entrance in the branch and capital free circulation;
 - each service enterpriser has a variety of means able to distinguish him from his competitors, first of all through quality even if it is not always entirely perceived by customers, and secondly through ambience from the firm and the personal relation maintained by the service provider with his clients, also having in mind geographical placement that very often represents the main criterion in service choosing;
 - in case of service market, transparency is limited by the immaterial feather of services, the reality that prevent competitors to know the secrets of superior technologies of producing and organizing their services or to understand the object of the dumping policy. At the same time, service consumers are not able to compare rigorously the price-quality relation for every service on the market because of time restrictions.

2. International tourism challend by deteriorating world economy.

Though not immune to the economic woes, tourism has so far resisted the economic downturn better than other sectors, such as construction, real estate and car manufacturing.

International tourist arrivals reached 992 million, in 2008 up from 904 million in 2007, in representing a grow of 2%. This overall growth builds on the strong results of the first part of the year, before the collapse of the financial markets and the subsequent recession. The second half of the year showed an abrupt shift in trend, with international arrivals flat or showing negative growth in each of the last six months of 2008. Overall, the 5% between January and June gave way to a 1% decline in the second half of the year.

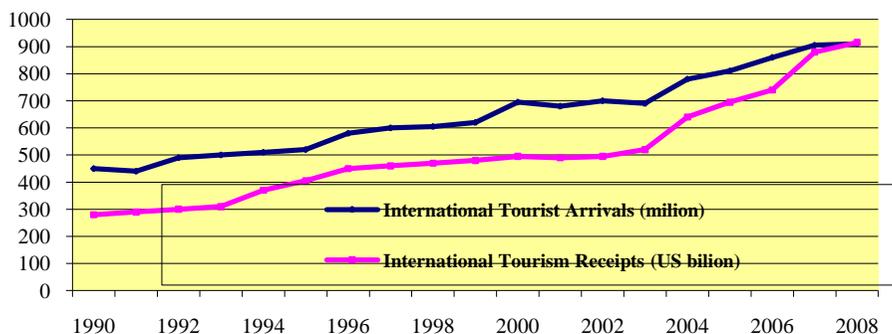
a. International tourist arrivals and international tourism receipts.

All regions had positive growth except Europe, which suffered stagnation in arrivals (+0.3%). The best performance was seen in the Middle East, where international arrivals reached 55 million, a rise of 18% over the previous year. Africa grew at half the rate of the previous year, but still registered an above-average growth of 4%. The Americas grew 3%, boosted by the strong performance of Central and South American destinations and the strength of traffic to the USA in the first half of the year. Asia and the Pacific saw a significant slowdown in arrivals as compared to its previous bumper year, growing just over 1% in 2008.

International tourism receipts rose by 1.7% in real terms in 2008 to US\$ 944 billion (642 billion euro). Receipts from international passenger transport are estimated at US\$ 183 billion, bringing the total international tourism receipts including international passenger transport (i.e. visitor exports) to over US\$ 1.1 trillion, corresponding to US\$ 3 billion a day. This represents around 30% of the worldwide volume service exports and 6% of overall exports of goods and services.

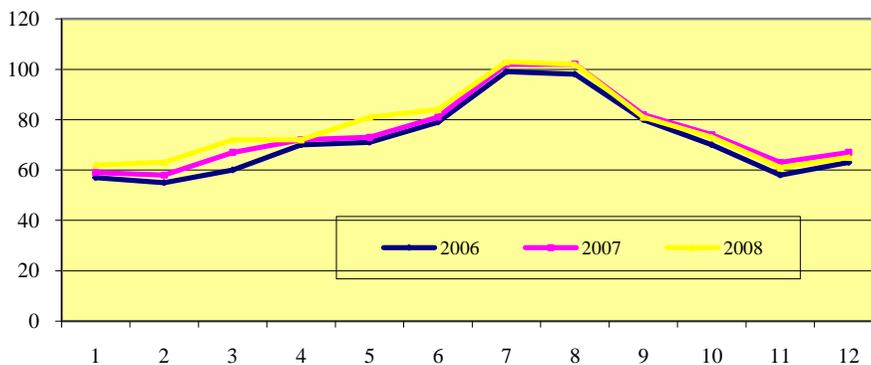
Tab. 1

Inbound Tourism, 1990-2008



Tab. 2

Inbound Tourism by month (million)



Tab. 3 International tourist arrivals

	International Tourist Arrivals (million)							Market share (&)	Change (%)		Average annual growth (%)
	1990	1995	2000	2005	2006	2007	2008		2008*	07/06	
World	438	534	684	804	853	904	922	100	6.1	2.0	3.8
Europe	265.0	309.5	392.6	441.8	468.4	487.9	489.4	53.1	4.1	0.3	2.8
Asia and the Pacific	55.8	82.0	110.1	153.6	166.0	182.0	184.1	20.0	9.6	1.2	6.6
America	92.8	109.0	128.2	133.3	135.8	142.9	147.0	15.9	5.2	2.9	1.7
Africa	15.1	20.0	27.9	37.3	41.5	45.0	46.7	5.1	8.4	3.7	6.7
Middle East	9.6	13.7	24.9	37.9	40.9	46.6	55.1	6.0	14.0	18.1	10.5

Source: World Tourism Organization (UNWTO) © (Data as collected by UNWTO, 2009)

Tab. 4 International tourism receipts

	Change local currencies, constant prices (%)			Share (%)	US\$			Euro		
					Receipts			Receipts		
					(billion)		per arrival	(billion)		per arrival
	06/05	07/06	08/07	2008	2007	2008	2008	2007	2008	2008
World	5.3	5.4	1.7	100	858	944	1,020	626	642	700
Europe	4.2	2.7	-1.1	50.2	435.2	437.7	970	317.5	322.1	660
Asia and the Pacific	11.1	9.8	2.7	21.8	186.8	206.0	1,120	136.3	140.1	760
America	2.1	6.3	5.0	19.9	171.3	188.4	1,280	125.0	128.1	870
Africa	11.5	9.1	-1.0	3.2	29.1	30.6	650	21.2	20.8	440
Middle East	3.0	9.0	17.3	4.8	35.0	45.6	830	25.5	31.0	560

Source: World Tourism Organization (UNWTO) ©

(Data as collected by UNWTO. 2009)

For destination countries, receipts from international tourism count as exports and cover transactions generated by same-day as well as overnight visitors. However, these do not include receipts from international passenger transport contracted from companies outside the travelers' countries of residence, which are reported in a separate category, 'International Passenger Transport'. Although the availability of comparable international data is somewhat limited the export value of international passenger transport has in recent years been estimated at around 16% of the combined receipts from international tourism and passenger transport, corresponding in 2008 to some US\$ 183 billion against US\$ 164 billion 2007.

This takes total receipts from international tourism, including international passenger transport, to US\$ 1.1 trillion in 2008. In other words, international tourism contributes over US\$ 3 billion a day to the world economy.

Visitor expenditure on accommodation, food and drink, local transport, entertainment, shopping, is an important pillar of the economies of many destinations, creating much needed employment and opportunities for development. More than 8- countries earned over US\$ 1 billion from international tourism in 2008.

In real terms, i.e. adjusted for exchange rate fluctuations and inflation, growth in international tourism receipts corresponded to 1.7% only slightly lower than the growth in international tourist arrivals. After the substantial growth in 2006 and 2007 – of over 5% in both years – this represents a considerable slowdown.

All regions shared in the increase in tourism receipts in absolute values. In real terms growth was in all regions much weaker in 2008 than the before with the exception of the Middle East, which registered a double-digit growth of 17%. Asia and the Pacific grew by 2.7% (compared to +9.8% in 2007) and the Americas increased by 5.0%, slightly less than 2007's 6.3%. Both Europe and Africa (-1% each), however, suffered negative growth in receipts in real terms.

b. Motivations of visit and means of transport.

Travel for leisure, recreation and holidays accounted for half of all international tourist arrivals (51% of a total of 467 million arrivals, in 2008). Some 15% of international tourists reported traveling for business and professional purposes and another 27% traveled for other reason, such

as visiting friends and relatives (VFR), religious reasons pilgrimages, health treatment, etc. The purpose of visit for the remaining 7% of arrivals was not specified. Slightly over half of travelers arrived at their destination by air transport (52%) in 2008, while the remainder traveled over the surface (48%) - whether by road (38%), rail (3%) or over water (6%). Over time, the trend has been for air transport to grow at a faster pace than surface transport, so the share of air transport is gradually increasing.

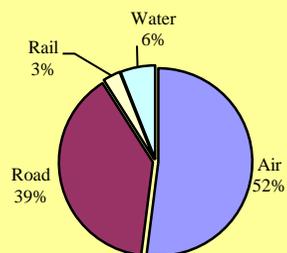
Tab. 5 (Source: World Tourism Organization)

Tab. 6 (Source: World Tourism Organization)

Inbound tourism by purpose of visit, 2008



Inbound tourism by means of transport, 2008



c. No major changes in the top ten

When ranked according to the two key tourism indicators- international arrival and international receipts- it is interesting to note that eight out of ten top destinations appear in both lists, even though they show marked differences in terms of the types of tourists they attract, as well as their average length of stay and their spending per trip and per night.

There were only slight changes in the ranking of the ‘World’s Top Tourism Destinations’ in 2008. The top three places- both by international tourist arrivals and international tourist receipts- were still occupied by the USA, Spain and France, albeit in a different order. France continued to lead the ranking of the world’s major tourism destinations in terms of arrivals, but ranked third in receipts. The USA ranked first in receipts, earning US\$ 110 billion and regained its second position in arrivals, which it lost to Spain after 11 September 2001. Spain dropped to third place in terms of arrivals but maintained its position as the second biggest earner worldwide, and the first in Europe.

China and Italy both held on to their 2007 position in terms of arrivals and receipts, with China ranking fourth in arrivals and fifth in receipts, while the reverse was true for Italy. The UK ranked sixth in arrivals and dropped to seventh place in receipts, after being overtaken by Germany (which ranked ninth in arrivals). Turkey moved up one rank in both categories, occupying the eight position in arrivals, and ninth in receipts. Completing the top ten ranking in arrivals were Ukraine (7) and Mexico (10) and in receipts, Australia (8) and Austria (10).

The top ten tourism earners last year accounted for 49% of the total estimated US\$ 944 billion in international tourism receipts. Their perspective share of international tourist arrivals was slightly lower at 45%.

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CLUSTERING THE HETEROGENITY OF EU URBAN PERFORMANCES

Crociata Alessandro

University of Chieti-Pescara, Faculty of Management Sciences

Germano Alessandro

University of Chieti-Pescara, Faculty of Management Sciences

Mattosco Nicola

University of Chieti-Pescara, Faculty of Management Sciences

Silvestri Marcello

University of Chieti-Pescara, Faculty of Management Sciences

Abstract

Cities represent today the intrinsic socio-economic complexity of local systems. Looking at the performances of urban systems enable us to explaining the main factors of territorial development. By moving from the theory of “progressive systems”, and assigning to the cities some of this theory’s properties, it is possible to outline a methodological perspective to capture the emerging phenomena describing the cities’ performances. Keeping this view in mind, the aim of the paper is facing the intrinsic socio-economic complexity and heterogeneity of cities within the EU integration policies.. In order to better qualify this issue, we provide a multidimensional scaling approach, as a quantitative method useful to compare the several urban performances by letting a cluster evidence among the EU cities emerge.

Key words: Urban trajectories, progressive system, multidimensional scaling.

JEL codes: R10, R11

1. Introduction

It is widely believed that cities are a key driver of local development and a special unit of analysis in explaining the economic trajectories of a country. Cities represent today the intrinsic complexity of an socio-economic systems because urban areas are the places of human economies and the majority of agents productive and consumptive activities. In this sense the State of European Report (Urban Audit, 2007) underlie the role of cities as laboratories because of they are places where economic and societal changes are often experienced first and most profoundly. Moreover, as hubs of globalising world economy, bigger cities generally contribute to competitiveness, growth and jobs (OECD, 2006).

The relevant literature about cities shows a thematic and methodological eclecticism in order to highlight the way in which the city has been interpreted in urban economics (see Capello, 2008, for a critical review). Among the several features that a city shows it can be traced city as: an agglomeration of relations and externalities; a place with endogenous capacity to allocate resources efficiently; a place of interaction; an complex economic system. Actually the modern and critical economic theorisation of the city shows an enrichment of the classical and neoclassical principles whit new theorization, that have more recently produced an heterodox interpretation of urbanization using (i) a cognitive approach; (ii) a complexity approach. In the former case the city is seen as innovation and knowledge milieu (Aydalot, 1986; Camagni,1999; Feldman and Audretsch, 1999; Maillat et al. 1993). In the latter case the city is conceptualized moving by the complex system theory (see Nijkamp and Reggiani,1999 for a critical review).

With the introduction of complexity among the issue of urban development, the boundaries between urban economics and other social sciences are notably weakening in order to describe the cities’ performances. Keeping this view in mind, the aim of the paper

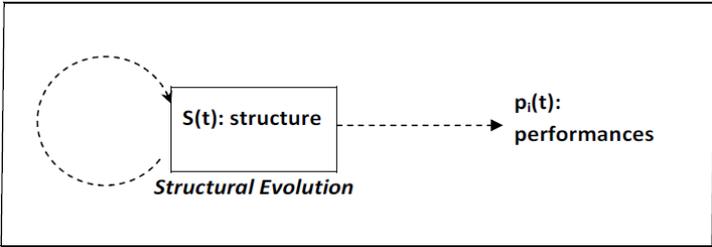
is to outline a methodological perspective to study the economic development of cities, so in section 2 we adopt a “progressive system” approach and define its methodological assumptions. According to the causal relation “structure-performances” in section 3 we define the “structure” thanks to a set of indicator provided by Urban Audit data. This paper copes the intrinsic socio-economic complexity and heterogeneity of cities within the EU integration policies. In order to better qualify this issue, in section 4, we provide a multidimensional scaling approach, as a quantitative method useful to compare the several urban performances by letting a cluster evidence among the EU cities emerge.

2. Cities as progressive system

City is a complex open system because is the coming out of heterogeneous interactions among several elements, these interactions originate a peculiar behaviour that is an *emergent* phenomena that could not be analysed focusing only on the single behaviour of the interacting elements (Bertalanffy, 1972). Moreover this phenomena and the following interactions coevolves progressively during the time, assigning a specific characteristic to the city as a system. Keeping this in mind in order to cope with the eclecticism of theoretical and methodological contributes, more and more present within the scientific literature, we decided to conceptualize the city as a complex system by moving from the theory of “progressive systems” (Calafati, 2007).

Thinking of cities as complex open systems bring us closer to outline a new research programme on performances’ analysis. As a matter of fact, assigning to the cities some of this theory’s properties it is possible to outline a methodological perspective to capture the emerging phenomena that originate from the cities. That is to say that conceptualizing the city as progressive system means that, in order to evaluate the emerging development trajectories, it is necessary to delineate three pertinent levels of description that are: (i) the structure of the system; (ii) the metabolic processes of the system, i.e. the processes that organize inputs as matter, energy and information into goods and services functional to the system’s objectives; (iii) the regulation mechanisms of the system.

Fig. 1- From structure to performances



Source: Calafati, 2007

In this work, the issue we are talking about regards the deep causal relationship between “structure and performances”. In virtue of that cities’ development trajectories have to be described and consequently analyze in the way of the specific urban system structure. These epistemological choice very reflect itself in a clear methodological perspective, that we have tried to adopt in this paper. That is to say that, at this stage, we are focusing on the first of the three levels of description of the city as progressive system. So what we present at this first step is a delineation of 15 cities’ structure adopting a seminal set of *ad hoc* indicators describe, in a very first experimental way the heterogeneity of different urban system and then to process data in a multidimensional scale analysis.

3. Cities' structure and dataset

Starting from the data collected in the Urban Audit project in order to compare statistics and indicators for European cities, we have construct a data set able to delineate the "structure" of 15 cities according to the information and data available. This exercise represents a first experimental exploration of the paper methodological assumptions, by moving from the causal relation "structure-performances". In this cases we try to provide a first step in the description of the "city as progressive system" performances, at this moment represented basically in a meta-theoretical way.

Starting from the intrinsic heterogeneity of cities structure, in order to cope with the EU integration processes we have chosen the Multidimensional Scaling Analysis (MDS) as a quantitative method useful to compare the several urban performances by letting a cluster evidence among the EU cities emerge. That is to say that the MDS shows a series of similarities defined by cluster of heterogenic urban performances.

MDS includes several techniques of multivariate statistic analysis starting with a data matrix, cases per variables, in witch variables provide information about specific properties obtained from cases. By moving from this matrix and comparing all the couples of cases in regarding of their properties, it could be point out a new matrix in which all the comparisons emerge. The output is a proximity relation of cases, organized in triangular matrix set by the differences between the couple of cases contained in the first data matrix. In this way the MDS provides a data representation able to point out in specific modality the complexity of the relationships behind the first data matrix. This quantitative choice operate a reductionism that entails a sort of information's lack, that is to say that there is less correspondence whit he phenomena observed. By the way it provides the identification of the best coordinate in a two-dimensional space that represent the best adjustment to the proximities observed in the data. In any cases the error (distortion) of the MDS analysis can be measured by the *Stress* indicators.

About the 15 cities observed (Tab.1) we selected a group according by the demographic homogeneity, focusing the analysis on medium urban system. Then we selected 8 indicators regarding the economic, demographic and social dimensions. So the analysis is based by observing the following variables: total resident population, density population, GDP per capita, employment rate, summer smog (nota: number of day in which the level of ozone exceed the threshold fixed in the air), public green space (square meter per capita), percentage of journeys to work by car, number of crimes (per 1000 persons).

Table 1 - Reference Dataset

Cities	Tot. Resid. Population	Pop. density	GDP per head	Employment rate	Summer smog	Public green space	Journeys to work by car (%)	Num. of crimes
Wien	1,598,626	3,855	19,607	0.64	23	11	0.41	29.39
Bruxelles	999,899	6,196	52,975	0.47	15	13	0.53	160.74
Praha	1,170,571	2,357	14,860	0.74	19	83	0.27	85.51
Berlin	3,387,828	3,789	23,458	0.58	6	27	0.44	159.3
Frankurt	646,889	2,608	73,932	0.64	19	18	0.43	182.6
Munchen	1,249,176	4,030	53,073	0.72	22	32	0.41	90.81
Budapest	1,695,814	3,230	16,622	0.6	11	43	0.71	68.11
Rome	2,553,873	1,987	21,225	0.57	48	15	0.57	69.2
Milan	1,299,439	6,986	27,988	0.63	46	15	0.46	91.24
Amsterdam	739,104	4,439	38,897	0.7	4	35	0.41	142.99
Madrid	3,099,834	5,127	79,516	0.65	28	7	0.47	36.66
Barcelona	1,578,546	15,770	80,894	0.63	3	4	0.32	34.71
Valencia	785,732	5,764	73,320	0.64	1	3	0.58	39.57
Stockholm	761,721	4,052	59,244	0.69	1	96	0.33	206.81

Source: Urban Audit (2004)

These variables was chosen because of their meaningful within the data set available and according the main literature in terms of: (i) sustainable development (Daly, 2001, Grossman

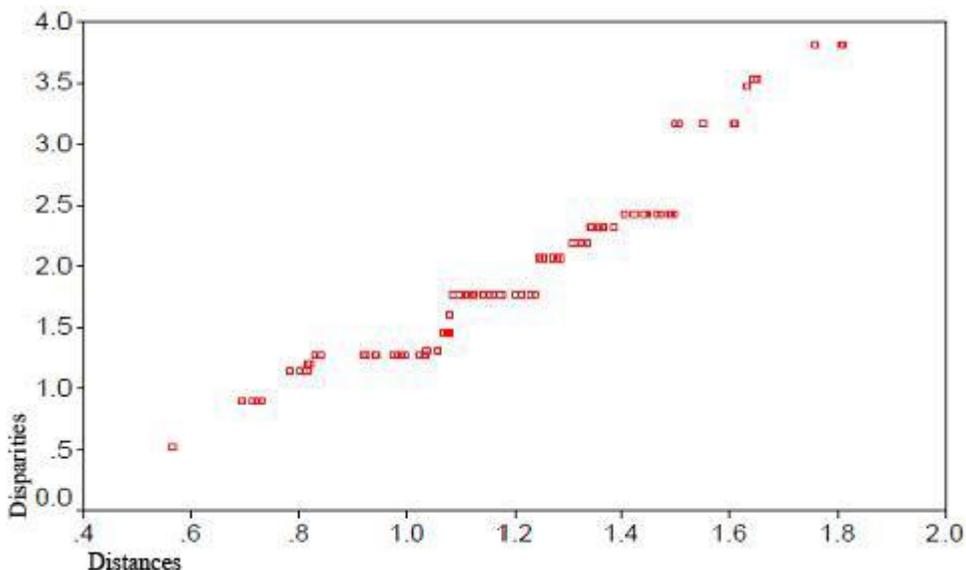
1955, Hamilton and Atkinson, 1996, La Camera 2005); (ii) socioeconomic development (Glaeser et al. 1992; 1999, Becker et al. 1964; 1999, Jacobs 1968).

From this table is possible to note, even if an approximate way, a kind of heterogeneity among the observed cities. That is to say that, for example, as regards GDP per head or population density or number of crimes, a different dimension of the cities' structures emerges. Even these are only proxies in a explicative exercise, comparing cities with similar number of people (i.e. Milan and Munchen, or Wien and Barcelona, etc), it is possible to observe some differences in terms to the others variables. This supports the concept of cities as progressive system that we have examined in this paper.

4. MDS findings

Performing a standardization (interval 0-1) on all the values to prevent the influence of the metric in order to get the index of dissimilarity, we provided the proximity matrix based on the original one. After, we have proceed the analysis fixing the number of dimensions ($K=2$), achieving therefore a Stress Index¹³⁶ equal to 0.171 (according to the condition of Kruskal). Significativity of the model is, moreover, confirmed form the value of RQS Index (Squared Correlation), which is 0.82. The figure 1 above shows how the model could be implemented in our case, according to distribution of the coordinate of points, that are in proximity of the first square bisector.

Fig. 2 – relation disparities-distances

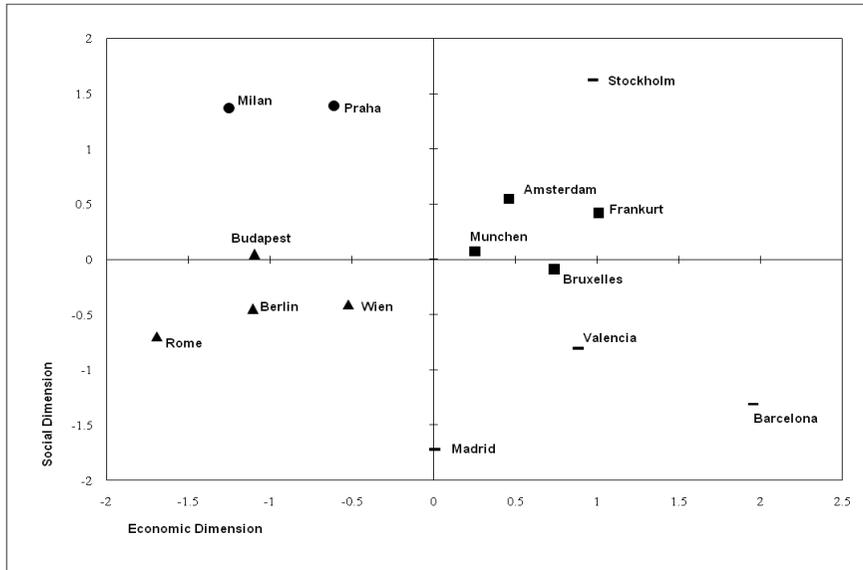


Source: our elaboration

The final map coming out from MDS shows a simple and intuitive finding a meaning to the representative space, labelling the Cartesian axes in relation to “semantic” position of the variables. That is to say that the configuration of the cities along the map is in function of the two main characteristics: social dimension and economic dimension (Fig.2)..

¹³⁶ Kruskal Stress formula 1 varies between 0 and 1. When it assumes 0, data have a perfect performance. Generally a good result of the k dimensions is obtained when the Stress Index presents a value lower then 0.1. The outcome is satisfactory when the value is smaller then 0.2 (De Lillo et al., 2007).

Fig. 3 – urban configuration in a two-dimensional space



Source: our elaboration

As the graphic shows, the MDS provided the presence of three groups of cities and four outliers (Stockholm, Valencia, Madrid and Barcelona). Despite the mentioned observations about heterogeneity of cities structure, it is still plausible for the purposes of analysis to represent a kind of homogeneity among some cities subject of our study. Amsterdam, Munchen, Frankfurt and Bruxelles seem to show an almost similar social-economic profile and better than other cities observed. The opposite situation is found instead for the group composed by Rome, Berlin, Wien and Budapest, which highlight a negative standard for both analyzed dimensions. Finally it is opportune to underline also the situation presented by the group Milan – Praha, which social dimension seem to assume a predominant weight within of own structure.

5. Final remarks

With the help of a Multidimensional Scaling analysis (MDS), the work in progress presented in these pages obtains an seminal mapping of an emergent process of UE cities' clusterization. By moving from the EU integration policies the main goal of this work is to reflect on the importance of urban size (structure) for urban performances going beyond the meta-theoretical approach in literature. The second main goal is to provide a methodological tool to let some homogeneity (thanks to the cities' clustering) emerge, coping the heterogeneity of EU cities performances. In these sense, at this first stage this analysis should therefore be used as a experimental tool for a better understanding the heterogeneity of urban performances, expressed in terms of different cities' structures. For this reason it could be useful to highlight the question of which EU integration policies are most appropriate for different types of structures.

Even if the paper provides an empirical analysis of the city as progressive system it is based on a sample data set, the next step is to find more relevant data and try to evaluate the binomial heterogeneity-homogeneity with the help of a family of artificial neural networks known as Self-organising Maps (SOM), obtaining an original mapping of EU cities moving by the idea of multi-dimensional similarity in different urban systems' structures.

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CAUSAL RELATIONS BETWEEN NATURAL RISK AND BUSINESS RISK

Danu Marcela-Cornelia

*University "Vasile Alecsandri" of Bacău
Faculty of Economics*

After a period marked by economic and financial crisis, the objectives and the priorities focused on restoring the balances, the correlations and the proportions of macroeconomic policy makers have focused attention to optimizing the relationship between man and nature. The environmental crisis installed affects the variables of the global economy system and compared with the economic crisis, its consequences are more perennial, more complex and dangerous. Environmental crisis management is based on truthful, complete and current informations regarding the interdependencies between natural risk and business risk within the system of risks that accompany our individual and societal existence.

Keywords: system risks, pure risk based on natural, natural risk with anthropic determination, risk-cause, risk-effects, business risk.

JEL codes: M21, Q51, Q53, Q54, Q56

The general coordinations regarding the natural risk

In the system risks, the natural risk is part of the range of pure, uncertain risk, in its many forms that determine and influence the life and work of the individuals, businesses, environmental. The pure risk is the result of natural major forces action and/or determining the psycho-socio-economic and political (anthropic)¹³⁷. If, initially, in economic theory was made the opinion that this type of risk is not foreseeable danger to society¹³⁸, today, environmental deterioration, climate change and the knowledge economy becoming more involved in environmental management, bring to light new features of the pure risk. So, in some cases, the predictability of their achievement is very low or even zero, but in most of the cases, the expert forecasts indicate the potential risk; what is uncertain and difficult to quantify, is the severity and the extent in time and space effects.

A significant feature of the pure risk is the result of achieving: if the risk decision can result in gains or losses, in situation of the pure risk the purpose can only be negative, destructive, harmful or even disastrous. The random element in such risks determine the difficulty or even inability boundary and assessing the possible losses and the control of the risk.

Natural risks can be:

- Pure, natural based: earthquakes, hurricanes, floods, volcanic eruptions, sea currents, solar radiation, dynamic factors of climate (atmospheric circulation, monsoon circulation, etc.).
- With anthropic determination (economic, social, political, psychological): air pollution, greenhouse effect, air humidity, ozone layer, acid rain, atmospheric phenomena venture with slow onset (arid climate, desertification, snow, ice , etc.).

Each of those risks is treated in interrelation of cause and effect; the causes can be varied, the effects also; can not be said that one issue has caused only a consequence, the spread is imminent, in time and space. Causality and determination of the risks is certified and that, in literature but in real life, both the causes and the effects are considered risks - for example, the risk of flooding – risk of an area calamity. Thus each risk is engaged in the risk management

¹³⁷ Danu, M.C., Business Risk, Plumb Publisher, Bacău, 2001, p.71.

¹³⁸ Colson, G., Gestion du Risque, E.A.A., Paris, 1995, p.21-28.

system so that, the effect a type of risk is due to another instantaneous, short or long time, and so on.

The effects of the business risk – causes of the natural risk

Pure natural risks based stem from accidental or fortuitous events, depending on environmental vulnerability, hovering mostly beyond the decision makers and others involved. An important aspect is the change in socio-economically produced by major risks, in terms of production, consumption, distribution of wealth nations. It should shift to small business consumers of energy and raw materials, less polluting, and focusing attention to recycling and reusing the consumer goods as long a time. It also is important to establish the human efforts towards the maintenance and preservation, cultural heritage, artistic, ethnographic, scientific, etc.. and the protect to the contact with pure risks, potential major.

If the pure natural risk are the least caused by the human factor, the pure risks with anthropic determination are generated by the human activity, the costs of their achieving being incurred in present and the consequences in future. Thru size, scale, stretching across time and space, the pure risks with the anthropic determination can be major (high dimension and low frequency) or minor (some of which take place at the enterprise level).

Given the period 1987-2007, the main trends in manifestation of the risk associated or derivatives from the business environment and their impact on the environment were¹³⁹:

- In 1987 the population had a significant impact on reducing ozone, but the situation improved in 2007; as a result of increases the consumer demand, during 1987-2007, increased emission of gases, having negative impact on climate change; if air pollution in 1987 was notable, particularly in urban areas in 2007, amid increasing the urbanization, grew the degree of pollution. The water pollution is an another negative effect of the irrational human intervention on environmental conditions and ultimately on their living conditions. If in developed countries the purification, the water treatment stays in the spotlight makers to ensure a healthy water, in poor countries raising problems in connection with the water sufficiency. The water pollution, may have the forms: toxic, bacterial oxidative, thermal, it is difficult to master or to control, have harmful effects on the human and animal health, leading ultimately to address other serious risks: the emergence of diseases, diseases - cholera, hepatitis, etc.. the disappearance of aquatic life, atrophy of body functions.

- At the beginning of the period, the agricultural production had a negligible influence on the ozone layer, but methyl bromide in 2007 was an important part of the decline of the ozone layer; in the period 1987-2007 the agricultural production has contributed to climate change through emissions of methane and N₂O and lately by their growth; if in 1987 the agriculture affected air pollution by emissions of ammonia and pesticides, in 2007 it was found that these emissions have increased proportionally with increasing the agricultural production. The agriculture, through intensive and irrational use of the pesticides, herbicides, artificial fertilizers, growth promoters, affects surface freshwater, soil, shallow groundwater, and long-term, deep water reserves, spontaneous and cultivated wildlife and vegetation, and on, the food, so the man. Outside the landscape change, the modern agriculture, based on intensive technologies and techniques developed for land use and farming industries implicitly assumes recourse to mechanization, use of chemical fertilizers, the substitute feed, etc., new means genetic selection of species, varieties, etc..

- The deforestation and forest fires affecting had a negligible influence on the stratospheric ozone decline over the period 1987-2007 but, contributed to the continued growth of GHG emissions; to the degree of air pollution, the deforestation especially forest fires have negatively impacted by CO, PM, NO_x. One of the atmospheric risk phenomena with slow developing is the desertification. Among the causes of desertification are important: the global or regional climate

¹³⁹ Global Environment Outlook GEO - 4, Environment for development, UNEP, 2007, p.45

change, over pasture, deforestation so negative human involvement in the use of space in which they live and work; the propagated risks are: massive soil erosion and, sooner or later the desertification. The consequences are the most severe on the natural environment and, further, on the lives of populations in developing countries who choose the alternative of adaptation to conditions at the bearable limit or the abandonment of their nomadic life and anchoring into the sedentary life of a community. The progressive achievement of this type of risk has such profound and lasting implications on the individuals, both in terms of the rudimentary lifestyle, even primitive, with all ensuing gaps and the psychological risk with fingerprints on subsequent generations.

- During the reported period, the industrial production had an enhanced influence on the quality of the environment, to the ozone layer and climatic changes, due to the lower emissions; in terms of impact on the air pollution, if in 1987 he was important, in 2007 this risk had dispersed due to the increasing industrial production in some regions of the world and decreasing in others. Direct result of air pollution are the acid rain that threaten the forests and the housing, agriculture, the lakes (extinction of the lacustrine fauna), etc.. Prevention or mitigation of this risk is only possible by limiting emissions of sulfur dioxide from large industrial facilities or transportation. Being the phenomenon by which heat is trapped in lower layers of the atmosphere, resulting in a gradual warming of the planet, concomitant to the decreasing of the temperature in the stratosphere, greenhouse effect has origin as the water vapor, carbon dioxide, methane, ozone, chloro fluoro carbonates and other gases. Their concentration started to increase after 1800, so that after 1990 the average total value was with 25% higher than pre-industrial period. If the emissions would grow in the current rate, global temperatures would rise by 0.30 degree per decade, which would contribute to the desertification in the Sahel, cyclones, sea currents, etc.. An issue that raises more and more interest of the specialists but also of the business man is the waste. Endangering the environment with the transport and the storage of hazardous materials, increases the risk and the vulnerability which the modern society must cope with. With the development of the production, started by the industrial revolution, the trends were concentration, specialization in production followed by the concentrating, waste accumulation. In many cases, however, they were converted into secondary products¹⁴⁰, used or even in the new products. Amplification of the process product specialization resulted in obtaining waste more complex and dangerous, increasing the risks derived from their existence simply.

- The tourism practiced unbalanced, irrational, can lead to excessive concentration of population in certain areas and endangering the ecosystem concerned.

- Energy production had little influence on the ozone layer over the range examined, however, the negative impact on the increased climate change; the energy production is an important cause of increasing air pollution, which, between 1987 -2007, has spreaded the globe.

- The transports had a bad contribution to the ozone layer in 1987 slightly were improved in 2007; on the climate change, the negative effects of gas emissions from transport were multiplied, in 1987 the transports have negatively acted on the air pollution (through emissions CO, PM, NOx) and in 2007 had a different impact from the one region to the another, from the one pollutant to the another. The consequences of displacement of the vehicles are: harmful gas emissions, recycled waste production, pollution concentration in large urban, the adverse effects on human health. Although the highest rate of increase in the number of cars has been registred in Europe, followed by Asia-Pacific region, the highest number of cars hold Europe and North America. Air quality is threatened in the developing countries, particularly where concerns and means of defense, protecting human health and living environment are minimal. Also, pollution from the maritime transport of petroleum products, mineral or other is very serious. In case of

¹⁴⁰ Giarini, O., *Certainty Limits - Facing Risks in the New Economy of Services*, Edimpress-Camro Publisher, București, 1996, p.89-91.

stranding transportation such, the vegetation and the marine life are the first affected; plus the natural agents that can move to the coast oil stains, chemicals, etc., causing the marine disasters.

- The negative impact of the consumption basic goods on the ozone layer decreased between 1987-2007 - and was maintained on climate change; on the other hand if the amount of biomass in 1987 was on air pollution effects in general in 2007 its growth has occurred mainly in rural areas. For luxury goods, consumption effects of ozone damage were decreased in terms of gravity; climate change has evolved from “major” to “dissemination of the growing emissions”; on the air pollution have negative effects in growth.

Simultaneously with the accumulation of industrial waste, widening consumption for the growing population whose needs are more difficult to satisfy, but it meant increasing quantitative and qualitative waste produced. The harmful effects of the existence of waste whether sterile or industrial, municipal, special (for incineration), toxic, nuclear, etc., can mention: disasters or sinister caused by the defective products continue functioning, whose physical wear is very high (explosions, fires), contamination of water, soil, air source due to the storage or discharge into areas that are not allowed, the visual pollution caused to the natural landscape and the proximity of some institutions, monuments, hotels, etc. All these risks come within the human domain and have adversely effects on the individual health and life. Furthermore, the incidences of the visual pollution on the individual are reflected in the risk of image on some sightseeing, cultural and non repetition of experience what obviously has repercussions on the company, organization. Because of the many effects arising from their existence, one of the major concerns of the current services economy is the prevention of waste and recycling

The minimizing of the business risks stemming from the global businesses, affecting the natural environment can be achieved using the instruments: technical progress and an operational regulatory environment. Thus, in recent years, the scientific researches and the technical innovations offer solutions to mitigate the downward trend of the ozone layer, more efficient use of energy sources and reducing dynamics of the climate change and as well the pollution shrinkage; the legal and institutional environment has evolved from a formal presence in tracking of the health effects of global business world to a living presence, active presence, mainly in developed countries.

Effects of natural risk – causes of business risk

From all the range of risks which operating in one way or another on the individual or his social environment, the pure risks, based on natural, have the most severe consequences and are the less frequent. Some of them have already made their presence felt by very serious consequences, others with slower progress will be felt by the future generations. Due to the multitude of these types of risk and their cost to society, is more acutely felt need to develop worldwide solidarity, the creation and strengthening global awareness that human activities are becoming increasingly interdependent.

Like pure risks based on natural, the natural risks with anthropic determination are systemic conditioned with other risks, both natural and entrepreneurial. Causal links between the changes in the natural environment and the anthropic environment can be highlighted as follows¹⁴¹:

- The air pollution in the form of the concentration and the deposition of pollutants recorded in the period 1987-2007, decreased in developed countries and maintenance in the developing countries; the exposure to this type of risk increased in developing countries and declined in the developed countries; effects on human welfare are on: health (respiratory and heart diseases, premature death and morbidity, asthma in children), the food security (low yield crops), the security and the physical security (border conflicts), the socio-economic situation, other effects (lower tourism potential, visibility, atmospheric effects, etc.). The soil acidification and

¹⁴¹ Global Environment Outlook GEO - 4, Environment for development, UNEP, 2007, p.50-51

eutrophication effects are: food security - increasing decline of forests and ecosystems, the minimizing of the potential of fisheries, safety and physical security - corrosion of materials and loss of biodiversity, socio-economic development - infrastructure maintenance costs, the decreasing of the touristic potential, etc.. Formation and concentration tropospheric ozone in the northern hemisphere will increase the effects: on the environment - exposure of the cultures, of the human and natural ecosystems and further on the health of individuals - respiratory problems, mortality and morbidity; on physical security - loss of biodiversity; regarding the economic and social status - low income, especially to the poor, all kinds of restrictions.

Increasing the levels of concentration of toxic air (heavy metals, PAHs, VOCs) has effects on air quality and for the people - cancer diseases; the food security is threatened by the contamination of food and socio-economic impact involves increasing health costs. Increasing the emissions of POPs will increase the deposition in natural ecosystems, the bioaccumulation in the food chain threatening food security, human health, the sustainability of fishery resources and in terms of socio-economic - minimizing trading of the fish species, increase the vulnerability of polar bears, etc.. For developing countries, pollution, generally, air, in particular, affects the exposure of population, growing of the mortality and a respiratory diseases and economically - the vulnerability of poor communities, impact on women and children.

- Climate change manifested by the stabilization of GHG concentrations will have consequences on the environment, such as: increasing of the air and water temperature, extreme weather events, precipitation, melting ice, ocean acidification; to the people are estimated the deaths amid stress, the different types of disease. The economic and social risks are: the risk of starvation, the decreasing of the agricultural production, the increasing of vulnerability of people, especially the poor, loss of property, threats to the livelihoods of communities. A survey of the managers' perceptions regarding the effects of climate change on business done in 2008¹⁴², shows four types of risk considered significant: legal risk, physical risk, the risk of image, the risk of litigation. Of these, the legal risk was found the most dangerous followed by the physical risk; the legal risk has a high level in the fields of automotive, construction materials industry, mining, metallurgy, oil and gas, transportation, utilities; a medium level in: aviation, chemical industry, financial sector, manufacturing. The physical risk is assessed as having high negative effects in the domains: agriculture, forestry, health, pharmaceuticals, insurance, tourism and the average level in construction, construction materials industry, finance, retail. The risk of image is claimed as medium in the in aviation domain. The natural risk produced in business environment requires makers to develop strategies to prevent, counteract it. The preparedness of the businesses environment to minimizing the impacts possible of the natural risks is considered to be very good in the fields of telecommunications, food and beverages, chemicals and very weak in transport, health, tourism, aviation, financial sector.

- The decreasing of ozone from stratosphere and maintaining the concentrations of ozone in the stratosphere will result in maintaining the radiations, ozone depletion at the poles and for people - cancer of the skin, eyes and immune system hazards. Food safety will be affected by decreasing fish stocks (especially phytoplankton) and food production. From the perspective of socio-economic impact translates into: decreased time spent outdoors, changing lifestyles, increasing spending to prevent exposure to ultraviolet radiation, etc..
- Loss of biodiversity and degradation of the ecosystems, as natural risk with anthropic determination, have the impact on business the different types of risk, such as¹⁴³:
- physical risk (reflected in reduced productivity, failure or shortage of resources and increased costs, particularly for companies that depend on the potential of plant, animal genetic material, etc., interruption or cessation of activities due to natural disasters products);

¹⁴² Climate changes your business, KPMG's Review of the business risks and economic impacts at sector level, 2008, p.36-39

¹⁴³ Biodiversity and business risk, World Economic Forum, Jan.2010, p.5, 8, 9

- legislative risk (manifested by restrictions on access to land and resources affected by natural risks, litigation, governmental limitations on the exploitation of resources, higher prices for products from areas threatened by loss of biodiversity);
- market risk (manifested mainly by changing consumer behavior);
- the risk of image (of firms exploiting resources or produce outputs with a negative impact on biodiversity);
- financial risk as a result of reduced cash flow, increasing the costs to firms concerned; risks on the marketing channels (the control of channels, increased costs).

Among the economic consequences of biodiversity loss and degradation of ecosystems, it notes: loss of bee colonies in the U.S., in 2007, meaning the \$ 15 billion financial losses; the soil erosion in Europe produces the economic damage of 53% per year; the pests cause the damages to the U.S., UK, Australia, India, Brazil, South Africa, agricultural, around of the 100 million dollars annually.

Of pure risks, natural disasters are the most serious; the volcanic eruptions lead to amplification of tidal level, lava flow, deaths in overpopulated countries, clouds of ash; the Katrina hurricane¹⁴⁴ hit the U.S. in September 2005 causing physical damage, economic, financial, psychological - most oil installations from the Gulf of Mexico were shut down, were increased the global oil prices, fell the GDP of U.S., it lost approx. 500,000 jobs in the New Orleans area and Gulf of Mexico, the financial losses estimated to the \$ 100 billion. Eyjafjalla eruption volcano in March 2010 caused the loss of European tourism 1.72 billion aviation industry losses of 200 million and closed the airspace of 12 European countries; by delays to the employees there have been losses of labor productivity € 1.5 million, suffered losses in areas: air transport industry, tourism, oil prices, courier service and perishable goods¹⁴⁵.

The management of the natural risk should be included in the overall strategy of the firm¹⁴⁶; a study realized by l'Economist Intelligence Unit in March 2008, on a number of 320 managers worldwide, reflect that 41% of respondents take into account the natural risks in launching policies new products, 32% in the selection of suppliers or customers, 26% in the penetration of foreign markets and 19% in shares acquisition or merger. Managing these risks depends on the quality of national business environment, the type of activity, the company's history and, not least, the ability of the entrepreneur.

Conclusions

Even if the action of natural factors can not be stopped, may be limited. Managers are required to apply effective risk management programs to reduce the frequency of occurrence and the severity of the risk. As it concerns the consumer, the achievement or the not of the natural risk and the perception on his consequences are dependent to the specific natural, economic, social and political conditions from the environment in which he lives and the particularities cultural, behavioral, personality, lifestyle desired or accepted, individual. Both for the companies and for the consumers, preventing, countering, mitigation of the natural risk effects and the relationships with mutual determination with the business risk is possible by using the information correct and lucid. Management of natural risk is based on the undeniable reality that the natural environment and managing this relationship supports the development of business and default risk-taking business. Management of business risk may not be operational without identification, assessment, treatment and control of all types of risk facing the company, primarily, to natural. Is a two-way relationship.

¹⁴⁴ <http://www.wall-street.ro/>

¹⁴⁵ www.financiarul.ro/

¹⁴⁶ Roussel, F., *Le risque environnemental est encore trop négligé dans les entreprises*, *Gestion des risques, Actu-Environnement.com* - 28/08/2008

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A NEW CHALLENGE FOR THE ROMANIAN COAL INDUSTRY: ELIMINATION OF THE STATE AID

Gruian Claudiu-Marian

West University of Timisoara

Faculty of Economy and Business Administration

According to the European Commission decision N 239/2007 the Romanian coal industry will receive state aid by the end of 2010. After this period public companies in this sector will finance the costs of current production and investment entirely by their revenue. This article presents a short literature review regarding the subsidization of coal industry, shows the evolution of the mining industry in Romania so far, and identifies opportunities for continuing coal production after December 31, 2010 without state aid. The paper concludes that the abolition of subsidies in is a positive measure but it must be taken gradually and responsibly, in order to ameliorate the negative effects on social and natural environment.

Keywords: coal industry, state aid, National Hard Coal Company

JEL code: Q30, Q38

1. Introduction

Reorganization of the Romanian coal industry is a problem that caught the attention of Romanian Government the two decades. Given the fact that 2010 is the last year for coal production direct subsidization (EC Decision N 239/2007), all economic and social actors directly concerned about the future of mining worked together to try solving this problem. The results of the cooperation were materialized in the development and implementation of Mining Industry Strategies (MIS: 2004-2010, 2006-2020, 2008-2020) that led to an improved situation and decreasing losses. Despite these efforts 2011 will be a difficult year for the continuation of coal extraction, particularly for the National Hard Coal Company.

2. Coal subsidization: short literature review

Coal subsidization is a well known government policy, used in many countries over time. Because of the geological conditions in most European countries the hard coal extraction costs are significantly higher than in other countries in the world. Subsidization is the only way to make domestic production competitive. Although it has been criticized for decades by many respectable economists the phenomenon hasn't completely disappeared but it has significantly reduced. One of the arguments against coal subsidizing refers to the fact that mining and the burning of coal is polluting and in stead of paying subsidies the governments should apply taxes to coal production and consumption (Anderson, 1995).

Germany, for example, has been subsidizing the hard coal mining sector since 1958, spending about EUR 128 billion between 1958 and 2002 and is considered the largest supporter of hard coal subsidization (Storchmann, 2005). There is no other subsidy that has been granted so many years at such a high level in Germany. Other European countries where hard coal subsidization persisted are Spain and Poland- the biggest coal producer in Europe with 84 million tones in 2008 (IEA, 2009).

A more recent article (Frondel M. et al, 2007) analyses the most cited arguments written against the abolition of hard coal subsidies in European countries.

The first argument is the security of energy supply. The authors criticize this argument sustaining that, as a consequence of liberalization, ascertaining secure energy and raw material supplies has now become the responsibility of the *private industry*, and this problem can be easily solved

using long term contracts and other modern methods. The growing of international coal trading is another assuring argument in this matter.

The second often used argument is the employment effect generated by mine closure in some regions. Against this argument it is mentioned the fact that the number of employees in the mining industry is considerably smaller nowadays than it was decades ago. For example in the Romanian mining industry were employed more than 300,000 people in the 80' compared to the few tens of thousands presently.

Other arguments against subsidizing refer to the opportunity cost of subsidies, negative effects on the environment and others.

Elimination of coal subsidies is also an important objective of by the European Commission. According to UE non-renewable resource policy the last year for coal subsidization in member states is 2010.

3. Romanian mining sector development and government policy

During 1970-1980, the mining sector in Romania was in full ascension offering well paid jobs and boost for the economic activity in many regions of the country. Mining activities have expanded in six of the eight regions of the country but were concentrated in the west and northwest (Bastida and Yupari, 2008). Socialist period strategy had a great influence on the development of mining in Romania. This strategy was based on self-support in ensuring mineral resources for the Romanian economy in order to reduce and eliminate imports. However mining was also an industry that received substantial subsidies employing over 350,000 people directly and 700,000 indirectly. (MIS 2004-2010).

During 1990-2007, the state spent the amount of U.S. \$ 6,156.4 million to support the mining sector, as shown in Table. 1.

Table No. 1: Public expenditures for the mining industry subsidization 1990-2007

Specification	Value (million U.S. dollars)
Subsidies	4,125.20
Social transfers	316.9
Capital allowances	1,714.30
Total	6,156.40

Source: MIS 2008-2010

In addition, for the same period mining operating companies recorded a loss of U.S. \$ 1,729.4 million (MIS 2008-2010). For reducing the enormous public expenditures in this sector reorganization was impetuously necessary.

Closure of unviable mines was done in two stages. The first stage representing the period before the year 2000 was rather chaotic, paying more attention to economic issues and less responsibility for social and environmental impact. In the second stage, during 2001-2003, about 75 mines were closed and state support was given for protecting the environment and economy. In figures, by 2004, production was halted in 344 mines of which 82 were completely closed and the closure of 191 mines was outsourced to companies. The remaining 71 were preserved to be closed permanently later. (MIS 2004-2010). In early 2004 the number of people employed in mining reached 61,700.

However, subsidies to mining companies continued to be supported through two projects funded by loans from the World Bank:

1. "Draft Mine Closure and Social Impact Mitigation Project" worth U.S. \$ 44.5 million, financed by International Bank for Reconstruction and Development (IBRD) loan.

2. "Mine Closure Project, environmental restoration and Socio-Economic Regeneration, worth 120 million dollars, was financed by IBRD loan and approved by Law no. 167/2005 and extended over a period of 5 years. The project was divided into two components: component of mine closure and environmental and social regeneration. (Bastida and Yupari, 2008).

In 2004, employment in hard coal and lignite mining was approximately 60% of the entire workforce in the mining industry, of which 16,000 were employed in 12 underground hard coal mines, on the site of Jiu Valley and organized as the National Hard Coal Company (CNH). These mines have been continually receiving consistent subsidies from the government because their income was always below their expenditures.

Extraction of lignite and brown coal has proven to be more viable despite the fact that these types of coal have a lower calorific value than hard coal. Extraction was done by two public companies, the National Society of Lignite Oltenia (SNLO) and National Coal Company Ploiesti (SNCP).

Table No. 2 – The evolution of coal production in Romania

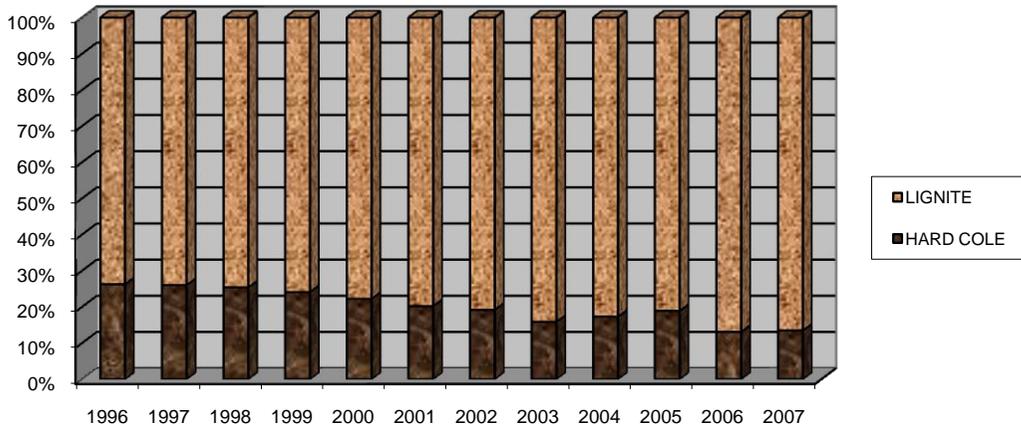
Year		1996	2000	2001	2002	2003	2004	2005	2006	2007
TOTAL COAL	million tones of oil equivalent*	8.065	5.601	6.239	6.117	6.536	6.192	5.793	6.477	6.858
	million tones	36.5	26	29.7	29.3	30	29.1	28.1	32.4	32.7
LIGNITE	million tones of oil equivalent*	5.944	4.354	4.979	4.942	5.499	5.12	4.698	5.628	5.933
	% in total (oil equivalent)	74%	78%	80%	81%	84%	83%	81%	87%	87%
HARD COAL	million tones	5.3	3	3.5	3.7	3.0	3.1	2.7	2.6	2.6
	million tones of oil equivalent*	2.121	1.247	1.26	1.175	1.037	1.072	1.095	0.849	0.925
	% in total (oil equivalent)	26%	22%	20%	19%	16%	17%	19%	13%	13%

* Oil equivalent (10.000 kcal/kg)

Source: MIS 2008-2010

The competitive advantages of lignite are the lower exploiting costs, smaller risks involved with the extraction process (especially in surface quarries) and the existence of higher technology and reserves. These advantages influenced the annual growth of the quantity of lignite extracted.

Figure No. 1 - Evolution of the ratio between the lignite and hard coal extracted (Both expressed in tones of oil equivalent – data from Table No.2)



4. The coal industry in the last period of state aid: 2007-2010

Starting January 1, 2007 the only coal producing company in Romania which has received state aid is the National Hard Coal Company (CNH). The objectives of this measure are to finance the company's current production and cover the costs of maintaining access to coal reserves underground Jiu Valley. European Commission notes that, in terms of financial restructuring, CNH will provide increased productivity by 2010, up to reaching a level that will ensure its operation without state aid (EC Decision 239/2007). Romanian authorities have indicated that they used some technical and economic criteria for establishing a list of units within the company to be included in the restructuring plan and, therefore, receive this support to continue their activity.

The total budget of this measure is Romanian LEI (ROL) 1,289,562,000, which is distributed in the period 2007-2010 as we can see in Table No. 3.

Table No. 3. Distribution of state aid during 2007-2010

	2007	2008	2009	2010	TOTAL
TOTAL state aid (ROL -thousands)	401,440	338,940	293,160	256,022	1,289,562

Source: EC Decision N239/2007

For better understanding the importance of state aid in the proper functioning of CNH we will continue by presenting the company's estimated income and expense during period 2007-2010. We will also present the evolution of one of the most relevant efficiency indicator often used in the mining industry: Expenses at ROL 1000 of goods production (Table No. 4).

Table No. 4 CNH main indicators 2007-2010

National Hard Coal Company	2007	2008	2009	2010
Estimated production costs (ROL / tone of coal extracted - tec)	642.2	617	595.4	582
Income (ROL/tec)	320	343.8	361	379
Differences=costs – income (ROL/tec)	322.2	273.2	234.4	203
State aid (ROL/tec)	289.4	243.7	204.6	173.1
Expenses at ROL 1000 of goods production (ROL)	2006.88	1794.65	1649.31	1535.62

State aid weight in Total production costs	45.1%	39.5%	34.4%	29.7%
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Source: EC Decision N239/2007, author's calculations

By reading the table data we can observe a gradual reduction of the expenses to ROL 1,000 of goods production, from ROL 2006.88 in 2007 to ROL 1535.62 in 2010. Estimates of the decreasing evolution of this indicator in CNH are confirmed by other recent studies (Csimanga, 2009). This indicator's reduction of approximately 25% is achieved through a significant restructuring process in the fields of human resources and equipment. Although indicators evolution in Table. No. 4 is positive, there is a significant gap between last year's (2010) revenues and expenditures which makes it very difficult for the Company to continue production in 2011 without subsidies.

5. Perspectives of the Romanian coal industry after the year 2010

National Planning states that by 2020, electricity production based on coal should remain at 33% - 35% of the total production capacity. Therefore, a strong domestic market is available for hard coal and lignite.

Extraction of the latter is carried out since 2009 without subsidies, and the amount extracted has increased from year to year. The lignite quantity scheduled to be extracted annually is about 32 million tones per year and the reserves in the Oltenia region will ensure production at present capacities for the next 47 years (ESR 2007-2020)

The future production of hard coal is uncertain because of the bad financial results of the National Hard Coal Company, the only hard coal producer in Romania. The two major obstacles of this structure are:

- accumulated historic debt;
- low efficiency of business operation;

The historic debt of CNH is currently about EUR 1 billion of which 70% are penalties. This value represents about four times the value of the company's assets and it is impossible to be paid. The solution found by the Government for this problem is simply deleting these debts. Representatives of the Ministry of Economy, Commerce, and Business Environment are currently following the appropriate procedure to obtain a favorable notice from the European Commission in this issue.

The low production efficiency is influenced by the bad geological conditions and lack of modern extraction technologies (Ilias et al, 2008).

In order to increase the activity efficiency action is taken in the following directions:

1. *Reducing personnel costs*, which are approximately 70% of total expenditure by layoffs, the number of employees who left the system in April 2010, is 1420. This represents about 15% of CNH staff..
2. *Increasing productivity by investments in efficient equipment*. A recent literature study (Iliş et al., 2008) shows us that the mining activity could be viable in some of the units constituting the CNH by using modern mining methods and equipment. But the new technologies can not be adapted to all mines and therefore 4 of them would be closed after the year 2010 if there are no subsidies. Even for the 3 remaining mines installation and utilization of mining units is difficult and problems that occur can temporarily interrupt production and create fluctuations to the coal quantity delivered.
3. *CNH vertical integration* with the main clients: Electrocentrale Deva, Termoelectrica Paroseni, and a part of Hidroelectrica Society divided to create two large energy companies that will provide heat and electricity required throughout the country.

The third measure, the current government initiative, is criticized by the World Bank because of the coal-hydro-nuclear energy mix, saying that companies generating losses like some of the mines composing CNH will be in advantage on the behalf of profitable ones.

6. Conclusions and recommendations

Eliminating state aid in the Romanian coal industry will adversely affect the activity of the National Coal Company, customers and suppliers, as well as the economic and social environment of the Jiu Valley. The lack of a clear plan of activity after the end of 2010 generates concerns among CNH employees, small and medium enterprises in the area, local authorities and other economic and social actors.

The current situation in the Jiu Valley is difficult because of the lack of certitude. The activity is conducted “by inertia” and the measures taken to make coal exploitation more viable were only partially successful. This statement is reinforced by the lack of action in recent years for solving historical debts problem (so obviously necessary, regardless of the future), lack of a new collective labor agreement for the years 2009 and 2010, and no realistic business plan for the coming years.

Measures to be further taken will have to consider the following aspects:

1. *Strategic*: by considering the importance of energy independence of the country on long terms. This can be achieved in part through continued domestic production of hard coal. According to Romania's Energy Strategy for 2007-2020 coal reserves in the Jiu Valley region can ensure continuity of energy production at present capacities for at least 30 years.

2. *Economic*: by considering the impact of mining activity on other economic sectors. Because of the strong local impact, mining has the potential to promote complementary activities in other economic sectors in the region.

3. *Social* aspects require a special attention. Restructuring the mining industry involves reducing personnel. This measure affects the populations' current quality of life and the opportunities of future generations. The social aspect also includes health, education and training programs for former employees.

4. *Environmental*. Mine closure requires protection of public health and safety, alleviating or eliminating environmental damage and achieving a productive use of the land, a return to its original condition or an acceptable alternative. It is a complex procedure that requires planning and following specific steps.

Given the changes in key indicators of the CNH, presented in Table No. 4, in particular the expenses at ROL 1,000 of goods production for year 2010 that overcome revenues with about 50%, the company could encounter a financial jam during 2011 in the case of a complete elimination of subsidies.

Therefore I consider that the abolition of subsidies should be made gradually in the following years and combined with a restructuring and closing program. In addition to these measures the government should make parallel investments in the Jiu Valley infrastructure (especially for finishing construction of the road between Uricani city and Herculane resort) and stimulate private initiative in production activities and tourism.

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FACTORS INFLUENCING INNOVATION IN SMES IN ROMANIA

Holban (Oncioiu) Ionica

*Alexandru Ioan Cuza University of Iasi and
Academy of Economics Studies from Bucharest*

Oncioiu Florin Răzvan

University of Agronomic Sciences and Veterinary Medicine of Bucharest Romania

Innovation is a broad concept and it is not in contradiction with tradition. Any entrepreneur, even when working in a traditional sector or businesses with strong traditions such as a family business can be innovative.

Innovation is not only pushed by the entrepreneur but is increasingly market pulled. Through an innovation entrepreneur it is wanted to influence his market structure or to develop new markets. Radical innovations introduce new business concepts, which require an ability to organize resources and competence in novel patterns. Enterprises extend their ability to develop new business concepts, their dynamic capability, by accessing external resources. This study proposes to investigate how the use of external resources varies in the course of SMEs innovation processes, and how deployment of external resources is influenced by the nature of the innovation as well as by the context of the innovation process.

Keywords: Small and Medium Enterprises, competitiveness, innovation.

JEL: O32,Q55

Introduction

In an increasingly complex business environment, organizations have been confronted with rapid changes in technology, competition, regulation and customer needs and demands. This has caused managers and researchers alike to search for new ways of developing organizational capabilities by continuous adaptation and anticipation of the need for change. Organizational learning, which promotes continuous adaptation and change, has therefore captured the imagination of managers seeking to survive the current turbulent operating environments.

Innovations may represent novelties in one or along several dimensions. They may provide new products or services to a market; they may introduce new technology to existing products; they may introduce new forms of organization of a SMEs or a value creation chain.

The focus here is on innovation processes that are more than minor improvements of existing products or processes. Our interest is the introduction of products or processes that are novelties to the degree that they represent new business concepts, and will require and provisions outside daily operations.

A new business concept is the spark that triggers the innovation process. It is on how the novel products or processes may be achieved from the platform of current operations, that is, products and processes, combined with thoughts or estimates of the market new business concept. The new business concept is conceived from the current state of products and processes in the enterprise, the current markets and a perception of future market opportunities.

With the current rapid transformation of markets, enterprises would quickly stagnate and competitive positions without renewing. Such renewal is most often produced by several small adjustments, commonly referred to as incremental, stepwise or gradual innovations. In many cases, incremental innovations are implemented in the course of ordinary operational activities hardly noticed from day to day. However, the cumulative effect of incremental innovations is usually sufficient to maintain a competitive position when changes in markets follow predictable patterns.

Consistency between two major elements is decisive for a successful completion of the SMEs innovation process. The first element is the character of the innovation - what challenges does the innovation present. The second element is the capability of the SMEs to address these inherent challenges, that is, the capacity of the enterprise to muster resources and to act in a sufficiently dynamic way.

Literature review

Innovation is not confined to the area of entrepreneurship. Also other agents such as government agencies or non profit institutions can 'innovate' but in this paper we limit the discussion to innovation and entrepreneurship, operating in a market environment.

By definition, innovation processes address novel products or processes that require new capabilities or a new application of existing capabilities. Moreover, when the innovation requires interaction between an increasing number of components or subsystems, the complexity of the innovation process will increase rapidly.

The link between entrepreneurship and innovation has been established strongly since Joseph Schumpeter. Since then innovation is considered as an essential characteristic of entrepreneurship. The link is emphasized by any textbook on entrepreneurship, even introductory ones, such as for example Zimmerer and Scarborough in its fifth edition (2008): "Entrepreneurs also create innovations to solve problems they observe, often problems they face themselves".

The fundamental issue is the management of innovation processes, which differs from management in general (Salomo & Hölzle, 2007) due to the high level of uncertainty and application of novel competence.

However, in discussions on innovation there is a tendency to associate it with large, technologically advanced firms. This was already a sensitive point for Schumpeter, as can be read in the contribution of C. Freeman in the Palgrave dictionary: "Schumpeter (1928 and 1942) is often known for his emphasis of the advantages of large size and monopoly on innovative performance, whilst traditional theory has continued to stress the advantages of competitive market structures".

Business innovation processes require access to new resources, including competence (Bayer & Gann, 2007; Chell & Baines, 2000), which are frequently tapped from external sources. Many therefore consider better access to such external resources to be a vital policy instrument to support the innovative capacity of the business sector, especially for smaller enterprises. The term innovation system (Cooke, 2001) has often been used to describe the interaction between an individual firm, on the one hand, and firms and institutions that can provide such resources on the other hand. Innovation systems have received attention from researchers as well as policy-makers as possible instruments for improving the innovation capacity of enterprises. It is imperative that innovation systems are developed with a thorough understanding of how enterprises utilize external resources in their innovation processes.

During times of dramatic changes in the business environment or when SMEs exploited completely new opportunities, incremental innovations would not provide sufficient le for rapid and large transformations. We refer to these large transitions over a short time period as radical innovations. They are also referred to with terms such as discontinuous or really-new innovate (Garcia & Calantone, 2002; McDermott & O'Connor, 2002).

The innovation capacity of an enterprise thus rests on the foundation of its resources, which have been accumulated as a result of previous activities. These resources have been shaped by the needs of the past and are subsequently applied in the current innovation process to respond to the needs of the future. The ability to come up with novel solutions will therefore depend on an ability to adapt the resources in response to the new requirements of the innovation process (Eisenhardt & Martin, 2000; Pek-Hooi, Mahmood, & Mitchell, 2004; Teece, Pisano, & Shuen, 1997).

Eisenhardt and Martin (2000, 1107) define dynamic capability as “...the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die.” The dynamic capability is thus the process at the strategic level that enables the enterprise to change the content, structure and organization of the resources that are available to the innovation process. Correspondence between the dynamic capability and the dynamic change patterns of the business environment is essential for the long-term survival of the firm. Therefore, adequate flexibility in its dynamic capability constitutes a significant part of the core competence for a firm’s innovative sustainability.

However innovation is not only a matter of product differentiation or product management in general. It refers to all aspects of doing business. Entrepreneurs can be innovative with regard to any aspect of running their business including the production processes, the organization structure, finance management etc. Innovation can be successfully applied in ‘new’ sectors such as high-tech but as well in very ‘traditional sectors in industry, services and even agriculture. It can be successfully applied in new startups with an informal business culture but also in existing businesses such as family businesses with a tradition of several generations. Small as well as large businesses can be innovative with regard to their product, their technology, their organization or their financial management.

Government intervention within the European economic area

Businesses operate in a market within an open space such as the European Economic Area. When a national or regional government wants to design a policy to support entrepreneurship in general of innovation in particular, it has to focus on the businesses which are active on its territory.

This is a very important case for EU policy. On the one hand there is an argument in support of positive government intervention; on the other hand the European Commission has to watch carefully the rules of fair competition within the European Economic Area. The following quotations from European policy documents show that it is not easy for the European Commission to find equilibrium between these considerations.

“The identification of policy areas should be market-driven, in full respect of the need to preserve free and fair competition. Without excluding any areas from such initiative, there is a clear public interest in helping the emergence of solutions that would provide answers to citizens concerns. These would, in particular, be areas where public authorities play a critical role to eliminate existing barriers to market take-up of new products. However, this should not be at the expense of supporting innovation in more traditional sectors” (2006, p. 12)

Innovation is market driven and not only pushed by the firms. This has been recognized by the EU: its policy should be devoted to support ‘innovation management’ and to develop the promotion of markets. “‘Innovation management’ is a prerequisite for innovation to flourish in firms. Many enterprises, especially SMEs, encounter difficulties in planning, implementing and marketing innovative products and in innovating in their production processes. Innovation cannot work without taking people into account”. “Enterprises of all sizes should be more flexible in responding to rapid changes in demand, adapt to new technologies, such as ICT and e-business, and be able to innovate constantly in order to remain competitive”. (2005, p. 17)

The main motivation of the European Commission to accept state aid within the European Economic Area is the possibility of market failures. “Aid for projects covering fundamental and industrial research and experimental development is mainly targeted at the market failure related to positive externalities (knowledge spillovers), including public goods”. Other forms of aid are motivated in a similar way (2006, p.8)

Innovation and competitiveness in the Romanian SMEs

Innovation is a crucial concept involving creativity, organization and profitability but can it be measured? Is it possible to use operational concepts that allow measurement?

The creation of new businesses is necessary for the renewal and modernization of the economy but not sufficient. The new businesses also must be of 'good quality'. But what does that mean? One of the characteristics of this 'good quality' is the degree of innovation. Now the question arises: is it possible to measure the innovation?

From the first 10 states using the GDP for each inhabitant, only one has a social contribution in the net profit resembling ours, Suede, with 38%. Next we find Finland with 29,6%. But the first 5 states as a developed well being of the population has reduced ponders: Norway (16,3%), Island (13,7%), Switzerland (11,5%), USA (10,1%) and Denmark (2,2%). The data confirms a much tied connection between the work tax and the suburb economy, comparing that between the income tax and gray economy. The Northern states with large amount of social expenses in the brut profit have also increased suburb economies. Suede, Norway and Finland, have gray economies of 19%, while USA or Switzerland – only 8,8% of the total economy. In spite of reducing the income tax and those on the profit to 16%, Romania with assistance expenses of 38,6% has a suburb economy of 34,4%. It is very logical why a company manager to be very reticent to legalize his affair, as long as due to the "fiscal reform" it has a reduction for taxes, incomes and contributions by 2,2% of the brut profit, and not 9% as the governors say.

In Romania was created a vicious circle where the state is ensuring the minimum financial resources for stimulation of knowledge-based economy and only a few companies proved able to compete through innovation. Very often knowledge is strongly connected with people and all or part of it can do a major challenge. Innovation system is important for clarifying the area of innovation policy and also for fostering the interactions.

According to the statistics of Ministry of Education and Research until 2002, a number of 590 units were involved in the innovation system. Out of which 280 were research and development institutes and 310 joint-stock companies (public or private) with research -development as the main object of activity. Since 2003 the situation of research system was improve because, on the hand, Romania became a member of the European Patent Convention in March and, on the other hand, the Government took the Decision 406/2003 where there are present specific conditions regarding the eligibility of a firm or a department of research institution to be considered as an innovation entity. In the document is specifically that the applicants for such a status provide certain documentation in order to be accepted. So, being with that decision an innovation entity can be called innovation infrastructure unit, practical a new concept was introduced refers to technological transfer centers which are financed through a governmental program. That initiative is very important for creating the visibility of the entity which wants to invest in innovation. The current situation of Romania is highly dependent upon the visibility level and the research system that includes the research institutes, the research departments of universities, and research departments of the companies.

The specific situation in Romania regarding the research system was considered to be the only policy element, so, research and innovation are not approached as different process that address distinct markets and have a different timelines. This does not mean that the research units are able to move on the global technological frontier and increase their chances to apply innovation.

The initiative to the governmental level of innovative process based on the market strategies have the most important role in transforming the visible knowledge into marketable products and representing the economic opportunity of recombining knowledge. At top of that, more and more companies have involving in different stage of the innovation process. In order to stimulate the companies to start their learning process, the first necessary step is to ensure a higher visibility of the economic benefits that knowledge incorporation brings about.

In this direction in Romania the capital and financial channels for innovation activities can be the private venture capital. The availability of that capital does not depend only on financial issues, but also on other factors as follows:

- the risk propensity;

- the provider's capacity for technical evaluation;
- the provider's insertion on the innovation market.

The innovation infrastructure includes: incubators (infrastructure for start-ups), technological parks (experimental facilities), technical transfer centers and the system of intellectual property. Regarding the infrastructure the government consistent policy measures according to the recently launched National Plan for Developing the Infrastructure for Innovation and Technological Transfer. In this plan is mentioning the amount which is destined to co-finance centers of technological transfer, office for connection with industry, technological parks and technological incubators.

Ministry of Education and Research and the Ministry of Communications and Information Technology aim to attract to industrial parks with intention to create such parks in every Romanian city that has a university center. They estimate that around 50 business incubators have been created, but there are no monitoring mechanisms and no efficiency criteria or targets for them.

The whole set of documents released by the Romanian authorities regarding the evolution of research, development and innovation systems does not even address the issue of patents and it was only in 2004 that the grants are made conditional on patent applications.

Results and discussion

At the moment, companies hiring less than 10 employees produce more than 20% of Europe's value added and offers employment for approximately 50 million European Union' citizens. SME represent 98% of approximately all enterprises in Europe. Approximately 80% of their activities are carried out at a local or regional level.

Therefore, for Romania the small and medium businesses are representing the engine of the economic growth and a vector for disseminating the research and development results. The increase of the small and medium businesses sector had a positive influence upon the businesses environment reducing the unemployment rate and increasing the productivity. It is necessary for the Romanian state to rethink the fiscal system in order to better sustain the growth of the small and medium businesses sector taking into consideration that even though its major role in the development of the country is known and admitted the support is not likewise. We think of this considering that even though the number of the small and medium businesses in Romania has grown, the number of small and medium businesses to 1000 inhabitants is under the number from the European Union (in Romania the number of small and medium businesses to 1000 inhabitants is 25 and in the European Union is 64).

Strategies related to the environment characteristics, when an accentuate competition on the internal market and a rapid change rhythm in their activity domain can be associated with the orientation to the international market- between them it should be mentioned the niche's strategy, which presupposes their concentration on the products and services for which it is disposed competitive advantages as a result of their capacity of innovation, adaptability and personalization of the production in connection with the request exigencies.

Conclusion

Innovation is a broad concept. Innovation is not in contradiction with tradition. Any type of entrepreneur, even when working in traditional sectors or in businesses with strong traditions such as family businesses can be innovative with the product, the production process or any aspect of doing business.

Innovation is increasingly market pulled: entrepreneurs meet and want to solve a problem but at the same time the entrepreneur wants to influence his market structure or to develop new markets through his innovation. Policy has to protect intellectual property and to promote competition. There is a high correlation but not full coincidence between entrepreneurship and innovation.

The degree of innovation is monitored by policy makers. A high degree of innovation is considered to make the economy more 'competitive'. Innovation will not only support the development of new products or increase the productivity of labor and capital, but also bring more economic growth, employment, a better balance of payments, improve the labor conditions etc. There is clearly a link between microeconomic issues such as entrepreneurial startups and macroeconomic performance.

It is not easy to measure innovation. Businesses operate in international markets while policy makers focus on a territory. Very often the effect of a policy is felt beyond the territory of the government. In a large area such as the European Economic area there is much interdependence and many spillovers. This is especially the case in a small open economy operating in this type of market as is illustrated by the case of Romanian.

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ESTIMATING TECHNICAL PROGRESS IN CENTRAL AND EASTERN EUROPE. WHAT ROLE FOR FDI?

Jude Cristina

Babes Bolyai University Cluj Napoca

Faculty of Economics and Business Administration

Vaidean Viorela

Babes Bolyai University Cluj Napoca

Faculty of Economics and Business Administration

Technical progress is a key factor in economic growth, mainly due to its productivity enhancement. It is a fact that most innovation and new technologies are created in developed countries. International trade and FDI are the main channels for technology transfer. Our objective is to determine the role of FDI in technical progress. In this paper, we start with two questions: is there evidence of significant contribution of technical progress to economic growth? And if there is, what is the role of FDI in technical progress? Using a production function approach, we estimate the TFP and we regress it on the stock of FDI, in a panel framework. We find evidence of positive correlation.

Key words: technical progress, Solow residual, FDI

JEL: O33, O47, F23

1. Introduction

The turmoil in the world economy during the last two years has reinforced research on economic growth and its determinants. This subject is all the more important in Central and Eastern Europe (CEE), since these countries had experienced high rates of economic growth in the years before the crisis. Trying to explain the long run economic growth, scholars have brought into attention the role of technical progress as the key for long term growth.

It is a fact that most innovation and new technology are created in developed countries. Therefore, the chance for developing countries is to import that technology. Unlike Western countries, CEEC are relatively far away from the production possibilities' frontier. That is the reason why they are more concerned with technology transfer and could benefit more from the productivity enhancement effect of technical progress. Furthermore, these countries have a real research-development potential, inherited from the communism, which allows for local adaptations and second rang innovation.

International trade and foreign direct investment (FDI) seem to be the most important channels of technology transfer. FDI is considered to be a crucial factor in economic growth and catching-up process in this region. There are even opinions suggesting that technology transfer through FDI is more important than the capital inflow itself (Hunya, 2000). Blomstrom and Kokko (1996) argue that FDI is also the cheapest channel for technology transfer. Unlike other channels, it simultaneously allows the transfer of tangible and intangible assets, being therefore one of the most effective international technology channels (Kinoshita, 2000).

The *objective* of our paper is to estimate the contribution of technical progress in economic growth in CEE and to evaluate which might be the role of FDI in technological change. We adopt a two step procedure. First, we use the growth accounting approach in order to estimate the Solow residual. Second, we run a panel analysis on 8 countries in CEE, trying to explain the sources of technical progress, more precisely the role of FDI. We find a positive correlation between the stock of FDI and total factor productivity.

We proceed with the paper as follows: section 2 presents the theoretical framework of estimating technical progress, using the Solow growth accounting approach. Section 3 presents the 2 step

methodology we have used, section 4 discusses the data and results obtained and section 5 concludes.

2. Theoretical framework

Measuring the stock and the technology transfer is a difficult task, given the fact that technology appears as a latent variable, which is not directly observable at plant level. Especially when dealing with know-how, several proxy variables are being used in order to estimate the technological level. Such variables are: research-development expenses, registered patents, share of high skill workers etc. What is of interest for economic research is not necessarily the technical level itself, but the change in technical level, more specifically technical progress.

The literature retains four main approaches in estimating technical progress: the production function approach, the index number approach, the econometric approach and the distance function approach. The vast majority of the literature uses the production function approach, namely calculating Total Factor Productivity (TFP). For reasons of comparability of results, but also of data availability, we will proceed in our research with this approach.

The production function is a microeconomic concept, indicating the mathematical expression of combining a set of inputs in order to obtain the maximum output. Even if every firm has its own production function, the concept is also being used at aggregate level, for explaining economic growth. Solow and Swan (1956) have based their famous growth model on a two input production function. This model explains economic growth mainly by accumulation of physical capital and labour. The share in economic growth not attributed to these two factors is accounted for technical progress. The sources of this progress are not explained by this neoclassical model, that is why it is called exogenous or unexplained technical progress.

Solow decomposes the observed growth of GDP in 3 components: the first two attributed to capital and labour, and the third attributed to a residual factor. This unexplained factor has been called **Solow residual** and accounts for changes in the technology being used.

The Solow standard model uses a neoclassical production function and tries to establish the share in economic growth due to capital, labour and technical progress. In order to better estimate the share in output growth due to technical progress, taking into account FDI, we have **extended the standard model** by including a third factor, which is intermediate inputs. The theoretical model we use is as follows:

$$Y_t = A_t F(K_t, L_t, II_t) \quad (1)$$

where Y is gross output, K capital, L labour, II intermediate inputs and t time. A_t is a variable that measures the technical level in the economy, on which we will base our technical progress estimates. In order to obtain a linear model, we took logarithms on both sides of equation (1), and then derived with respect to time, and we obtained equation (2):

$$\frac{\partial \ln Y / \partial t}{\ln Y} = \frac{\partial \ln A / \partial t}{\ln A} + \frac{A}{Y} \frac{\partial F}{\partial K} K * \frac{\partial \ln F / \partial K}{\ln K} + \frac{A}{Y} \frac{\partial F}{\partial L} L * \frac{\partial \ln F / \partial L}{\ln L} + \frac{A}{Y} \frac{\partial F}{\partial II} II * \frac{\partial \ln F / \partial II}{\ln II} \quad (2)$$

In order to empirically fit the model to the data, we need to re-estimate it in a discrete form:

$$\Delta Y = \Delta A + \alpha \Delta K + \beta \Delta L + \gamma \Delta II \quad (3)$$

ΔY , ΔK , ΔL , ΔII represent the growth rate of output, capital, labour and intermediate inputs. α , β , γ represent the factor remuneration shares in total output. For this reason, $\alpha + \beta + \gamma = 1$.

The variation in the A parameter is called *Solow residual*, or Total Factor Productivity (TFP), and is the expression of technical progress. A represents the percentage in the annual increase in output which is not accounted for an increase of labour or capital.

From equation (3), we can see that the growth rate of output is decomposed in the growth rate of TFP, given by the A parameter, and the weighted growth rates of capital, labour and intermediate inputs. All the rates are known, except for the variation in the A parameter. This variation is estimated as a residual, by subtraction, where the name of Solow residual.

From a theoretical point of view, the *TFP contains all the changes in output which are not accounted for by an increase in the quantities of K, L and II being used*. Therefore, besides the efficiency of using the production factors, TFP also accounts for changes in the quality of these factors. But from a practical point of view, TFP comprises much more than that. In empirical estimations, it acts as a residual that “collects” all the factors having generated economic growth, besides the quantities of K, L and II, which are not observable or have been excluded from the model (Neuhaus, 2005). For example, technical progress can be embedded in capital goods. The qualitative change in factors is therefore contained in the TFP, overestimating it, even though it should be included in the “qualitative growth” of inputs.

Estimations of the Solow residual, especially in the early literature, have been affected by several errors¹⁴⁷. The parameter also residually contains errors of measuring inputs, imperfect competition effects, scale economies etc. Fortunately, several adjustments have been proposed in the literature, so that the Solow residual still remains the best way of estimating technical progress

A drawback of the production function approach is the hypothesis that firms act on the production possibility frontier, which implicitly assumes that the production function describes the maximum output that can be obtained with a given set of inputs. This might be close to reality in the long run, but in the short run there are real distances given by market conditions, labour training and employment, financing the necessary investment etc. More, this is in fact a microeconomic approach that can loose its accuracy by aggregation at a macroeconomic level. For these reasons, whenever possible, production functions should be estimated differently at sector and even plant level.

3. Methodology

Our methodology in estimating the technology transfer through FDI is a **two step procedure**. First, we need to confirm the **presence of technical progress**. Second, we are trying to establish the sources of that technical progress. To put it differently, **is FDI a source of technical progress?** Even if one might find evidence of technical progress, it doesn't necessarily mean that it is the consequence of foreign firms' activity in the national economy.

Step I. Estimating technical progress based on the production function approach

For calculating the growth rates we have computed the logarithmic variations between the 2 time periods t and $t+1$. For the factor weights, we have two possibilities. The first one, suggested by Thornquist (1936) is to calculate the average for the shares in t and $t+1$. Therefore, equation (3) becomes:

$$\frac{Y_{t+1} - Y_t}{Y_t} = \frac{A_{t+1} - A_t}{A_t} + \frac{\alpha_{t+1} + \alpha_t}{2} * \frac{K_{t+1} - K_t}{K_t} + \frac{\beta_{t+1} + \beta_t}{2} * \frac{L_{t+1} - L_t}{L_t} + \frac{\lambda_{t+1} + \lambda_t}{2} * \frac{CI_{t+1} - CI_t}{CI_t} \quad (4)$$

¹⁴⁷ Initially, Solow (1957) had estimated for the USA that only 12,5% from the GDP growth was explained by factor accumulation, the rest of 87,5% being explained by technical progress. Griliches and Jorgensen (1967) have proved these estimations to be wrong, the Solow residual being overestimated due to omitted or unobserved variables.

The second approach, introduced by Nordhaus (2005), consists of using as weights in $t+1$ the exact shares in $t+1$, the argument being the use of “end of period” data. Considering that our data are not end of period, but average for the period taken into consideration, we have decided to use the first approach in calculating the weights. We can therefore see that the weights of K, L and II are not constant, but variant over time. On real data, and especially for aggregated functions, it is expected for the weights not to be constant.

Our objective is the estimation of the A parameter from the growth accounting equation. More precisely, the equation we used for estimation has the following form:

$$\Delta A = \Delta Y - \frac{\alpha_t + \alpha_{t+1}}{2} \Delta K - \frac{\beta_t + \beta_{t+1}}{2} \Delta L - \frac{\gamma_t + \gamma_{t+1}}{2} \Delta II \quad (5)$$

α , β and γ are the weights of capital, labour and intermediate inputs in gross output.

In elaborating our methodology, we identified two *estimation problems*. The first one refers to the reported values of output (being gross output or value added), which are nominal values. An increase in nominal value could mean a decrease in real terms, so in order to correctly estimate the Solow residual we need the real values. Another correction is needed for the weights, as we calculated them not as a quantity ratio, but as a value ratio.

In the case of estimating the Solow residual in the presence of FDI, there is always the risk that the productivity growth due to technology transfer could be compensated by losses due to the crowding-out effect (Blalock and Gertler, 2004). Since both of them come from the entry of multinational firms on the local market, we consider relevant for our research the net outcome.

Step II. Searching for the sources of technical progress

In the first step, using an aggregated production function, we try to establish if there is indeed technical progress and to what extent. For this stage, even if we find evidence of technical progress, we don't know yet which are the sources of such a progress. Once we have established the presence of technical progress, in a second stage, we will try to decompose this residual factor in order to identify the sources of technical change. One of these *potential sources is technological transfer through FDI*. There is an important body of literature who tries to identify correlations between FDI and changes in total productivity.

In searching of the sources of technical progress, there are two main factors that influence the technical level: the quality of inputs, and second, the way these inputs are being used in order to obtain the maximum output. Therefore, explaining the sources of technical progress has been the starting point in *endogenous growth models*. Romer (1986) was the first to argue the endogenous character of technical progress, building a growth model based on technology diffusion and learning by doing. He eliminated the problem of decreasing returns of capital from the Solow model, by assuming that every capital unit invested brings gain not only to the firm itself, but to the rest of the economy also. Technology diffusion, as a result from investment, was considered the source of long term economic growth.

This idea of technology diffusion as a consequence of investment has been extended by other authors also, in order to explain the role of FDI in economic growth. FDI is directly linked to capital stock accumulation, in both quantity and quality.

Numerous studies who applied growth decomposition have come to the conclusion that technical progress and capital accumulation were the main factors that drove economic growth in transition countries. As FDI proved to be an important channel in technology transfer and fixed capital formation in Central and Eastern Europe, we can argue that FDI has played a major role in economic growth in this region.

4. Data and results for Central and Eastern Europe

For estimating the Solow residual, we use data for 8 countries in Central and Eastern Europe, drawn from the **EU KLEMS database**. EU KLEMS Growth and Productivity Account is a database created by the European Commission, for the analysis of productivity at industry level in the European Union. Data is available for 27 countries (25 EU members, Japan and the USA). This is the only database at European level to contain series at industry level, constructed on the growth accounting methodology. To our knowledge, this is the first study made by Romanian authors to use this database. For FDI and gross fixed capital formation, we used EUROSTAT.

Concerning the aggregation level of the data, the production function approach is more adapted for a microeconomic perspective. From a policy maker point of view, a sector or industry level would be more appropriate. The recent work in this field uses plant level data, where problems of quantifying technical changes and economic performance are less important and easier to correct. Being constrained by data availability, we will run our analysis on macroeconomic data. Aggregation problems at industry level are corrected by EU KLEMS by calibrating the variables, so that the contribution of each NACE Rev. 2 sector is taken into account.

In order to apply the decomposition of growth, we used the following *variables*:

Y - Output, expressed as gross output in current prices;

L – Labour, expressed as labour services, based on the hours worked and not on the number of employees;

K - Capital. EU KLEMS uses a special method in calculating the capital input. It is computed not as capital stock, but as capital services, weighted by types of assets.

II – Intermediate inputs, given by the value of materials, energy and services, also expressed in current prices.

The availability of intermediate inputs series has allowed us to estimate TFP based on the gross output. Another way of estimating the TFP would have been by value added. We have chosen using the gross output for 2 reasons. The first one is the fact that technical progress can be already embedded in the intermediate inputs used in production. An important part of FDI contribution to technical progress, besides capital accumulation, is the use of intermediate goods. Since our objective is estimating the contribution of FDI to technical progress, we can not ignore this potential channel for technology transfer. The second one, regressing output on labour, capital and materials, avoids the assumption of additive separability of material inputs, and therefore allows a certain generality (Arnold, 2005).

We used data for Hungary, Poland, Slovakia, Slovenia, Czech Republic, Estonia, Latvia and Lithuania, for the period 1995-2007. Our initial intention was to include Romania and Bulgaria also, but data is not available for these countries.

Each of the variables was expressed in national currency, in current prices. We first proceeded in deflating all the nominal series on the base of the appropriate price indexes, in order to obtain the real values. We therefore obtained the real evolution of quantities, inflation excluded.

Starting from the growth rates of real gross output for the period 1995-2007, we tried to estimate what percentage in growth was due to other factors than labour, capital and intermediate inputs. The residual factor that remains after subtracting all these evolutions is the expression of technical progress.

On the basis of equation (5), we computed the contribution of each factor in growth, for each country and every year. The mean values of these contributions are presented in Table 1. We present the data under the form of a mean aggregated production function, expressed in first order differences (growth rates).

Table 1. Aggregated production function estimates

Countries	Production function estimates on the basis of mean parameters
Hungary	$\Delta Y = 0.64 + 0.16\Delta K + 0.25\Delta L + 0.58\Delta CI$
Poland	$\Delta Y = 0.63 + 0.14\Delta K + 0.32\Delta L + 0.55\Delta CI$

Slovakia	$\Delta Y = 0.90 + 0.19\Delta K + 0.19\Delta L + 0.62\Delta CI$
Slovenia	$\Delta Y = 0.71 + 0.11\Delta K + 0.33\Delta L + 0.56\Delta CI$
Czech Republic	$\Delta Y = 0.76 + 0.15\Delta K + 0.22\Delta L + 0.63\Delta CI$
Estonia	$\Delta Y = 0.84 + 0.18\Delta K + 0.23\Delta L + 0.59\Delta CI$
Latvia	$\Delta Y = 0.76 + 0.22\Delta K + 0.24\Delta L + 0.54\Delta CI$
Lithuania	$\Delta Y = 0.87 + 0.24\Delta K + 0.27\Delta L + 0.49\Delta CI$

Source: Authors calculus, on the base of EU KLEMS data. The coefficients are computed as mean values for the yearly coefficients, 1995-2007.

For all the 8 countries included in the sample, the Solow residual has similar values, between 0.63 and 0.90. We can interpret these values as percentage points in output growth due to technical progress. This means that technical progress contributes to a little less than 1% point to the growth rates of output in the new EU member states. These are the absolute values.

We can see that the sample is quite homogenous in terms of absolute contribution of technical progress. Concerning the production factors, capital has a contribution between 14 and 24% to output growth, the highest values being for Latvia and Lithuania. For the two countries, the result seems to have 3 explanations. First, the decrease in labour supply (because of demographic and emigration issues) has led to a decrease in the contribution of labour. Labour has practically been replaced by capital. Second, the period taken into account was that of gross privatization, which has led to technological restructuring and increase in gross fixed capital formation. Last, once EU member states, important investment inflows have taken place, which reinforced capital accumulation. A small contribution of capital we find for Slovenia, compensated by a high contribution of labour. This is explained by labour intensive industries, also suggested by the sector distribution of output.

Since our objective was to determine the correlation between technical progress and FDI, we have proceeded with the analysis of the Solow residual, on the basis of an 8 country panel, for the period 1996-2007. The advantage of such a method comparing to classical regression is that it takes into account the unobserved country specific effects. As value for FDI, we have used the FDI stock, instead of inflows, because we considered that accumulated FDI, rather than inflow, is responsible for an increase in technology stock and contribution to output growth. As we previously discussed, a part of the technology is incorporated in capital goods. For this theoretical reason we have decided to also include fixed capital formation as a variable in the panel regression. The equation we estimated using STATA 10.0 was the following:

$$A_{it} = \beta_0 + \beta_1 FDI_{it} + \beta_2 GFCF_{it} + u_{it} \quad (6)$$

The Hausman test indicated that a fixed effect model would be more suitable than a random effect model. This means that the error term u_{it} has in fact the form $u_{it} = \mu_i + v_{it}$. The first term has no time index, referring to the country-specific, time-invariant effects.

The results we have obtained are the following:

$$A_{it} = 0.31 + 0.12 FDI_{it} + 0.52 GFCF_{it} + u_{it} \quad (7)$$

(0.041**) (0.088*) (0.423)

The preliminary results show a positive coefficient for FDI, even if it is significantly different from zero only at a 10% significance level (In brackets we have presented the p values associated with each coefficient). This means that for a billion euros increase in FDI stock, the residual parameter, more precisely TFP, increases by 0.12 percentage points. The coefficient associated with gross fixed capital formation it is not statistically significant. We are aware that the two exogenous variables are not independent, but could be in fact correlated (a part from FDI will result in GFCF). We consider these as preliminary results, in order to have a general idea about

the relationship between FDI and TFP. We are planning to improve our empirical part by correcting the model (6) with an interaction term between the exogenous variables FDI*GFCF.

5. Conclusion

As a general conclusion regarding CEEC, they are in a convergence process towards the western productivity levels. After the collapse of the socialist regime, these countries have known important transformations, like: decrease in the contribution of labour to output, substitution of labour with capital and therefore increase in the contribution of capital. FDI has played an important role both in fixed capital accumulation and technology stock.

Using the new EUKLEMS database, we have shown that technical progress has generated between 13%-19% of output growth in the region and that the 8 countries are similar in this concern. In evaluating the role of FDI, we are cautious in interpreting the coefficients of the panel regression model. The only thing we can say is that *technology and the stock of FDI are positively correlated*. This correlation does not imply causality. It only means that an increase in the FDI stock is accompanied by an increase in the technical level. These two variables can be linked either directly or indirectly, through other variables such as fixed capital formation, research expenses etc. We consider this to be a first step in analysing the implications of FDI on the stock of technology. A further, more detailed, analysis is needed in order to evaluate the possible sources of technical progress. When analyzing FDI as a determinant of TFP growth, we consider useful taking the analysis at industry level, to better correlate it with the foreign presence in the sector.

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INVESTMENT IN HUMAN CAPITAL – AN INVESTMENT IN FUTURE

Jula Octavian

Universitatea Babeş-Bolyai

Facultatea de Ştiinţe Economice şi Gestiunea Afacerii

Dumitrean Crinuta Nicoleta

Economist Dr.

Abstract: The paper aims to study, reveal and understand one of the most important production factor, considered by some as being labor, understood nowadays as human capital. It is important to reveal and to demonstrate that the investment into human capital will have results with a very high return on investment, maybe not so seen in the first years to come just after the investment, but for sure as a big result and a cause for economic development. The investment into human capital can be determined by public or private investment. Either the case the result will be in favor of the national economy.

Keywords: investment, human capital, economic development, labor flows.

JEL codes: A10, A14, D24, I28.

1. Introduction

In economic perspectives, capital is generally thought to be assets that serve as resources for a company. The term human capital is a component of capital and has many definitions, with most relating to the knowledge, skills and abilities that people bring to a specific job within an organization (Young, McManus, & Canale, 2005). Some describe human capital as a “commercially valuable skill” (Marcus, Ippolito, & Zhang, 1998, p. 490), while others describe human capital as “the attributes of a person or people that are productive in some economic context” in an organization (Econterms, 2004) According to Nobel laureate Gary Becker, education is investment to us, which raises one’s productivity and thus the remuneration. Better known as Human Capital Theory, this concept describes its mechanism within the framework of economic analysis. (See Becker (1974)). What maybe Becker did not take into account is not only the benefit for the individuals, but also the benefit for the society and for the national economy as a whole. Those benefits can be expressed in value as remittances for those that are working abroad and sending money into the country and also at the level of knowledge, know-how, possible to be brought in the home country. We must say that is for sure those individuals, in which states are investing and in the end they are working elsewhere, the investment is not totally lost, or we must say that the investment is not lost at all and this because of at least two reasons. One, in the case that they are working abroad usually they are in the case of having remittances, which can be a very powerful and quite cheap way to invest in future generations. On the other hand if they are working abroad and let’s assume that they are not sending nothing back, at least they are producing more goods and services, so that the possibility of imports of cheap and very good, products from which is benefiting the entire society and not only the producer’s country.

We can, and for sure must see the education as an investment, an investment into the future, and also we must see the education as maybe the most important public spending policy, because, it has the most certain way to have the highest return on investment.

On the other way we must see the investment into education from the point of view of the training on the job. Maybe we should see this problem as a continuation of the education started in the early stages. More and more we are speaking about long life learning program as a follow up of the high school program and bachelor in the universities.

The other important way to analyze and to develop the investment into human capital is the return on investment. If in the first two cases it is quite easy to debate, because we think that it is quite impossible to measure the positive or negative effects, in the case of remittances for example those can be measured quite accurately together with the percentage from GDP to be invested into education. Maybe it is a link, maybe not, but for sure those two elements can lead to enough elements in order to link the degree of education, level of the education and the income for the national economy seen as remittances. For the countries on the way to development it is one important way to have cheap money.

2. Human capital theory

2.1. Education as an investment

According to the theory, one would pay for the education up to the point where the present value of the costs equate to the present value of the stream of income generated by the educational achievement. In the case of the university the total costs are composed of the costs with the tuition fees and the opportunity costs (for example the income at which the individual has to renounce at in order to be able to take course). Of course this opportunity costs can be as to say recovered from the difference in payment that can result from a higher wage due to a higher qualification. Unfortunately this possible increase in wage is not certain, but, the loss of the wage in the university years it is. So the individual has to decide between a possibility and a sure thing. As other investment taking risks can lead to increasing revenues or higher losses. For instance the cost of a bachelor program in USA can go till the level of 30.000 – 50.000 US dollars in comparison to the cost of approximately 2500-5000 euro in a country on the way to development. Of course a degree obtained into a university considered to bring more knowledge can be the “cause” of a very well paid job. So maybe the effort is worth taking. Once again it is not sure.

There are a few functions that can be used in order to determine the annual rate of return to education by using the years of education in order to obtain annual earnings. Those functions are called Mincerian wage function (Mincer (1974)).

Or an internal rate of return, a familiar concept in investment literature, may be derived for the case of education by equating present values of costs and benefits of education. The internal rate of return to education usually falls between 5 to 10 %, being greater than that of typical financial investment. (See, for example, Sveinbjorn et.al (2002)) However, many question the meaning of such economic returns to education. The educational credential is also known to act as a signaling device, since the future employee’s productivity is not revealed before the employment takes place. It is a proof of his/her ability at workplace. The empirical difficulty, however, is to verify whether education raises productivity as in the human capital theory or reveals it as in the signaling theory, since in either case education is likely to raise earnings. Still, it is probably safe to say that it has the both elements.

2.2. On-the-job Training

By and large everyone faces an initial period of difficulty when he/she starts working, which will gradually sooth away, and then the wage will eventually start rising. This suggests “there are certain skills you can only learn at workplace so that the longer you work the more productive you become,” and this is the idea of “On-the-job Training” or “Learning-by-doing.” Becker (1964) divided OJT into two types: general training and firm-specific training. General training is a training of skills which can be used in any firm and therefore the trained worker can raise his/her productivity in any firm, while firm-specific training cannot raise the worker’s productivity other than in the training firm.

This argument raises an issue about the incidence of OJT costs. The basic idea is as follows. If OJT is general then the worker can use the skill wherever he/she goes and thus it is worthwhile

for the worker to pay for it --- on the contrary, the training firm will not be able to recover the investment if the worker decides to leave and so there is no merit in paying for it. If, on the other hand, OJT is specific then it will not be in the interest of the worker to pay for it as this OJT does not affect his/her productivity anywhere else and thus it would be the firm to pay for the training. This distinction, however, is a highly theoretical one and in reality any OJT is likely to be a combination of both elements

3. Remittances

If we want to see the importance of the education we must present a few data's concerning the size and the importance for the remittances in the economies no matter those economies are weak or strong.

In each case we are speaking about huge sums of money, sums that sometimes are the same or even higher in comparison with the level of the budget for the educational field either the public or the private one. The migrant workers are accumulating knowledge in the countries in which they are going, they have access to technologies, sometimes transferring back home, sometimes not. Even in those cases some researchers are having doubts into linking the development with migration. In their perspective this link is much more complex and if it is not well achieved it can produce much more negative than positive effects. For some authors the gainers are the destination countries and not the origin ones. In our view all the time from the international trade benefits the most the country which is poorer and not the wealthy one, this being also a reason for the migration.

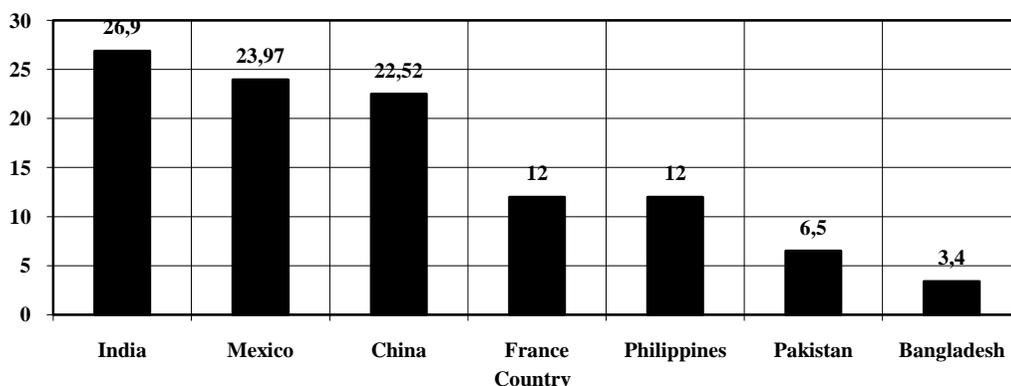
Remittances and their weight into the international trade for some countries

Country	Remittances (billion of US dollar)	% in EXPORT	% from IMPORT
Romania	750	9,0	6,3
Poland	2897	6,6	5,5
Hungary	1018	3,9	3,7
Cech Republic	408	1,2	1,1
Slovakia	366	2,8	2,3
Bulgaria	230	3,8	3,8
Slovenia	112	1,0	0,9
India	10280	21,6	17,3
Greece	7510	50,5	29,3
Mexico	6014	4,6	4,3
Turkey	5727	10,5	10,3
Egipt	4403	32,6	20,1
Portugalia	4031	11,6	8,8
Spain	3249	2,0	2,0

The level of the remittances in the first 7 countries of the world (2009) (billions of US dollars)

Country	India	Mexico	China	France	Philippines	Pakistan	Bangladesh
Remittances	26,90	23,97	22,52	12,00	12,00	6,50	3,4

Remittances



ROMANIANS REMITTANCES FOR 2000-2008 (BILLION OF USD)¹⁴⁸

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total inflow, out of which:	96	116	143	124	132	4,733	6,707	6,800	7,000
Remittances of workers	2	4	7	14	18	3,754	5,506	-	
Employes compensation	94	112	136	110	113	954	1,157	-	
Transfers for migration	-	-	-	-	1	25	44	-	
Total outflow, out of which	6	5	7	8	8	34	56	-	
Remittances of workers	1	1	-	1	1	4	6	-	
Employes compensation	5	4	6	7	5	24	42	-	
Transfers for migration	-	-	1	-	2	6	8	-	

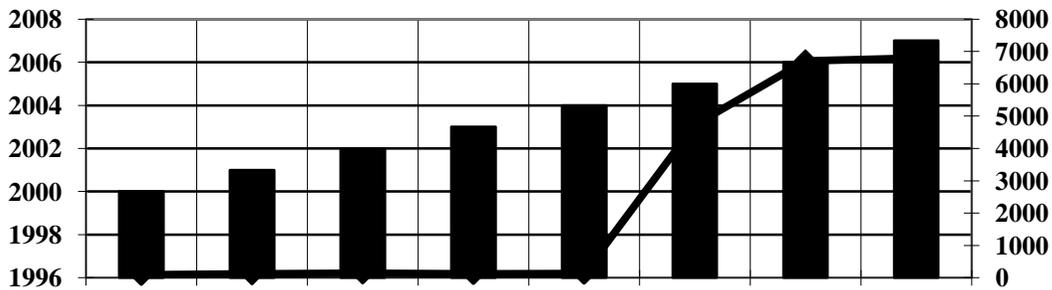
World Bank is considering that the level of the remittances for our on the way to develop country is to represent approximately 5,5% from the GDP.

ROMANIANS REMITTANCES FOR 2000-2008 (BILLION OF USD)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sum in billion US dollars	96	116	143	124	132	4733	6707	6800	7000

148 Source: data's from the World Bank Report. <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21352016~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html>

Remittances of romanians between 2000-2008



4. Difficulties regarding the investment into human capital

There are a few problems to be discussed when a government is having investment into something. The investment into human capital is bringing together with common problems of the investments in general some other specific problems.

- Existing tax laws discriminate against the investment in human capital, sometimes they do not have a fiscal deductibility.
- Unemployment (i.e., sitting idly) causes human capital to deteriorate so the investment sometimes is not for life.
- There are hindrances to free choices of professions. In this situation it is possible that one investment to be fully lost if the individual is changing field.
- There is a need to provide funds for investment in human capital, and thus, long-term public and private loans should be made available to students. This can be a problem in the situation of low financement of the educational system or in the cases of financial crises when investing can represent a problem.
- There should be investments made in migration (i.e., in helping people settle and find education). This can be seen as a problem to be considered also when we speak about remittances.
- There has been a failure to adequately invest in those who sit on the periphery of society. This can be a problem when we are speaking about education as a cause and a necessity for the free market system.
- The return on public investment in human capital should not be returned directly to each individual. The individual will see a return in the form of wages, and will benefit from a strong economy.
- As a society, underdeveloped countries should be assisted to achieve economic growth, and to begin investing in human capital. This is a very important measure in order to be taken by those countries that are considered as being emergent countries and this can be a quite sure investment in order to diminish the gap to developed countries.

5. Ideas for future considerations

There is no double that the demand for higher education continues to grow globally. This comes together with the decrease in the population number and still the number of students is increasing a lot into these times.

Maybe the experience of those countries that have invested into education was an example, a good example for the emergent economies. Yes it is necessary to have funds in order to invest. And for sure when we are speaking about funds we need to take into account also the choice, to invest in education or in something else.

Maybe the investment in education will not show directly and obvious the benefits of the investment, in comparison with some other investments, for example in communication services. Yes we must say that the investment into education should represent a basic investment, a start for the other investments

The realization of return to educational investment is a long term process and it is not simple to quantify the outcome, which often results in underinvestment --- this is one of the reasons why free education exists particularly at primary and secondary education with governmental supports.

It is important that the companies should receive fiscal and financial support in order to invest in education. So a help provided by the governments, by the law regulators it is not only obvious but also necessary.

Paul Bouchard, in his article entitled "Training and Work; Myths about Human Capital" challenges seven basic assumptions used in the theory of human capital. Briefly, they are as follows:

Problem 1: Human Capital is in investment in the future.

-It is impossible to accurately predict future labor market needs. All the forecasting tools we have are problematic. Not only for the developed countries but also for the emergent ones and also at the regional level.

Problem 2: More training leads to better work skills.

-Organizations value particular skills and what these are often change over time. There are not necessarily 'better' skills, just ones that fit what serve the needs of the organization at the time. This is also a solution when we are speaking about structural unemployment. It can become a solution of requalification of the labor force.

Problem 3: Employees need to improve their skills.

-Work has not become more complex, in fact, with technology things have become 'easier'. The need to improve one's skills comes from having to compete in a job market with people who are in many cases over-qualified. So sometimes the need for qualification is not for increasing productivity but to become more competitive between workers.

Problem 4: Training enhances employability.

-Many individuals do not have access to training and thus access to jobs, while others may have access to training, but not to mobility within the organization.

Problem 5: Training can compensate for skill shortages.

-Bouchard argues there are not skill shortages, rather there is a skill-mismatch. In other words, for various reasons, individuals with appropriate skills do not find work. Three potential reasons for this are: labor market dynamics, structural discrimination, and employee self-selection.

Problem 6: Employment and unemployment are economic concepts.

-The labor market is NOT a market like any other. In all situations, but with very few exceptions, the supply of labor force will exceed the demand for labor force. So that the problem of qualification for workers it is a problem of becoming more competitive on this specific market. There are social forces present that keep people from having equal access to employment regardless of their skill and experience.

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THE DETERMINANTS OF THE UNEMPLOYMENT RATE – EMPIRICAL EVIDENCE FROM ROMANIA

Kovács Ildikó

Babeş-Bolyai University

Faculty of Economics and Business Administration

Marton Noémi

Babeş-Bolyai University

Faculty of Economics and Business Administration

Patka Kinga

Babeş-Bolyai University

Faculty of Economics and Business Administration

Páll Katalin

Babeş-Bolyai University

Faculty of Economics and Business Administration

Abstract:

Among other aspects, the 2007-2009 financial and economic crisis had an impact on the Romanian labor force, too. The aim of this article is to analyze the macroeconomic determinants of the unemployment rate in Romania, using an econometric model. We use the GDP, net and gross wage, monetary policy rate, inflation rate, budget deficit, average RON/EUR exchange rate, export and import values to estimate the model. The analyzed period is 2000-2009.

Keywords: regression model, unemployment rate, net exports, monetary policy rate, inflation rate

JEL code: C22, C53, E24

Introduction

Taking into consideration the effects of the 2007-2009 financial and economic crisis on the unemployment rate in Romania (in Q3 2009 it reached the values of 6.8%, which is higher with 9.22% than the value measured in 2007, and with 21.57% than the value measured in 2008), and knowing the negative social implications of an increasing unemployment rate, we find it important to seek the determinants that lay behind these values. The aim of this article is to identify those macroeconomic factors that have the greatest impact on the Romanian unemployment rate between 2000 and 2009. We do this in order to be able to suggest measures of decreasing it.

1. Literature review

Boianovsky, M. and Presley, J. R. (2009) use the theory first mentioned by Robertson, D. in 1930 which states that there is a connection between the natural rate of unemployment and the monetary policy rate. As Robertson, D. shows, there is a direct connection between the cyclical change of prices, the output and the employment on the long run. Boianovsky, M. and Presley, J.R. starting from the price expectations of the economy, using the theory of money illusion, deduce a relation between the monetary base, the interest rate, the real wages and the unemployment rate. They also emphasize on the differences between the Robertson and Keynes theories regarding the unemployment, which in their view lays mainly in the way they look at the interest rate, which has an impact on savings, consuming, and finally on the unemployment rate.

Fitzenbergern, B. and Garloff, A. (2008) who analyze the problems of the labor market in Germany, come to the conclusion that the main reason of the high unemployment rate is the low value of wages. According to the neoclassical views wages are determined by the marginal product of labor, therefore the increasing minimal wages lead to a decreasing wage and increasing unemployment rate.

Kooros, S. K. (2008) identifies those macroeconomic variables that have a significant effect on the unemployment rate. He estimates a multi-variable regression model, using GDP, the monetary policy rate, the budget deficit, the inflation rate, and the nominal wages.

Mussard, S. and Philippe, B. (2008) come to the conclusion that the unemployment rate in time t depends on the GDP and inflation rate in time $t-1$. In the study it is shown that through the process of money multiplier the GDP is in relations with the unemployment rate.

Guha, D. and Visviki, D. (2001) in their empirical research conducted on the USA, using data from the years preceding the 2nd World War, come to the conclusion that inflation, and labor marginal product cause the increasing unemployment rate. They show that the marginal product is in stronger relations with the unemployment, than the inflation is.

2. Methodology and data

We estimated the model using the OLS¹⁴⁹ method. To eliminate the autocorrelation we use the Cochrane-Orcutt procedure (Ramanathan, R., 2003).

In the model we tested 10 macroeconomic variables: seasonally adjusted GDP, net and gross wage, monetary policy rate, seasonally adjusted, cumulated inflation rate, budget deficit, average RON/EUR exchange rate, seasonally adjusted export, import and net export values. These appear in the literature mentioned above.

The source of the unemployment rate, average RON/EUR exchange rate and monetary policy rate is the monthly report of the National Bank of Romania¹⁵⁰. For better results we use the logarithmic value of the unemployment rate. The gross¹⁵¹ and net wages¹⁵² are values calculated by the authors, using the National Institute of Statistics data. We consider the average number of hours worked in a month as being 170¹⁵³, therefore, we calculate the gross and net wages as the rate of the gross and net wages per month and the number of hours worked in a month. The seasonally adjusted net export, export and import values, and the seasonally adjusted GDP¹⁵⁴ and seasonally adjusted cumulated inflation rate¹⁵⁵ data are taken from the National Institute of Statistics database.

The quarterly data come from Q1 2000 to Q3 2009 but because we use the moving average method to seasonally adjust the data, we lose 4 data; therefore, the number of observations is 35. The data from the sample are aggregated data that refer to the entire economy. The model is estimated using the Gretl¹⁵⁶ econometric software.

¹⁴⁹ Ordinary Least Squares, Ramanathan, R. (2003), pp.101.

¹⁵⁰ The National Bank of Romania (Banca Națională a României), Monthly Reports, <http://www.bnr.ro/PublicationDocuments.aspx?icid=1182>, downloaded on 02.01.2010.

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¹⁵³ Value taken from the Romanian accounting practice.

⁶ National Institute of Statistics (Institutul Național de Statistică), quarterly GDP, seasonally adjusted, <http://www.insse.ro/cms/rw/pages/PIB-trim.ro.do>, downloaded on 02.01.2010.

⁷ National Institute of Statistics (Institutul Național de Statistică), consumer price index, <https://statistici.insse.ro/shop/index.jsp?page=tempo3&lang=ro&ind=IPC102A>, downloaded on 16.12.2009.

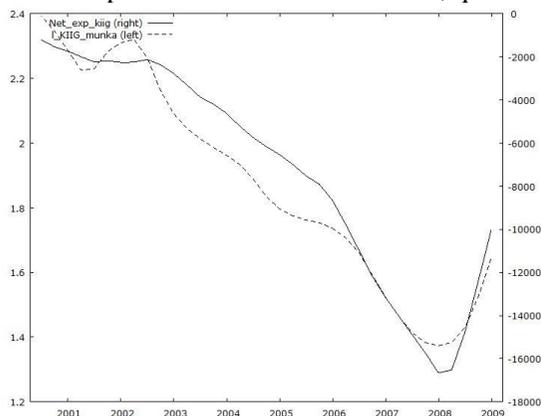
¹⁵⁶ Gnu Regression Time Series, econometric software, <http://gretl.sourceforge.net/>

3. The results of the empirical study

Leaving out the insignificant variables, we find that there are 3 determinants of the logarithmic values of the unemployment rate: seasonally adjusted net export, monetary policy rate, and seasonally adjusted cumulated inflation rate.

In *Figure 1* we can see the logarithmic values of the unemployment rate and the seasonally adjusted net export values between Q3 2000 and Q1 2009. We assume a positive correlation between the two.

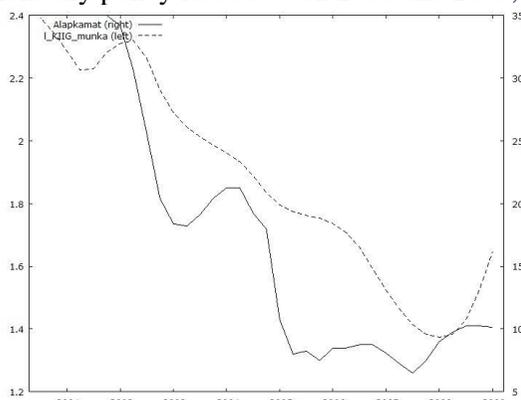
Figure 1: The logarithmic value of the unemployment rate and the seasonally adjusted net export between 2000 and 2009, quarterly data



Source: Authors' calculations, based on the National Bank of Romania monthly reports between 2000 and 2009 and the National Institute of Statistics TEMPO online database

In *Figure 2* we can see the logarithmic values of the unemployment rate and the monetary policy rate between Q3 2000 and Q1 2009. In this case too, we assume a positive correlation.

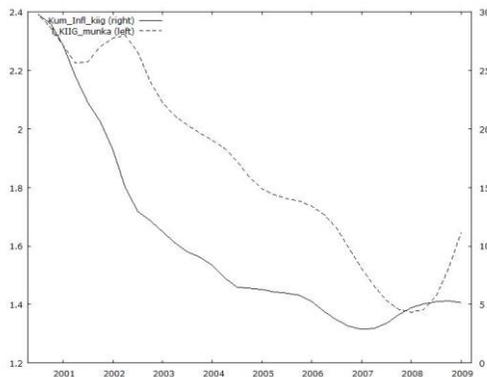
Figure 2: The logarithmic value of the unemployment rate and the monetary policy rate between 2000 and 2009, quarterly data



Source: Authors' calculations, based on the National Bank of Romania monthly reports between 2000 and 2009 and the National Institute of Statistics TEMPO online database

In *Figure 3* we can see the logarithmic values of the unemployment rate and the seasonally adjusted cumulated inflation rate between Q3 2000 and Q1 2009. In this case we assume a negative correlation.

Figure 3: The logarithmic value of the unemployment rate and the seasonally adjusted cumulated inflation rate between 2000 and 2009, quarterly data



Source: Authors' calculations, based on the National Bank of Romania monthly reports between 2000 and 2009 and the National Institute of Statistics TEMPO online database

The results of the Cochrane-Orcutt model are shown in *Table 1*. The dependent variable is the logarithmic values of the unemployment rate.

Table 1: Cochrane - Orcutt model

Explanatory (independent) variables	Coefficient	Standard error	t-statistics	p-value
Constant	2.05986	0.068052	30.27	4.82E-24
Net export	4.39E-05	4.57E-06	9.6	1.17E-10
Monetary policy rate	0.007846	0.00222	3.534	0.0014
Cumulated inflation rate	-0.01244	0.007077	-1.758	0.089
Average value of the logarithmic unemployment rate: 1.8555854				
Adjusted R ² : 0.994173				
F(3,30): 38.25734				
p-value (F): 2.24e-10				
Standard error of regression: 0.024371				
Durbin-Watson: 0.996650				

Source: Authors' calculations

According to the results of the adjusted R^2 and global F statistics we can conclude that the built model is a good estimation.

The function derived from the model is the following:

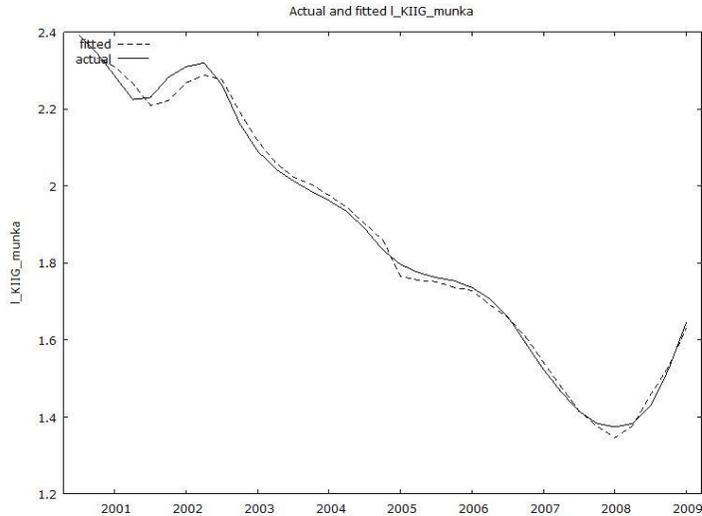
$$\text{Log_unem}_t = 2.05986 + 4.39 \cdot 10^{-5} \text{net exp}_t + 0.007846 \cdot \text{mon. pol. rate}_t - 0.01244 \cdot \text{inf. rate}_t + \varepsilon_t,$$

where $t = \overline{1,35}$ and ε_t is the residuum.

As we assumed, the seasonally adjusted net export and the monetary policy rates increase the value of the logarithmic value of the seasonally adjusted unemployment rate, the cumulated seasonally adjusted inflation rate decreases the value of the logarithmic value of the seasonally adjusted unemployment rate.

Figure 4 shows the fitted and actual values of the logarithmic unemployment rate. As we can see the fitted values are a good estimation of the actual values.

Figure 4: Actual and fitted values of the logarithmic value of the unemployment rate, between 2000 and 2009, quarterly data



Source: Authors' calculations

The increase in the net export causes the increase of the unemployment rate. This can be explained by the fact that in those periods, when the import values are high, the domestic currency is depreciated, therefore it is less attractive for investors, and therefore, unemployment increases.

The increasing monetary policy rate increases the unemployment rate, as well, because higher rates mean higher costs for the companies, that moderates economic growth and therefore increase unemployment.

However, the increasing inflation rate decreases the unemployment rate, which is in correlation with the result found by researchers quoted in the literature review.

Among the three variables, the coefficients of the independent variables are small, besides the inflation rate, so we can conclude that the inflation rate is the main determinant of the unemployment in Romania.

4. Conclusions

In our study, we analyze the macroeconomic determinants of the unemployment rate in Romania. For the estimation of the model we use quarterly data from the period 2000-2009. We find that the seasonally adjusted net export, the monetary policy rate and the inflation rate are those dependent variables that have a significant influence on the seasonally adjusted logarithmic value of the unemployment rate.

The positive and negative signs of the independent variables are those expected: the net export and the monetary policy rates increase the value of the unemployment rate, whereas the cumulated seasonally adjusted inflation rate is in correlation with economic growth, therefore decreases unemployment rate.

With the identification of the determinants of the unemployment rate we have a chance of proposing such monetary policies that can decrease the unemployment rate, mainly through the monetary policy rate, but also through the inflation rate. Moreover, we show that it is equally important to have a coherent foreign trade policy in order to be able to decrease the unemployment rate.

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THE ECONOMIC IMPLICATIONS OF THE GEOTHERMAL POTENTIAL OF WEST AND NORTHWEST REGION OF ROMANIA

Maghear Diana

University of Oradea

Faculty of Economics

Florea Adrian

University of Oradea

Faculty of Economics

Perțicaș Răzvan

University of Oradea

Faculty of Economics

The energy crises of the 70s led to the vigorous interventions of the industrialized states in the energy sector. On the European political agenda a new problem appeared, namely the one regarding the security of the energy supply. Romania is the third geothermal power in Europe, after Italy and Greece. The energy potential produced by means of geothermal resources of the West and North - West regions is approximately of 144 MWt. The production of a MWt of electricity through conventional sources (in our case study we chose diesel) emits into the atmosphere about 21,673 tons of CO₂. If it's used the entire installed capacity in these areas Romania reduces pollution by approximately 6,935,552 TCO₂.

Keywords: durability, externalities, renewable, geothermal, energy independence, pollution.

Jel classification: H23 - Externalities; Redistributive Effects; Environmental Taxes and Subsidies

For a long time it has been considered that the production and selling of energy is an area regulated by national policies and direct involvement of the governments. The natural monopole of production and distribution of energy activities and transport activities represents one of the reasons that determined the strengthening of the initial ideas of the governments.

The energy crises of 70s led to the vigorous intervention of the industrialized states in the energy sector. On the European political agenda a new problem appeared, namely the one regarding the security of the energy supply. Costly programs were initiated for the construction of nuclear plants and were allocated grant – in – aids for alternative energy. International Energy Agency was created in order to supervise the allocation of the financial resources and to encourage the diversification of alternative forms of energy. Meanwhile, in a modest way, began to emerge national energy policies and the implementation of agencies. However, some traditionally planned interventions proved to be hasty or even useless, so the capacity of the governments alone to intervene in energy policy began to be questioned.¹⁵⁷

In the history of the European Communities, the energy policy has been rather insignificant, although, paradoxically, two of the basic treaties, *the Treaty establishing the European Coal and Steel Community (ECSC) and the Treaty establishing the European Atomic Energy Community (EAEC or Euratom)* refers to energy. ECSC established through the Treaty of Paris of 1951, created a common cola market. Then was the Euratom Treaty that was signed in Rome in 1957, which originated in the Suez oil crisis of 1956. 1956. It aims to reduce the dependence on imports from the Middle East. Also, *the Maastricht Treaty* signed in 1992 and known as the EU Treaty, has brought some additions to the definition of the internal energy market (PIE).

¹⁵⁷ http://www.renerg.eu/Document_Files/Evenimente/00000058/9dn9j.

The European Commission plays a central role in the debate between different actors on the energy market, some of them wanting decentralization, while others, on the contrary, as it had been seen previously. The first statement of the European Commission that approaches the issue regarding a common energy policy dates from 1995 and was called the Green Paper "For a European Union Energy Policy." In the same year came out, the White Paper "An Energy Policy for the European Union, then a new sequence of communications in 1996 and 1997, called "Green Paper for a Community Strategy - Energy for the Future: Renewable Sources of Energy" and "White Paper: Energy for the Future - Renewable sources of Energy.

These documents underpin the current common energy policy and the European legislation designed to implement it. The complexity of the problems regarding the production of energy, the transport and the energy consumption has much increased in the last decades, together with the ingravescence of the global environmental problems, climate changes and depletion of natural resources. In addition, the EU confronts itself with some specific problems among which the most serious being the one linked to the increased dependence on imported energy resources.¹⁵⁸

The efficient conservation, valorization and in an ecologic manner of the energetic resources and also the sustainable use of these resources, represent in recent decades is a major worldwide concern. Finding viable solutions for the problems with which man confronts today in the energy domain, is imperative because of:

- the gradual depletion of oil resources;
- the increased rhythm of growth of the greenhouse gases' emissions;
- the expansion of the nuclear power plants, having as consequence the volume of radioactive wastes;

In order to avoid these unwanted phenomena, over time it has been tried the adoption and implementation of measures designed to prevent the occurrence of this phenomenon. In this category belong the eco-taxes or environmental taxes that represent "extraordinary constraints" introduced by governments as to counterbalance the social costs resulting from damages to the surrounding environment due to externalities generated by people. This notion was introduced by the economist Alfred Pigou in 1920 which stated that for an economy it would be useful to correlate the price of goods with that of the common consumption goods by using property taxes. Another implication in this sense has the British economist Ronald Coase, Nobel Prize winner in Economics in 1991 who contributed to the development of the economic Theory of Externalities. Marketable pollution licenses - LPT (Tradable Permits)¹⁵⁹ are based on the principle of the right to emit pollutants within the limits stipulated by laws and regulations concerning environmental protection. This system is the most often used in the U.S.A. (regulated by the *U.S. Clean Air Act*). Through the system of tradable pollution licenses a company or a country has the permission to sell to a third party the right to issue the amount of pollutants due to the difference between the level of pollution permissible by law, considered as the maximum allowable level of pollution and achieved by adopting new ecologic technologies or ecologising the existing ones.

Reducing the environmental impact of the energy sector involves the use of regenerable energies including biomass, geothermal energy, solar energy, aeolian and hydropower that should play a key role in the future. On the other hand, it is necessary to strive for a more efficient energy use, as a relatively easy means to reduce the environmental impacts of energy. Thus, the geothermal potential of Romania and especially of the west and north - west region shows a great energy importance and implicitly an economical and environmental one for the country.

The population of the West and Northwest area

¹⁵⁸ Idem.

¹⁵⁹ <http://www.bibliotecadigitala.ase.ro/biblioteca/pagina2.asp?id=cap4>.

The northwest Region is one of the eight development regions of Romania and includes six counties: Bihor, Bistrița-Năsăud, Cluj, Maramureș, Satu Mare, Sălaj. The surface area is of 34,159 square kilometres, representing 14.32% of the country's surface, with a total population of 2,744,914 inhabitants.

The West Region of development of Romania is located at the border with Hungary and Serbia, and is organized from administrative and territorial point of view in four counties: Arad, Caras-Severin, Hunedoara and Timis. The West Region's population is of 1,924,442 inhabitants, representing 8.93% of Romania's population. The West Region covers up an area of 32,034 km², representing 13.4% of the country.

The table below presents a synthesis of the main parameters of the important geothermal perimeters from Romania, including theoretical power potential. Using the extracted geothermal energy is used for heating in a proportion of 37%, 30% for agriculture (greenhouses), 23% in industrial processes and 7% for other purposes. From a total number of 14 geothermal wells dug from 1995 to 2000 at depths of 1500-3000 m, only two wells were unproductive, registering an 86% rate of success.¹⁶⁰

Table 1. The Geothermal System Today

No. Unit	The geothermal system	Estimated area	No. of wells	Drilling Depth	Exploitable flow	Resource's temperature	Theoretical energy potential
		km ²		m	$\frac{l * s^{-1}}{m^3 * h^{-1}}$	°C	MW _t
1.	Crișul Negru – Someș Săcuieni, Margita, Ciumeș, Salonta – the counties of Bihor and Satu Mare	3570	18	1500	$\frac{148}{533}$	77	29,14
2.	Borș Borș City – Bihor County	13	4	2800	$\frac{148}{533}$	100	8,79
3.	Oradea Oradea City – Bihor County	77	12	2800	$\frac{151,5}{545,4}$	83,8	34,1
4.	Mures – Crișul Negru Curtici, Macea, City of Arad - Arad County	1060	113	1500	$\frac{79}{285}$	58	9,3
5.	Western Banat Nădlac, Sămnicolau Mare, Săravale, Tomnatic, Lovrin, Jimbolia, Periam, Teremia Mare, Comloșu Mare, Grabat, Beregsăul Mic – the counties Arad and Timiș	2790	20	2000	$\frac{318}{1144,8}$	77	62,75

Source: http://www.minind.ro/domenii_sectoare/energie/studii/potential_energetic.pdf

National exploitable reserve of geothermal water is of approximately 167,000 tep / year of low enthalpy resources, which currently capitalizes about 30 000 tep/ year. The total installed capacity in Romania in the west and northwest part is of 320 MWh (for a reference temperature of 300 °C).

Western and North – Western Regions have an electric potential of approximately 144 MW_t of the current well installed. The production a ton MW_t of electricity through conventional sources (in our case study we chose diesel) produces and emits into the atmosphere about 21,673 tons of CO₂.

From a simple calculation we observe that if we use the entire installed capacity in these areas of Romania reduces the pollution by about 6,935,552 TCO₂. By the end of 2009 the price of pollution certificate was of 15 Euros (a pollution certificate equals a ton of CO₂ emanated in the atmosphere). So, we can observe the economic benefits that Romania would obtain in the case of using at maximum the installed capacity of electricity generation that is of 104,033,280 Euros.

¹⁶⁰ http://www.minind.ro/domenii_sectoare/energie/studii/potential_energetic.pdf

In the White Paper it is proposed that by the end of 2010 to be produced using geothermal resources 1GW_t of electricity and 5 GW of thermal heat. The production of 6 GW_t by burning liquid combustibles can generate and emanate approximately 21,672,499 TCO₂. Or, it can reduce pollution in the case of using available geothermal potential or other renewable resource.

Graphic no.1. Analysis of CO₂ emissions for the production of one MWh, using liquid fuels

Sumarul GES pentru cazul de referință (Nivel de referință)

Debit combustibil	Amestec de combustibili %	Factor de emisie CO ₂ kg/GJ	Factor de emisie CH ₄ kg/GJ	Factor de emisie N ₂ O kg/GJ	Consum de combustibil MWh	Factor de emisie GES tCO ₂ /MWh	Emissioni de GES tCO ₂
Diesel (comb. #2)	100,0%	69,3	0,0019	0,0019	86,062	0,252	21.672,4
Total	100,0%	69,3	0,0019	0,0019	86,062	0,252	21.672,4

Sumar GES pt. cazul propus (Proiect producere căldură)

Debit combustibil	Amestec de combustibili %	Factor de emisie CO ₂ kg/GJ	Factor de emisie CH ₄ kg/GJ	Factor de emisie N ₂ O kg/GJ	Consum de combustibil MWh	Factor de emisie GES tCO ₂ /MWh	Emissioni de GES tCO ₂
Total	100,0%	0,0	0,0000	0,0000	0	0,000	0,0

Sumar pentru reducerile emisiilor de GES

	Emissioni de GES caz de referință tCO ₂	Emissioni de GES caz propus tCO ₂	Reducere anuală brută emisii GES tCO ₂	Taxete tranzacțiilor pentru creditele GES %	Reducere anuală netă emisii GES tCO ₂
Proiect producere căldură	21.672,4	0,0	21.672,4		21.672,4

Reducerea anuală netă a emisiilor de GES: 21.672 tCO₂ este echival. cu 50.400 [Barilii de petrol neutilizați]

Source: The data were elaborated by the authors with the help of Retscreen

Graphic's explanation

RETScreen Analysis for emission reduction – Heat production project
Emission Analysis

Method 2 Greenhouse effect's potential of GES
 25 tons CO₂ = 1 ton CH₄ (IPCC 2007)
 298 tons CO₂ = 1 ton N₂O (IPCC 2007)

GES Summary for the case of reference (Level of reference)

Combustible debit	Combustible mix	Emission agent CO ₂ kg/GJ	Emission agent CH ₄ kg/GJ	Emission agent N ₂ O kg/GJ	Combustible consumption	Emission agent GES	GES emissions tCO ₂
					Mwh	tCO ₂ /MWh	
Diesel (comb# 2)	100.0%	69.3%	0.0019	0.0019	86.062	0.252	21.672.4
Total	100.0%	69.3%	0.0019	0.0019	86.062	0.252	21.672.4

GES Summary for the proposed case (Heat production project)

Combustible debit	Combustible mix	Emission agent CO ₂ kg/GJ	Emission agent CH ₄ kg/GJ	Emission agent N ₂ O kg/GJ	Combustible consumption	Emission agent GES	GES emissions tCO ₂

					Mwh	tCO2/MWh	
Total	100.0%	0.0	0.0000	0.0000	0	0.000	0.0

Summary for reducing emissions of GES

	Emission of GES Reference case tCO2	Emission of GES Proposed case tCO2	Annual gross emissions reduction GES tCO2	Transactions' taxes for GES credits %	Annual net emissions reduction GES tCO2
Heat production project	21.672,4	0.0	21.672,4		21.672,4
Annual net emissions reduction of GES	21.672	tCO2	equivalent with 50.400 Unused oil barrels		

Source: The data were elaborated by the authors with the help of Retscreen

In Romania, the capitalizing degree of renewable geothermal energy resources is low, the main cause being determined by the lack of proper financial support, which doesn't favour the development of the energy sector with superior financial and economic effects. Using geothermal water constitutes a viable option when the extracted agent at surface insures a supply system at a constant flow, and the variation of the energy demand at the consumer in different periods of the year is not great. The recommended system is the one with several active wells, of which some will be for re-pumping. The advantages of this system, besides the provided energy, are the conservation of the water reserve and that of the water's layer pressure. In the U.S.A., the energies obtained from renewable sources, 5% came from geothermal sources and 1% of solar power.¹⁶¹

At the present time, studies reveal that the Earth's geothermal potential is about 13,000 per year ZJ, of which approximately 2000 ZJ could be used to produce electricity, with the geothermal plants. If we could get to use only 0.25% of this potential, we won't need coal, plutonium, oil and gas for the production of electricity. Currently, we use only 1% of the world's electricity need which is covered by geothermal sources, so use 0.0025% of the full potential.¹⁶²

We consider being worth mentioning and underlined the positive effects of using this resource:¹⁶³

- Reducing the imported primary energy resources dependence (primarily fossil fuels)
- The diversification of the available energy resources.
- The production capacities considered for different parts of the country will simultaneously lead to employment's increase and the labour market will diversify its offer.
- The business environment will be diversified by attracting private companies (domestic and foreign) as well as local and central public authorities, in the process of exploiting regenerable energy resources.
- Investments in the domain of renewable energy resources will enable the manufacture, transfer and sale of products and modern technologies in this field.

¹⁶¹ http://www.agir.ro/univers-ingenieresc/energia_geotermala_1664.html.

¹⁶² <http://www.energeia.ro/energie-geotermala/potentialul-geotermal-al-terrei-de-4000-de-ori-necesarul-energetic-global-549/>.

¹⁶³ <http://www.fonduri-structurale-europene.ro/poscce/valorificarea-resurselor-regenerabile-energie.html>.

- The valorisation of renewable energy resources will lead to a greater emissions' reduction possibly resulting from the fossil fuel combustion process and to the preservation of the environment.

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LA NATURE DE L'INCERTITUDE ET LA RELEVANCE DES PREVISIONS FINANCIÈRES

Prunea Petru
University of Oradea

Abstract

In the actual train of events, it would be a utopia for the economical agent to avoid the uncertainty. It had been argued that the dimension of this phenomenon knows two extremes: once it is a generator of anxiety but then also a strong motivator regarding the knowledge, innovation and production. The cause of this hazard are numerous, two of them are here reflected.

Key words: uncertainty, financial prevision, risk,

Jel: G38, M20, F30

Dans la mesure où l'essence de l'incertitude se réduit à un sentiment acquis à la suite d'une expérience personnelle ou d'une expérience du groupe auquel on appartient, la connaissance de l'évolution de sa dimension exerce une influence directe et indirecte sur les performances obtenues par une entreprise. Il a été démontré que la dimension de l'incertitude affecte différemment l'efficacité du travail des employés d'un agent économique car elle peut évoluer du niveau le plus haut, où elle génère une anxiété insupportable, excessivement dommageable, à l'autre extrême, où elle motive fortement en vue de la connaissance, de l'innovation et de la production. Dans le contexte actuel il serait une utopie qu'un agent économique se propose d'éviter l'incertitude. Les causes d'un tel hasard sont multiples, j'en retiendrai ici deux seulement. L'une résulte de la possibilité toujours plus grande de choisir, ce qui fait que l'avenir devient incertain pour toute société commerciale. Et la deuxième : la croissance exponentielle des influences externes sur n'importe quelle entreprise, beaucoup étant en dehors du set d'informations que l'on pourrait obtenir. C'est pourquoi ceux qui pensent pouvoir obtenir des habiletés d'action supplémentaires en respectant les opinions des experts qui promettent au moins d'appriivoiser l'incertitude, entrent dans un jeu du hasard totalement injustifié.

Étant donné la nature imprédictible de l'activité économique, je crois qu'il faut mettre en doute l'ampleur de l'erreur qui résulte ou peut résulter des procédures de ces experts. Je ne veux pas dire par là que leurs méthodes sont incorrectes, mais que la confiance dans les résultats de leur travail est réduite, voire très diminuée dans certains cas. Le scepticisme est ici justifié par les permissives axiologiques et épistémologiques que les analystes financiers mettent à la base de leur démarche.

J'ai pu constater, grâce à la fréquentation quotidienne de ces experts s'étendant sur plus d'une décennie, que leur arrogance épistémologique trouve son explication dans les nombreuses prognoses correctes qu'ils font. Celles-ci sont facilitées par la longue phase de croissance du cycle économique et ne relève pas premièrement d'une capacité hors du commun de prévoir l'action ou la possibilité d'apparition de certains événements en mesure de justifier cette croissance. Leurs prognoses étaient en fait des constructions naïves et rappelaient des extrapolations des chiffres déjà réalisés pour la période suivante. Or, le regard rétrospectif, même si nécessaire lors de la prise de décision, sous-estime le degré de risque de la situation future. L'avenir doit être compris pour être prédit. C'est pourquoi il est nécessaire de recourir à certains éléments propres à cet avenir, et non seulement à des éléments qui ont prouvé leur validité par le passé ou dans le présent. Un tel procédé reconnaît implicitement le caractère aléatoire des variables utilisées dans la prévision financière, fait qui justifie l'élaboration et le suivi de plusieurs scénarios de l'évolution future d'une entité ou d'une activité économique.

La confiance dans sa propre capacité dont font preuve les experts financiers n'est pas d'abord fondée sur leur habilité exceptionnelle d'avoir l'intuition ou d'identifier la possibilité d'apparition des phénomènes surprenants. Nombreux sont ceux qui ont une conviction spontanée que leurs prédictions individuelles se superposent sur l'évolution du segment de la réalité de référence grâce à l'infailibilité de la méthode employée, à savoir la considération des données spécifiques à la période antérieure comme repère absolu pour la prédiction à propos de la période à venir. Les différences entre les prédictions individuelles ne sont pas considérées comme erreurs du moment où la prévision faisait preuve d'une même tendance, d'une même direction. Les distinctions concernaient le rythme, tandis que les différences d'amplitude étaient insignifiantes. C'est pourquoi l'on pourrait même parler d'un instinct de groupe dans cette catégorie socioprofessionnelle.

La justesse de la prédiction est influencée encore aujourd'hui, quand le point maximum de la crise a été dépassé, plutôt par la réputation de la personne qui l'énonce, que par l'adéquation finale des résultats à la supposition initiale. Forcément, une question surgit : les erreurs des conseillers financiers sont-elles inévitables, et relèvent de la nature humaine en général, ou bien dépendent-elles uniquement des particularités de ceux qui élaborent la prognose sur l'évolution d'un indicateur ou de plusieurs ? J'ai constaté que les deux niveaux de cette détermination agissent simultanément, dans des proportions variables. C'est la raison pour laquelle je fais mien l'avis que l'espèce humaine a une vision trop restreinte pour être capable de considérer la possibilité que les événements puissent dévier des projections initiales.

Les hommes et les experts regardent le monde dans et à partir du modèle qui leur est spécifique, à eux ou au groupe auquel ils appartiennent. Dans ce modèle, la possibilité de l'apparition des risques inconnus a été éliminée, ou l'on a exprimé la conviction qu'ils peuvent apparaître à tout moment et qu'ils peuvent, par conséquent, menacer les coordonnées financières du projet conçu pour des tiers. Faiblesse épistémologique qui fait que les scénarios élaborés soient ou bien trop optimistes ou bien trop pessimistes par rapport au résultat final. Or, cette déficience procédurale entache l'exactitude de la prévision car l'on ne calcule pas une échelle des résultats susceptibles d'être obtenus, l'on n'offre pas une marge d'erreur provenant de la manière de concevoir les projections respectives en fonction de la considération de la probabilité d'apparition des différents événements. Or, par exemple, le fait que le temps contribue à la dégradation des prognoses, même de celles fondées scientifiquement, est devenu un lieu commun.

La validité des prévisions diminue au fur et à mesure que s'agrandit la période temporelle pour laquelle elles ont été élaborées, justement à cause de la possibilité de l'apparition d'événements inattendus. Ce qui fait que la tendance d'établir des directions d'action à partir de ces prévisions revient à accepter un hasard non justifié. C'est pourquoi, ce qui gagnent leur vie en proposant à d'autres des prévisions, doivent s'abstenir d'énoncer des verdicts au-delà de la limite temporelle justifiée. Sinon, ils vont rendre dérisoire cet outil de travail indispensable - la prévision - par les explications permanentes qu'ils seront obligés de fournir.

Puisque la plupart des prévisions sont inefficaces, l'emploi de la règle de la flèche est souvent recommandé. Ou bien l'on peut se poser la question si ceux qui les conçoivent peuvent être considérés comme des gens moraux. Une réponse située à une extrême énonce que la prognose, fut-elle inexacte, est plus souhaitable que l'absence de prognose. Une autre réponse, propre à l'autre extrême, affirme que ceux qui élaborent les prévisions font plus de mal à la société que les criminels. Je pense que les limites de l'activité de prévision découlent, dans des propositions différentes, d'abord des caractéristiques des informations utilisées, et seulement dans un deuxième temps, de la nature humaine de leurs auteurs.

Quant à l'information, j'ai constaté que ceux qui décident réagissent à une certaine information non pas en fonction de ses qualités logiques, mais en fonction du cadre institutionnel qui la reçoit et l'apprécie. Ce cadre conduit aussi ensuite à l'évaluation inexacte de l'incertitude qui découle de l'information reçue, car il encourage la tendance de dénaturation de son interprétation. La

faute méthodologique qui consiste à isoler une régularité uniquement à partir de certains faits, conduit, inconsciemment, à l'erreur épistémologique qui surestime la valeur des faits en les présentant comme des preuves incontestables d'une vérité suprême.

On peut aussi tromper les bénéficiaires d'une prévision par une autre voie : on peut placer les souvenirs dans un cadre causal qui contient aussi le phénomène invoqué et situe ce dernier dans une histoire qui véhicule le message nécessaire à l'acceptation de la prognose proposée. J'ai également rencontré la catégorie d'experts qui créent de l'inquiétude par rapport à certaines sources d'incertitude, mais ne mentionnent que les sources qui ont peu de chance d'apparaître. Ainsi, l'auteur de la prognose jouissait seul des conséquences positives, palpables, tandis que le destinataire de la prognose avait affaire à ses effets négatifs.

Si le domaine où agit l'agent économique qui utilise la prévision est caractérisé par un degré élevé d'aléatoire, tel le marché du capital, il peut souffrir davantage des effets nocifs entraînés par des prévisions élaborées superficiellement. Ces agents arrivent à se considérer comme coupables, dans une mesure qui diffère dans chaque cas, d'avoir réalisé ou de ne pas avoir réalisé des opérations quand les prix leur étaient plus favorables qu'actuellement et quand ils auraient pu éviter, selon eux, les désagréments financiers qui maintenant les accablent. Contestant même le fait qu'ils sont victimes d'une chance non linéaire, ces agents économiques demandeurs de prognoses, arrivent littéralement non seulement à rejeter toute prévision, mais aussi à éviter les investissements et les opérations spécifiques à des domaines avec un degré peu élevé d'incertitude.

À propos du degré de culpabilité qui relève de la nature humaine dans l'élaboration des prognoses inefficaces, on peut parler de plusieurs de ses hypostases, toutes situées dans les limites de la moralité. Si l'on néglige la différence entre ce que savent véritablement les spécialistes du domaine financier et ce qu'ils pensent savoir, on ne saurait se contenter de mentionner qu'ils défont d'une manière esthétique la réalité en exagérant les regrets pour ce qui s'est passé et en ignorant ce qui aurait pu se passer. Ou de mentionner que, même s'ils travaillent avec l'aléatoire, ils acceptent la prédictibilité de la succession des phénomènes et des processus économiques. Plus faciles à percevoir sont en revanche les faiblesses de ceux qui, tout en sachant qu'ils ne sont pas en mesure de prédire l'évolution ultérieure de certains processus économiques, affirment qu'ils élaborent des prognoses afin de justifier le salaire perçu. Ou de ceux qui justifient leurs erreurs sur le plan de l'anticipation grâce à l'action imprévue d'un élément situé en dehors du système pris auparavant en compte.

Je suis convaincu que même si les prévisions sont d'une manière prépondérante inefficaces - car, je souligne, aujourd'hui plus que jamais, le déroulement des événements et des processus économiques est imprédictible, certains connaisseurs de ce domaine vont continuer à faire des prognoses si la demande est élevée et si, par conséquent, elles sont bien rémunérées. Les recherches ultérieures devront mettre en lumière si la fraude qui en résulte est individuelle ou institutionnelle.

VIRTUE ETHICS – NEW COORDINATES FOR ECONOMIC DEVELOPMENT

Pup Anca

Faculty of Economics, University of Oradea

Operating with business ethic we meet, some ethical systems, some of them developed in Antiquity, that still have a great influence upon economics development. One of these is the ethics of virtue.

The aim of this paper work is to focus upon the one ethical system – virtue ethics and to illustrate his influence in economical field, offering a new coordination in this direction. We understand the importance of the human character for a successful leadership and management. Recent ethical dilemmas illustrate us how a vicious character has an influence not only to the possessor of that type of character but also to the entire community where he develop his activities. For a comprehensive understanding I expose a briefly review on virtue ethics as it was developed by Plato and Aristotle, ant its new coordination and influence upon our contemporaneous economy, illustrated by some examples.

Key words: Business ethics, economic development, short and long term profit

JEL classification: B10, M29, O10

Intoduction

Business ethics, like most areas of ethics, often trends to focus on principles of action, on the action itself, the intention behind one's action and its consequences. When someone's attention is guide in analyzing the character of economic actor, the principles of his action or to give an answer to the question: *How should I live, what kind of person should I be*, then he is focus upon the ethics of virtue.

Compared to the other ethical system, the ethics of virtue converge to the importance of a person (in our research the economic actor), as a unit and do not analyze some specific action or some ethical dilemmas, which he encounter. Neither is account the consequences of his actions.

For a better understanding of the influence of this ethical system upon the economic development and change management, our intension converges to a historical review presentation. Starting with its roots, we go back to the ancient Greek. Virtue ethics' founding fathers are Plato and, more particularly Aristotle and it persisted as the dominant approach in Western moral philosophy until at least the Enlightenment. It suffered a momentary eclipse during the nineteenth century but re-emerged in the late 1950's in Anglo-American philosophy. It was heralded by Anscombe's famous article "Modern Moral Philosophy" (Anscombe 1958) which crystallised an increasing dissatisfaction with the forms of deontology and utilitarianism then prevailing.¹⁶⁴

A briefly review on Virtue ethics developed by Plato and Aristotle

Plato's philosophy does not investigate if someone's actions are good or bad, but if a person is good or bad. His rational analyze of human being starts it's the following questions: Who am I? How should I live? The answer to these questions is formulated in the work *The Republic*, where

¹⁶⁴ Elizabeth Anscombe, *Modern moral Philosophy, Philosophy* 33, No. 124, January 1958, disponibil on-line: <http://www.philosophy.uncc.edu/mleldrid/cmt/mmp.html>;

the human soul is compare to a state, on consideration that the state is a large performing of the human soul. When the functional elements of a state can be seen, the specific one of the soul cannot be seen, so it is offered a better understanding.

Plato's state is represented by the workers — the laborers, carpenters, plumbers, masons, merchants, farmers, ranchers- Warriors or Guardians — those who are adventurous, strong and brave; in the armed forces – and the rulers or Philosopher Kings — those who are intelligent, rational, self-controlled, in love with wisdom, well suited to make decisions for the community. The *workers* dedicate their energy to earn their living, which conducts to a prosperity for the whole city. Their needs are better fulfill if they are specialized in their work. Hence this material branch is accomplished by the workers; the other state will manifest their aggressiveness so it interviews the necessity of the **warriors**. They offer protection and also the internal order, being courage men, accustomed to the art of war. But the state can not be composed only by the workers and warriors, they offer a material basis an protection but the durability and the prosperity is offered by the **rulers** and the philosopher king. It is not possible an amalgam of function, the state leader can not be offered to a worker or a warrior, because he is good in what he is doing as a farmer or as a guardian.

Each of these categories has a proper virtue:

- the workers – prudence and temperance;
- the warriors – courage;
- the rulers - wisdom and justice.

As **Keith Douglass Warner (2009)** analyzed these virtues in our contemporary economic world, we can offer a specific interpretation¹⁶⁵:

- **Prudence** is the intellectual habit that wisely assesses the means necessary to accomplish the end at which you are aiming. Another more common word for this might be **wisdom**. Prudence and environmental ethics invites us to consider these means, to have the capacity to make wise judgments in complex trade offs. This is a critical habit to develop for those seeking a more sustainable world. Sustainability means meeting the needs of the present generation without compromising the ability of future generations to meet their needs. It always requires a balance between competing needs, and thus making wise choices. Another word for prudence is far-sightedness. This would suggest that we take precautionary action now, and assume the responsibility for environmental protection over time, rather than push problems off on future generations. The responsibility principle is a contemporary expression of prudence.
- **Temperance** can best be understood as restraint or self control. This virtue exists in tension with our American culture's appetite and materialistic values. The United States has the world's highest per person level of consumption, and people around the globe have destroyed forests, fisheries, and ecosystems to support our way of life. Many industrial processes to create consumer goods generate or dump large quantities of toxic chemicals, and these have a much greater chance of harming disadvantaged communities than wealthy ones. As old fashioned as "temperance" sounds, this virtue is a highly relevant ethic that can be used to moderate consumption. One relatively simple way to express solidarity with those suffering environmental injustice can be to reduce one's consumption, especially of materials that require the use of toxic chemicals for their production. Temperance is an antidote to greed. Voluntary simplicity is an expression of the virtue of temperance.

¹⁶⁵ Keith Douglass Warner, David DeCosse, *A Short Course in Environmental Ethics*, disponibil on-line: http://www.scu.edu/ethics/practicing/focusareas/environmental_ethics/lesson6.html

- **Fortitude**, or bravery, is more commonly described as courage. The vocation of working for any positive environmental change challenges us to cultivate an attitude of hope. The information scientists report about the state of the world can be truly frightening, and has caused many people to shut this news out. Humans can readily become paralyzed by fear. We can feel that we are powerless to make a positive change. Virtue ethics challenge us to move beyond our negative feelings and focus on what kind of person we want to be, what kind of character will help us live out our commitments. This kind of hope, rooted in our habit of mind and heart, is precisely what we need to bring to situations where environmental injustices are being perpetrated. Courage can give us the perseverance to struggle for justice in the face of discouragement.

The most famous virtue ethics, is the great Greek philosopher **Aristotle** (384 – 322 B.C). In his *Nicomachean Ethics*, Aristotle laid out a system of virtue ethics which still remains over the centuries the starting point for this type of ethical system. Virtue, therefore, manifests itself in action. More explicitly, an action counts as virtuous, according to Aristotle, when one holds oneself in a stable equilibrium of the soul, in order to choose the action knowingly and for its own sake. This stable equilibrium of the soul is what constitutes character.

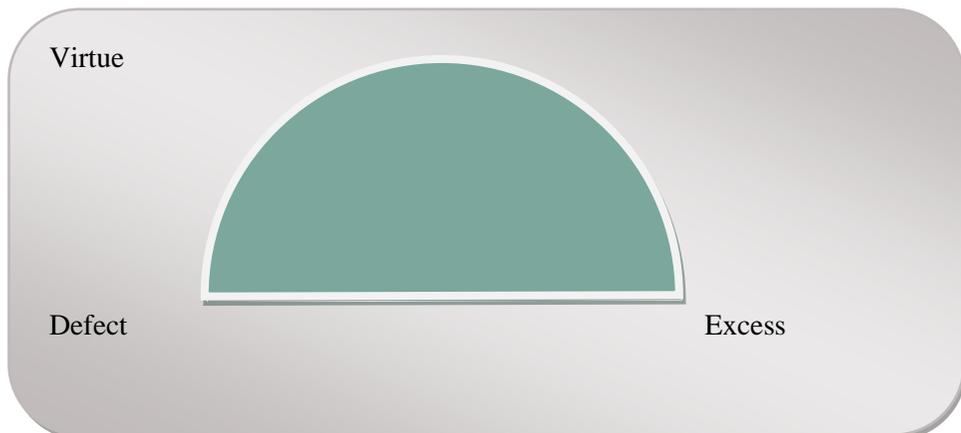
Aristotle repeatedly states that virtue (from the Greek word *arete* which can also be translated as excellence) is a *mean between the extremes*. Examples are courage as a mean between cowardice and recklessness, or temperance – neither gluttony nor prudishness.

The mean is a state of clarification and apprehension in the midst of pleasures and pains that allows one to judge what seems most truly pleasant or painful. This active state of the soul is the condition in which all the powers of the soul are at work in concert. Achieving good character is a process of clearing away the obstacles that stand in the way of the full efficacy of the soul.

For Aristotle, moral virtue is the only practical road to effective action. What the person of good character loves with right desire and thinks of as an end with right reason must first be perceived as beautiful. Hence, the virtuous person sees truly and judges rightly, since beautiful things appear as they truly are only to a person of good character. It is only in the middle ground between habits of acting and principles of action that the soul can allow right desire and right reason to make their appearance, as the direct and natural response of a free human being to the sight of the beautiful.

The mean between two extremes does not represent a half of measure, as *Nicolai Hartmann* (1929), in his work *Etik*, emphasizes the a virtue is not only a mean but also a top point. This affirmation is illustrated in the figure below.

Figure nr. 1 **Virtue as a mean and a top point**



Source: Aritotel, Etica Nicomahica, Antet, p.13;

Manuel Velasquez (2009) defines "Virtues" are attitudes, dispositions, or character traits that enable us to be and to act in ways that develop this potential. They enable us to pursue the ideals we have adopted. Honesty, courage, compassion, generosity, fidelity, integrity, fairness, self-control, and prudence are all examples of virtues.¹⁶⁶

We can ask ourselves: *How does a person develop virtues?* Virtues are developed through learning and through practice. As the ancient philosopher Aristotle suggested, a person can improve his or her character by practicing self-discipline, while a good character can be corrupted by repeated self-indulgence. Just as the ability to run a marathon develops through much training and practice, so too does our capacity to be fair, to be courageous, or to be compassionate. Virtues are habits. That is, once they are acquired, they become characteristic of a person. For example, a person who has developed the virtue of generosity is often referred to as a generous person because he or she tends to be generous in all circumstances. Moreover, a person who has developed virtues will be naturally disposed to act in ways that are consistent with moral principles. The virtuous person is the ethical person.

As Robert Solomon (2005) and Valsquez (2009) notice, at the heart of the virtue approach to ethics is the idea of "community." A person's character traits are not developed in isolation, but within and by the communities to which he or she belongs, including family, church, school, and other private and public associations. As people grow and mature, their personalities are deeply affected by the values that their communities prize, by the personality traits that their communities encourage, and by the role models that their communities put forth for imitation through traditional stories, fiction, movies, television, and so on. The virtue approach urges us to pay attention to the contours of our communities and the habits of character they encourage and instill.

Briefly we can mention a few steps for a [thoroughgoing study](#) of the ethics of virtue,¹⁶⁷ (Scott Rae, 2009):

- *defining the virtuous person and his goal in life* – without this first stage, the virtues which are considered important, have no fundament and are only philosophical ideas;
- *wording of the necessary virtue (a check list)* - this will help the moral agent to define his goal and to how comply with different situation, on a habit of virtual character:
- *modalities of developing a virtuous character* – through instruction, discipline, education and imitation.

Some advantages and incompleteness of virtue ethics

Compare to other ethical system, the virtue ethics takes in concern the human being as a unit and does not analyze some specific dilemma, it is focused on the on the problems regarding the essence of the moral agent.

James Rachels (2010) considers this ethical system as a *good moral motivator*. Virtue Ethics is appealing because it provides a natural and attractive account of moral motivation.

¹⁶⁶ Claire Andre and Manuel Velasquez, *Ethics and Virtue*, on-line: <http://www.scu.edu/ethics/publications/ie/v1n3/virtue.html>.

¹⁶⁷ Scott Rae, *Alegeri morale, o introducecere în etică*, Ed. Făclia, Oradea, 2009,p. 104; 309

Theories of ethics that emphasize only right, impersonal action do not create a sufficient account of moral life. We think that the person who visits you in the hospital out of duty alone, not out of compassion and friendship, is misguided and lacking in full moral character. A theory of virtues that emphasizes personal qualities like love and loyalty is closer to what we imagine as genuine moral character, and is a better, more human motivator for good living.

As we mentioned above, this ethical system confer the worthy importance to the *communitarian context* in ethics. Louis Pojman, James Fieser (2008) sustain that the virtues develop in the community, based on relationships, while the others ethical systems overvalue the individual autonomy and the human being ability in accomplish his moral duty based on his intellect.

Applying the ethics theory we are asked: *Can this theory stand alone as a complete moral view?* How can we recognize one person as being a virtuous one? We have to analyze his acts and only then we can give out that he or she is a virtuous one. But by taking in concern his action, the principal or intention behind the action, we are related to other ethical system such as a deontology one – Kant Ethics Of duty. In conclusion, this system can not stand-alone as Pojman (2008) said: “the virtues without principles are uncertain, but also the principles without virtues can not motivate the people to action.”

Conclusion - the impact of virtue ethics on business field

The virtue ethics places foreground the economical agent who is analyzed by his *character* and his way of behavior. We can anticipate the benefic influence of this ethical system upon management, creating a new coordination of leadership. The feature of the virtue helps the manager to form as reliable persons. For example, *honesty* would be the most important in the making and drafting of agreement. A special concern is advertising. Telling “the whole truth and nothing but the truth” (our product is not significantly different from its competitors, but we have our own attractive label on it) would not be a recommended way of advertising. Lying, on the other hand is not acceptable, so the ethical and practical challenge is finding the “mean” between imprudent truth-telling and prevarication. What is special to virtue ethics is not however the search for a general criterion for proper honesty. It has rather to do with the motives and habits of the person, whether he or she things in terms of “putting one over on other” or rather things in terms of the fairness of the situation, what information is appropriate to the relationship and the occasion, and “what an honest person would do”.

Generosity is another virtue desirable to be met to a manager. We are tempted to say that this virtue is lately denied to business, on the theory that business people tend to hold onto their money, and their own purpose is to increase their profits. In fact, the moral economical agent tends to be very generous both as individuals and as a member of corporation. Indeed, the overwhelming success of business in the modern world has meant that the ancient concept of noblesse oblige (Robert Frederick, Robert Solomon, 2009) has passed onto the corporate world. Many acts of generosity are done under the collocation CSR – Corporate Social Responsibility. Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure its adherence to law, ethical standards, and international norms. Business would embrace responsibility for the impact of its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, business would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality.

The list of features of a virtuous manager can be competed with temperance, courage, loyalty to family and stakeholders, respect and so on.

An important approach for the virtue ethics is the *distinction between short and long term*. In *Nicomachean Ethics*, Aristotle mentions that a swallow does not make the spring season, in the same way, one day or a short time does not make a man happy. This affirmation relieves us the idiom of the short time, which is associated to short time profit and on the other hand is the profit consolidated on long term.

A rush profit obtain in a short time is merely affiliated with disloyal practice. We can not generalize this situation, but business illustrates us many such example. One of this is the Ford Pinto case.

The ***Ford Pinto case*** is an oft-cited example of business ethics gone wrong. Many people have been appalled by Ford's lack of concern for human life. Ford rushed its production time to produce the Pinto in order to be able to compete with foreign companies that were monopolising the American small-car market in the 1960s. Before production, however, the Ford engineers discovered that there was a major flaw with the Pinto: in nearly all rear-end crash tests the car's gas tank would burst into flames. The problem was reported, however, the sped-up production on the car meant that the machinery was already tooled when the defect was found and would add an extra \$11 per car to correct the flaw. Ford officials calculated that the benefits derived from spending an extra \$11 per car would amount to \$49.5 million, whereas the costs would be \$137 million Ford decided it would be more profitable to produce the Pinto with the defect rather than correct the flaw. When the case was brought to trial in 1978, the court awarded an unprecedented \$137 million in damages, more than the normal amount for a negligence case.

As a positive example of consolidating profit in long terms is the ***Johnson & Johnson Corporation***, a producer of the medicine ***Tylenol***. In 1982 one of Americas most well known and established corporations suffered a large blow that could have crippled many other organizations financially. The issue involved the Johnson and Johnson Corporation also known as J&J and their Tylenol capsule product; this affected the company, its employees and the public. The J&J Corporation was not remembered for the incident but how the incident was handled and in this case study I will discuss the communication techniques that were used to create the outcome for the J&J Corporation. Johnson and Johnson created the case study benchmark for crisis management with its handling of the Tylenol product contamination issue. Highly visible leadership and wide-open communication allowed the company to quickly rebuild customer trust in the Tylenol brand.

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A NEW PARADIGMA OF THE ECONOMICAL AGENT. FROM ADAM SMITH'S HOMO ECONOMICUS TO HOMO GENEROSUS BASED ON SOCIAL RESPONSIBILITY

Pup Anca

University of Oradea

Analyzed from outside, many actions of the economical agent seem to be impulse by the self interest. As a prototype of this kind of person we have the Homo economicus as Adam Smith described it. In a blitz portrait we identify some characteristics: he is perfect rational, perfect egoist, perfect free, perfect competitive and perfect social. The aim of this research is to permute the barycentre from Homo economicus based on self interest, to Homo generosus, based on social responsibility. As a support we have used the prison dilemma to illustrate the roll of cooperation instead self interest. This new coordination will be analyzed to the level of ethical system. Homo economicus is identified in ethics of consequences and the homo generosus in ethics of duty. In my vision, the prototype of homo generosus, is delineated under Kant's categorical imperative: respectful, based on principles as subject and sovereign.

Key words: ethical system, self interest, cooperation, Homo economicus, Homo genorusus

Jel: A13,N00, P12, P13,

Homo economicus based on self interest

Homo economicus based on own interest can be enclosed to the ethical system called ethical egoism. Egoism is the theory that people act out of their self-interest. When we describe an egoist person, we have the next portrait: a person devoted for his own interest and advantages, looking forward to accomplish his needs, without evidencing interest for people around. One occasional altruistic act dissembles a hidden further interest.

There are two versions of egoism. One is known as *psychological or descriptive egoism*; this view holds that people do, in fact, act in their own self interest. The second version of egoism is known as *ethical egoism or normative egoism*; it holds that people should act in their own self-interest. The distinction between these two type of ethical system is represented at the level "is" and "should be". When we are speaking of self-interest, there are some questions to be clarified, for example:

- Do people always act only for self interest?
- What is the meaning of the definition "self-interest"?

The two version of the egoistic ethical system mentioned above holds that whatever people do, they do in fact always act only out of their own self interest. A work hard to be promoted, I donate some many or I help a person to increase a reputation, to be considered a good man, or I love my children or my family to be also loved by them to be respect. In this situation can we identify Mother Theresa's action under the impulse of self interest? It is obvious that people seem to act for various other motivations other than just self-interest. But The egoist has to claim that these other motivations are only a mask for self interest, that the person who is doing something altruistic (i.e. action done for the sake of another) is really being altruistic for his own self interest -- he is doing this, the egoist claims, because he has a self interest in being seen by others as being altruistic or because he gets pleasure (thus satisfying his self interest) in being altruistic. To argue this affirmation Lloyd Eby, illustrate us the case of the red light of the fire engine. "Suppose someone claims that all fire engines are red. I reply that this is not true because I've seen green and yellow ones. The first person then responds, "But those are not true fire engines because all fire engines are, by definition, red." The first person may thus win the argument, but

does so only by introducing a highly tendentious - and false - definition of "fire engine." I think that, in a similar way, strict egoists likewise set up tendentious - and false - accounts of human motivation and altruistic behavior."¹⁶⁸ The answer to the first question and its particularly arguments illustrate some actions which are not only motivated by self interest.

The second question proponents of egoism must distinguish between people's genuine self interest and their apparent self interest. Thus most of us would hold that a person who smokes a lot of cigarettes or who takes heroin is not in fact acting out of his self interest because those practices are highly self destructive. The proponent of egoism says that such people are acting not out of their true self interest but only their apparent self interest; such addicts, the egoist claims, believe that their actions are in their self interest, even though they are not in their actual self interest, and thus they do what they do out of their self interest after all. That answer, however, flies in the face of the fact that many addicts will say explicitly that they are not acting in their self interest when they continue to smoke or take drugs. This suggests that people are aware of the difference between true and false self interest and are well aware that they sometimes act out of motives other than self interest, either true or false self interest.¹⁶⁹

Until now we have created a background to illustrate the coordination of the self interest. This type of system was claimed by Hobbles offering a psychological argument; Adam Smith illustrates an economical argument and Ayn Rand statues selfishness as a virtue quality.

In this paper work our interest is focus upon Smith's economic argument. Smith argument for a self interest which conducts to public benefits is exemplified by the well known quotation: "*It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.*"¹⁷⁰

The eighteenth century economist Adam Smith defended an egoistic approach toward morality based on the economic benefits that this would bring to society. Based on the theory of "**invisible hand**", in a competitive market, the homo economicus produce a state of optimal goodness for the society. Smith argues how competition determines the economical agents to produce a better product ant to sell it to a lower price compared to the other.

His self interest – to sell his products and to obtain profit – guides his actions, related with his competitors. This kind of attitude, in Smith's opinion, concurs to a public benefit not only for the one's sake.

The laws of the market formed by Adam Smith are quite simple. These can be reduced to a picture which illustrates two important things: **self interest**, and on the yonder side the **competition**. For example, if I am a gloves manufacturer my interest is to sell my merchandise and to obtain a substantial profit. To achieve my aim I would like to sell my products to a high price. But the high competition will not admit this situation, because the consumer would like to buy the gloves from my competitor, if they are to a lower price. I need to find ways in producing gloves to a reduced cost ant to sell it at a cheaper price in an effort to get more costumers. Adam Smith considers that in this situation the manufacturer gain, but so too does the costumer. Thus, my self interest leads to a best overall situation for society.¹⁷¹

For Smith, these two: self interest and competition can not be separated. It is both natural and an advantage to cooperate in economic affairs. Making reference to the quotation above, we understand that the butcher, brewer or the baker, do not give away meat, beer or bread, but they depend on mutual respect, fair play in business, the honoring of contracts, and indeed, even

¹⁶⁸ Lloyd Edy, *Viewpoints: What about ethical egoism?* <http://www.tparents.org/Library/Unification/Talks/Eby/Eby-060607.htm>, accessed at 10.04.2010

¹⁶⁹ Lloyd Edy, *Viewpoints: What about ethical egoism?* <http://www.tparents.org/Library/Unification/Talks/Eby/Eby-060607.htm>, accessed at 10:12.04.2010

¹⁷⁰ Adam Smith, *The Wealth of the nation*, Penguin Boobs, London, 1999, Book I.ii.2.

¹⁷¹ Louis Pojman, James Fieser, *Ethics: discovering right and wrong*, Wadsworth, Cengage Learnig, 2009, p.89.

cooperation to stay in business together in the same town.¹⁷² Adam Smith's economical argument directs to a two tier system.¹⁷³

- individual motivation – egoistic;
- general goal – social utility;

Both levels are based on the ethical system based on consequences. On the first level the consequences are redound upon one person, the one involved in the action. This level is known under the terminology of ethical egoism. When it is looked for the social utility, there is involved a great number of people and it is intend to offer the greatest happiness, or good to a great number of people. This way of acting is known as utilitarianism. In Smith economical argument, we met on the highest level, the utilitarianism, which makes use of self interest to attain the good for a great number of people, a social benefit based on free-enterprise system that guides enlightened self interest to reach that goal. Conform to his theory the economical agent is not worry for the social good, but only for his own good and in this way he will attain the highest social good possible.

The problem with that argument is that not everyone has equal power and ability -- Adam Smith's argument depended on a more-or-less equal distribution of power, information, and ability among the actors in his economic drama -- and thus in pursuing their self interest the strong will prey on the weak, and the less powerful or wealthy or knowledgeable will be abused (and thus unable to achieve their self interest) by the actions of the powerful, the wealthy, and those with greater knowledge.¹⁷⁴

An example of self interest in business world was offer by Nestle Company which infant formula. During the 1970s and 1980s, Nestle launched a marketing strategy in developing countries that lured countless poor mothers into infant formula dependency. Wearing uniforms that resembled those of the legitimate nurses, Nestle's sales force infiltrated hospitals, accentuated the health benefits of their infant formula. The penetration of this product forced and made dependent the mother of this infant formula. However, proper use of it required up to 70 percent of a family income, an unable to pay, mother diluted the formula, often with contaminated local water. The result was the death of millions of infants from disease and malnutrition. After a decade-long worldwide boycott against Nestle, in 1984 the company changed their practices. The train of events illustrates how the follow of self interest does not conduct to a social benefit, as Smith argue.

Homo generosus based on social responsibility

Nowadays, many practices invoke the way self interest did not conduct to public good, different crisis exemplify the deficiency of classical laissez-faire. As a new paradigm for economical development we identify a *permutation from Homo economicus based on self interest to Homo generosus based on social responsibility*.

Under the terminology social responsibility, has been developed a new concept *corporate social responsibility*. Corporate social responsibility (CSR) is a form of [corporate self-regulation](#) integrated into a [business model](#). Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure its adherence to law, ethical standards, and international [norms](#). Consequently, business would embrace responsibility for the impact of its activities on the environment, consumers, employees, communities, [stakeholders](#) and all other members of the [public sphere](#). Furthermore, CSR-focused businesses would [proactively](#) promote the [public interest](#) by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere,

¹⁷² Robert Frederick, *A companion to business ethics*, Blackwell Publishing, 2009, p.336.

¹⁷³ Louis Pojman, James Fieser, *Ethics: discovering right and wrong*, Wadsworth, Cengage Learnig, 2009, p.89.

¹⁷⁴ Lloyd Edy, *Viewpoints: What about ethical egoism?* <http://www.tparents.org/Library/Unification/Talks/Eby/Eby-060607.htm>, accessed at 10:12.04.2010

regardless of legality. Essentially, CSR is the deliberate inclusion of [public interest](#) into corporate [decision-making](#), and the honoring of a [triple bottom line](#): People, Planet and Profit.¹⁷⁵

This concept has developed from the classical form exposed by Milton Friedman: “*the social responsibility of business is to increase its profits*”- when corporate are responsible only to their shareholders - to the responsibility for the society seen as a whole.

Nowadays the impact of corporate social responsibility is measure on the level of reporting or standards. One of these is the Global Reporting Initiatives. The table below illustrates the number of the company who adopt this way of reporting. The evolution on 10 years is relevant to conclude the great impact assumed by the economical agent seen at the level of corporation.

Table nr. 2 – The numeric evolution of CSR-GRI reporting on period 1999 – 2009

Period of reporting	Number of company which have reported a CSR-GRI Report
1999	20
2000	50
2001	80
2002	150
2003	166
2004	272
2005	370
2006	507
2007	684
2008	1068
2009	1368

Source: created by author, interpretation of the date available on:

<http://www.globalreporting.org/GRIReports/GRIReportsList/>,

Conclusion

Adam Smith’s homo economicus relieved the portrait of an economical agent who action in the economical field based on self-interest. He is based on the premise that the economical agent does not have to worry about the social benefit or good but only about his own good or benefit and in this way he will attain the highest social benefit possible. The homo economicus can indoor his individualism under the theory of “invisible hand”, considering that the interactions between the egoistical impulses will lead to an unanticipated result: social harmony.

As a support, for cooperation instead self interest we intent to use the Prisoner’s Dilemma. It points to another possible logical error in egoism by offering an example in which the pursuit of self-interest results in both agents being made worse off.

Tabel nr.1 Prisoner’s Dilemma

	Prisoner B	
	Confess	Don’t confess

¹⁷⁵ Wood, D. (1991) *Corporate Social Performance Revisited*. The Academy of Management Review, Vol. 16, No. 4 (Oct., 1991) <http://www.jstor.org/stable/258977>, http://en.wikipedia.org/wiki/Corporate_social_responsibility

Prisoner A	Confess	5,5	½,10
	Don't	10,½	2,2

Source: Internet Encyclopedia of Philosophy <http://www.iep.utm.edu/egoism/>

From the table, two suspects in a crime are individually offered different sentences by their captors. A, for example, is offered 5 years in prison if he confesses, and he is told that if his partner doesn't confess he will be given 6 months in jail and his partner 10 years. If he refuses to confess, then A faces 10 years in prison if his partner does confess; however, both would only serve two years in prison if they both do not confess. A prior agreement between A and B *not to confess* would result in the best solution for the two of them, but that is not allowed by the game because they must make their decision by themselves without communicating with the other person. The incentive that each personally faces to avoid spending time in prison is to squeal in the hope that the other does not confess. If each does this, then both will end up serving the non-optimal solution of 5 years each.¹⁷⁶

As an argument for the sunset period of homo economicus based on self interest are different depression and crises which could not illustrate how the classical laissez-faire works.

Included in an ethical system, Adam Smith's homo economicus, has a good responding to the consequences ethics, based on ethical egoism and utilitarianism. The consequences system sustains the moral of an action based on its consequences. If an action ends with good benefit for me and for the others, then we identify a moral action. If a fact produces bad consequences upon me, then it is immoral. Specified to Adam Smith theory, the ethical egoism is released under the concept of self interest and the utilitarianism – which sustain the spread of happiness or in this case benefit around as much as possible – is identified at the level of social benefit, which is accomplished if everyone is looking forward for own benefit.

I identify the economical agent based on social responsibility, homo generosus, having as coordinates the ethics of duty, substantiated by Kant. Specific to Kant's categorical imperative, the economical agent will “act only on that maxim which can be considered in the same time a universal law”, this means that his action are based on principles, compared to homo economicus, which based his action on consequences. Second, the prototype of homo generosus, according to the second Kant's imperative, will respect the human being, treating the stakeholders as persons: “always treat the humanity in a person as an end and never as a means merely.” And the third imperative analyses the business firm as a moral community.¹⁷⁷

This is a way to understand the balance from the economical agent based on self interest to the economical agent active involved in social responsibility through ethical system.

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UNEMPLOYMENT IN THE TIME OF ECONOMICAL CRISES

Roșca Mihaela Gabriela

University of Oradea

Faculty of Economic Sciences

Gal Anișoara

University of Oradea

Faculty of Economic Sciences

This article is a brief presentation of the periods of economical crises that occurred along history as well as a presentation of the effects that these crises had on the evolution of unemployment among the working population. The total effort the population, economy, and society in general can undertake subsequently to economical crises is immeasurable, and one can prefigure the adaptation of economic theories to the conditions and demands of the actual epoch to be a lasting and laborious process.

Key words: unemployment, unemployment rate, economical crisis, economic theory

JEL Code: J60

1. Great economical crises and the appearance of unemployment

World economy has been hallmarked by periods of upsurge and recession. Economical crises, irrespective of the period they occurred in, had the same negative phenomenon – the emergence and increase of unemployment within the working population.

The Great Depression between 1929-1933 had severely shaken the edifice of world economy. The great economical crisis or the Great Depression was a period characterised by the sudden, dramatic plunge of world economical activity. The first signs of the crisis were manifest from 1928. The extent of this world-scale event had catastrophic consequences: downsizing national income to half, drastic reduction of employed persons and the sudden increase of unemployment, the disequilibrium between merchandise demand and offer. All these revealed the fact that it was not the disequilibrium between merchandise demand and offer, as the word among economists at that time went, but due to more complex and serious causes in the market economy.

Of all contemporary western economists, J. M. Keynes was the one who adapted most efficiently and rapidly to the new situation. The serious and urgent problems he witnessed actually marked a double crisis: the economical crisis itself that encompassed the entire economical system, as well as an ideological crisis in the third and fourth decades of the past century that manifested through the above-mentioned crisis taking by surprise most economists: “evidence indicates that full, or even approximately full, employment is of rare and short-lived occurrence. Fluctuations may start briskly but seem to wear themselves out before they have proceeded to great extremes, and an intermediate situation which is neither desperate nor satisfactory is our normal lot. It is upon the fact that fluctuations tend to wear themselves out before proceeding to extremes and eventually to reverse themselves, that the theory of business cycles having a regular phase has been founded.”¹⁷⁸

Unlike neoclassical economists who, usually supposed full utilization of production capacities and workforce, thus denying unemployment, J. M. Keynes acknowledges and recognizes the existence and emergence of involuntary unemployment, chronic mass unemployment as he would refer to it every time.

¹⁷⁸ Keynes J.M., *Teoria generală a folosirii mâinii de lucru, a dobânzii și a banilor*, Editura Științifică, București, 1970, p. 261.

The crisis of the 1970s, the second economical crisis, is important in its depth, encompassing sphere, duration, and its consequences. For two decades after the war, developed countries experienced a growth based on the driving policy without relevant recessions managing to reduce considerably unemployment. But the experience of these years showed it is not enough for unemployment to decrease for economical instability to be attenuated, but one has to take account of the activities the former unemployed are doing at the moment. At the middle of the seventh decade and beginning of the eighth a series of data and facts considerably accentuated economical instability. Among these we can speak of the emergence of *stagflation* and *slumflation* i.e. the simultaneous presence of inflation, unemployment, and economical stagnation, that of inflation and recession which became ever more worrying. Trying to mend unemployment and economical blockages, monetary and budgetary policies became the source of other evils – inflation and the currency-financial crisis with a prolongation of negative effects on a global scale.

The catastrophic decrease of production was the major cause of the great depression from 1929-1933. The economical crisis in that period was characterized by underproduction resulting from poor crops as a consequence of natural factors (as drought, flooding) or due to wars. The crises occurring in modern times are due to overproduction. These crises do not merely refer to a certain branch or activity sector, but they encompass different branches and sectors of activity, economy as an ensemble, and, under certain conditions, the entire world economy. They have important economical and social consequences: between 1929-1933 the plummet of production in the USA was of 46%, while that of prices was of 30%, and the number of registered unemployed persons was of 13.5 million. In UK the unemployed were numbering 3 million, and in Germany the figure was of 5.5 million.

Comparing the two unsatisfactory state of economy during the two economical crises of the 1930s and of 1970s, Joan Robinson speaks of two distinct crises: “The first crisis surfaced out of a theory that could not explain the occupation level. The second crisis was born out of a theory that could not explain the content of occupation.”¹⁷⁹

In other words the events of the 1930s proved the inability of neoclassical theory to explain involuntary unemployment and economical crisis, just as the events in the 1970s proves the new Keynesian and neokeynesian trend failed to explain how it reached the fantasy of “digging useless holes” mentioned by Keynes.

Greek academic Angelos Angelopoulos, in his work *A World Plan of Occupying Workforce. For an International-Scale Keynesianism*, published in France in 1984 and translated into Romanian in 1987, tackles by Keynesian means the issue of underdevelopment of countries in the third world and its causes. He forwards a series of measures to trigger their development a at fast pace and to achieve durable international cooperation among peoples. In the view of the Greek economist unemployment is a deeply negative phenomenon to be encountered not only in developed countries, but on a large scale and under different forms in under-developed countries. Causes of unemployment in developed and developing countries reside in the insufficient productive investments and modern technology. To avoid a future crisis Angelopoulos, adapting the Keynesian policy and theory, proposes a global plan to relaunch economic activity in all categories of countries by attracting and stimulating international cooperation of the countries in the North with those in the East and South “nowadays everybody wishes for a better, more righteous, and more humane world not only on a national scale, but on a global scale as well.”¹⁸⁰

Thus, according to statistics presented by Angelopoulos in *A Global Plan of Occupying Workforce. For Keynesianism on an International Scale* “Between 1979-1981 in EU the unemployment rate increased by 55%, while between 1981-1983 by 32%. In the US the increase

¹⁷⁹ Robinson J., *Contributions to Modern Economics*, Academic Press, New York, 1978, p. 9.

¹⁸⁰ Angelopoulos A., *Un plan mondial de ocupare a forței de muncă. Pentru un keynesism la scară internațională*, Editura Politică, București, 1987, p. 28.

was devastating higher than 75%. The lowest unemployment rates were in Canada – of 12.3% and in Britain where unemployment rate reached 13.5% in 1983.”¹⁸¹

During the economical crisis absolute size and unemployment rate were not uniform. They varied from one country to another and within each country they also varied from one (activity) branch to another. Therefore, according to the information presented by the great Greek statistician during 1976-1981 the textile industry in the EU suffered 8.8 million workplaces loss, the shoemaking and clothes industries went through a 9.1 m workplaces loss, metallurgy – 8.3 m, the automotive and shipbuilding industries – 6.3 million workplaces.

The evolution of workforce occupation, under-occupation, and unemployment were directly influenced by the labour market dynamics, especially by its absorption capacity, that of creating new workplaces for the active under-occupied population. According to calculations referring to the 1970s out of 100 active persons on the labour market 89 in Japan, 85 in USA, and only 25 in four EU countries actually found a job. During this interval there were countries that registered rather low unemployment rates, such as Japan, Norway, Switzerland, and Sweden. Due to this fact there was a full occupation of the workforce.

According to these statistics one of the main structures of unemployment is that of the youth. Taking a look at its evolution in different countries and periods we reached the conclusion that at the beginning of the 1980s the number of young unemployed persons reached 6.5 million in Europe, compared to 1 million ten years before. In 1984 every fifth person apt for work was unemployed. In 1995 the percentage of young unemployed individuals aged 15-24 was as follows: 26.9 in Canada, 39.1 in Italy, 31.7 in Holland, 32.1 in Spain, 29.9 in Britain, 35.4 in USA, and 50.3 in Romania.

Women unemployment rate is another worrying figure. Therefore the rate of unemployed men represents 10.6%, while unemployment values referring to women indicate 18.4%. In some countries these indicators have the following values: 9.8 and 13.9% in France, 8.5 and 15.8% in Italy, 9.6 and 11.4% in Germany, 5.9 and 8.8% in Holland, and 5.4 and 7.3% in Romania.

Despite the fact that in the last two decades following the economical crisis of the 70s, other ideological currents made way in the history of economics (neoclassicism and neoliberalism), yet some major features of Keynesianism and driving policy continuing to raise interest: macroeconomic approach and state support for the private entrepreneurs by adopting new macroeconomic policies (budgetary, fiscal, monetary, and commercial policies). In this context positive results of these policies materialised in Austria – that ensured full workforce occupation up to 1981, while in all other OCDE member countries unemployment continued to increase. After 1981 unemployment surfaced in Austria as well, yet this country registered a high level of workforce occupation.

The economical crisis we are experiencing nowadays has as a starting point the year 2007 when on the mortgage market in the US the first transient financial signs manifested, consequently these would determine a very economical crisis that is fully manifesting. Therefore, according to the devastating implications this would have, one considers that the present economical crisis is the greatest after the one recorded 8 decades ago. The present economical crisis has repercussions on the global unemployment degree which is quickly bursting.

According to Eurostat statistics the number of unemployed persons in the EU is close to 22.9 million in November 2009, out of which more than 15.7 million coming from the Euro zone. Compared to the previous month the number of unemployed individuals increased by 185,000 in EU and by 102,000 in the Euro zone. Compared to November 2008 the number of jobless persons increased by 4.978 million in the EU and by 3.04 million in the Euro zone. At the end of last year (2009), lowest unemployment rates were recorded in Holland (3.9%) and Austria (5.5%), while the highest were reported in Latvia (22.3%) and Spain (19.4%). According to

¹⁸¹ Angelopoulos A., *Un plan mondial de ocupare a forței de muncă. Pentru un keynesism la scară internațională*, Editura Politică, București, 1987, p. 56-57.

studies carried out it was noted that the most affected by unemployment are persons with secondary education. Therefore, a continuous professional training determines the potential jobless person to cope better in case of a possible layoff. In fact “unemployment rate tend to be reversely correlated to the qualification degree.”¹⁸²

Romania does not report data referring to the monthly evolution of unemployment rate according to the standards of the International Work Bureau (IWB), only to quarterly data – the latter being for the third quarter of 2009 when the unemployment rate was 7.2%, nlike the third quarter of the previous year (2008) when Romania had a 5.9% unemployment rate, as Eurostat shows.

The evolution of the unemployment rate in the previous period (November 2008) and the current period (November 2009) shows that among men this has gone from 7.2% to 9.7% in the EU, while the increase in the Euro zone was from 7.5% to 9.9%. for women unemployment rate went up from 7.8% to 9.2% in November 2009 in the EU, respectively from 8.6% to 10% in the Euro zone.

More recent data shows that in Romania unemployment rate reaches ever higher levels, fact which determines us to assert that Romania has not exited the economical crisis, but on the contrary it deepens ever more. So “in January this year unemployment rate continued to increase, reaching 8.1% compared to 7.8% in the last month of the past year, nad 4.9% in January 2009 according to the information of National Workforce Occupation Agency (ANOFM). In the first month of 2010 unemployment rate exceeded 8%, such a level in this period being unprecedented from 2003, when in January there were 781,388 jobless persons, the national level being of 8.6%. In January 2010 740,982 jobless persons were reported, 459,158 were on redundancy payment and 281,824 were not. According to ANOFM most jobless persons, respectively 605,371 (over 81%) come from the private sector.”¹⁸³

An outline of the current crisis can not be made but approximately because this is fully in process, and the causes of its start off as well as its characteristics could only be exactly presented when the economical crisis is over.

We are nevertheless attempting to present some similarities and differences between the Great Depression of 1929-1933 and the current economical crisis.

2. Similarities between the present crisis and that of 1933

Even if the period between the two economical crises is considerable and the current economical crisis is still manifesting, there are some obvious similarities with the one from 1929-1933. Firstly both crises have as a starting point the US and the financial market of this country. These similarities must not be viewed as random, they should be analysed very minutely considering the fact that it is happening in the most developed country in the world where every wrong step has serious repercussions on global economy.

Secondly, the present economical crisis, like that from 1929-1933, has a global nature affecting most of the countries (including our country which admitted entering the crisis rather late).

The third existing similarity between the two crises is their global nature. Thus, just like the Great Depression “the crisis that recently began will involve, to a different degree, all sectors, respectively both those of real economy, and those of nominal economy.”¹⁸⁴

Fourthly, but more importantly than any other arguments presented above, the present economical crisis just as the Great Depression of the 1929-1933s anticipates to be a lasting one. It is very difficult to predict the length of the present crisis what is more because we are at its debut and we do not have enough data yet regarding the content, depth, and its encompassing sphere.

¹⁸² Becker, S. Gary, *Capitalul uman*, Editura All, Bucuresti, 2000, p. 32.

¹⁸³ Bălan, Ionuț, *România în stagflație: recesiunea, inflația și șomajul se adâncesc concomitant*, Săptămâna Financiară, February 12, 2010, p.1.

⁷Adumitrăcesei, I.D., Niculescu N.G., *Criza economică globală (2009-20..?) cauze, implicații, soluții*, Editura Academiei, Iași, 2009, p. 25.

The history of economy and the aspects analysed from the perspective of economical crises emphasize the fact that in contemporary times there are a series of factors both in favour of renewing economic theory, and in favour of protecting and diffusing the old into the modern. In the confrontation to take place again between the new and the modern at the level of economic theory, one can foresee and claim the birth of a new theory that would lead us to a new economic science of the 21st century. To consent with the previously-stated, Nicoale N. Constantinescu noted: "Under the current conditions... we need, more than ever, an economic theory based in contemporary realities, ... a theory free of any prejudices and mastered only by the truth."¹⁸⁵

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¹⁸⁵ Adumitrăcesei, I.D., Niculescu N.G., *Criza economică globală (2009-20..?) cauze, implicații, soluții*, Editura Academiei, Iași, 2009, p. 189.

THE BERTRAND MODEL OF THE SINGLE MARKET

Sîrghi Nicoleta

Faculty of Economics and Business Administration, West University of Timisoara

Vădăsan Ioana

Faculty of Economics and Business Administration, West University of Timisoara

Starting with the signification of the rationality hypothesis when the agent's contentment is directly affected by the other agents' decisions, the theory of games defines solutions for solving different situations of conflict. The economic actors have different behaviours of the Single Market. Oligopoly strategic behaviours were analysed by the Bertrand model. The two types revealed in the work show that strategic interactions are sensitive to the companies' features, products and markets. Regarding the situation when we have an oligopoly competition, the companies make interdependent decisions in the environment affected by risk and uncertainty of the Single Market. For this reason it is an opportunity to study the structure of oligopoly type of the Single Market with the aid of non – cooperative games.

Keywords: the Bertrand model, the Single Market, theory of games, Nash equilibrium.

JEL: D43

1. Introduction

The economic models and the practice of economical - mathematics constituted an excellent instrument for studying the economic games, stimulating the research in this field. In the last decade, a series of methods regarding the representation of the economic theory were used in order to study the evolution of state parameters of the social- economic field. The category of systems highly studied in the economic dynamism are those who pattern the business circle, patterns of economic increase and patterns which study the costs game in a dynamic perspective. In the last decade, from time to time, evolution and chaotic behaviour were noticed in the economic patterns. The main conception of the economic science was demonetized, which says that the economic balances are constant even with the lack of external shocks, the economy leaning towards a stationary state.

From this point of view, conducting a study in a dynamic environment, about costs mechanism seems to be a very important problem. Taking into account the cost which is an economic phenomenon, this work trying to approach it, using a modern instrument of work, belonging exclusively to mathematics, which is *the game theory*.

We are interested in the theoretical results which are revealed in literature regarding the theory of games starting with the key concepts of this one: games, strategies, balance, game value, etc. the research is focused on the main oligopoly market structures from the microeconomics point of view. The theory of games studies the human behaviour in situations of conflict, where the reason is contrary to the reason, each of the parties involved being able to analyse and to decide in order to reach their own targets. It emphasises the meaning of the rationality hypothesis when the contentment of a person is directly affected by the other agents' decisions and defines solutions for various situations of conflict. The theory of games is a method of research for strategic interaction situations, where the economic agents are aware of the interdependence which exists between them and each of them will make their own decisions taking into account the others' behaviour.

The theory of games was first mentioned and historically related to the year 1944 when the mathematician John von Neumann and the economist Oskar Morgenstern publish the famous work: Theory of Games and Economic Behaviour

Augustin Cournot studied in 1838 the operation of the oligopoly markets where each company takes action knowing that its volume of production affects the market cost. In 1833 J. Bertrand studied the operation of the oligopoly markets where the companies with constant efficiencies produce the same product settling the selling price. The result mentioned by Bertrand is known as Bertrand paradox¹⁸⁶. In 1934 Stackelberg shows that some companies can be leader and that are able to impose the price to the others. The leader company, as a barometer company, knows best the market situation and has the means necessary in order to control the counter party. This doesn't mean that the company is the most powerful but well informed and organised.

The following question comes up: Which of the behaviours mentioned above should be followed of the Single Market? In order to answer this question, a theory was needed which could explain the interactions between companies. This is the great contribution of the game theory. It allows the elaboration of an analytical framework regarding the situations when an agent's decisions can affect the earnings of the other agents.

The theory of games studies the manner in which the rational decision are made by people in interactive situations when the results of their action depend directly on the others; actions. In this case, where the coordination of the individual actions is adjusted by competition, each economic agent (named player in the game theory) must forecast the future actions of the other agents and then optimise their own behaviour depending on the results. In the last two decades the rent-seeking type of dynamic games were analysed (to share the fortune). A systematic study of the balance point for this kind of games was made by Okuguchi K. and Szidarovsky F. who revealed that these games are equal to the Cournot type of oligopoly with price hyperbolic function.

The theory of games hyphens the meaning of the rationality hypothesis when the contentment of the person is directly affected by the decisions of the other agents and defines solutions for different situations of conflict. Out of this reason knowing the analysis instruments of this theory is essential nowadays, the theory of games constituting a real matrix of the contemporary financial theory. Its postulates are based on the analysis of the people's interdependent relations. The economic description and analysis must be oriented towards solving the conflicts caused by the problems of redistribution. The approach moves from solving problems related to assignment towards the analysis of the availability restrictions which influences the resources assignment and distribution. In conclusion, the economic reality can't be properly presented by a static approach, as the traditional microeconomics theory does it, but it must be seen as a process, with the help of a dynamic approach, from the new microeconomics perspective.

2. Competitive strategies of the Single Market.

Some of the economic agents have a different behaviour on the market affecting the other economic agents' behaviour. This type of reality resides in the "market structure" concept. The meaning of *market structure* represents the features of a market by the number and the relative power of the companies which operate on the market having the purpose of settling their behaviour and its consequences on the economic efficiency of the economic system. The contributions of the game theory to the study of the Single Market.can solve some problems related to the costs system and to the intelligence exchange. Competition was and is related to the behaviour hypothesis of the economic agents and to the relative hypothesis of the market operation.

¹⁸⁶ Binmore K., *Jeux et théorie des jeux* Ed. De Boeck Université, Bruxelles, 2001, p.23

The market structures vary depending on: the influence on the costs settlement; the companies' production of standardized or non - standardized products; the companies' possibility to enter on the market; the publicity, the products' features, etc. The oligopoly means a market structure controlled by a restricted number of producers, the actions of each producer affecting the others competitors' actions. If a producer cuts the price in order to increase the sales, then its competitors will react by cutting their price too, thing which will determine a profit decrease for the first company. Before making the decision regarding the price cut, the oligopoly company would have to analyse first the future reaction of its competitors and the consequences upon it. In the first works on oligopoly, Cournot (1838) and Bertrand (1883), write about the elements used by the theory of games for analyse of the imperfect competition. The theory of games uses a general method of analysing the strategic interaction situations. This theory applies on analysing the companies' strategic behaviour of the Single Market, starting with the general framework of a game situation.

The game situations are based on few important elements: game rules; strategies to follow; earnings and in oligopoly situations we have: rules of the oligopoly game; strategies of the oligopoly game; earnings of the oligopoly game. The rules of an oligopoly game are made starting with the features of the economic, social and politic environment of the oligopoly market, with the laws of the trade practices. One of these rules regards the number of players meaning the number of companies operating on the market. The rules of an oligopoly game represent all the possible actions of each player. This one makes a complete list of game strategies. The possible strategies in an oligopoly game can be: prices increase, cutting prices or keeping them at the same level; increase, decrease or keeping the production at the same level; more, less or the same advertising; improving, lowering or maintaining the quality, etc. The earnings of an oligopoly game may be represented by the economic profits or losses of each company¹⁸⁷. The earnings of the companies depend on their strategies and on their constraints which they deal with.

Studying the situations of imperfect competition, especially the *Single Market* where the buyers' decisions are interdependent, can be achieved with the help of non – cooperative games. Important applications of the game theory reside in different aspects of the oligopoly competition, for example: secret agreements or price forming study in a closed economic system. The situation of oligopoly competition, the companies can't deal with an unreceptive environment. The interdependent situations between different centres of decision and their contribution to obtaining a credible solution can be done with the help of *non-cooperative games* which developed a lot over the last years.

For the duopoly games, the possible strategies the two companies can follow are: agreement for profit division; or breaking the first agreement, thing that would allow the cheating company to obtain greater profits than its partner. This kind of structure is similar to the one of the game named prisoner's dilemma¹⁸⁸. In case of a balance situation the two companies break or follow the duopoly agreement, they will sell at the same price, producing the same volume and obtaining the profit of a monopolist.

The theoreticians of the game with practice in economy showed that price war can be considered to be the result of a repeated duopoly game. The producers follow the concluded agreements until the request variation determine the price cut under a certain limit. The companies' reaction to the price cut is like it would be the result of a problem the competitors deal with. They have to operate in order to make the competitors believe in the penalty in case of agreement breakage. Updating the credibility of the menaces is important in order to respect the agreement as longer as possible. On this kind of markets, from time to time, price war can occur, which can end with the exclusion from the market of the weaker competitors.

¹⁸⁷ Kreps D. M., Théorie des jeux et modélisation économique, Ed. Dunod, Paris, 2002, p.69.

¹⁸⁸ Jhele G. A., Remy P. J. – *Advanced Microeconomic Theory* - Ed. Addison Wesley, New-York, 2006,p.231

3. The Bertrand model

Bertrand (1883) suggested a solution which depended on price variation; he started with a rather simple case where two companies produce the same product, settling their selling price. The production costs for each product are constant (marked with letter „c”) and identical for both companies. In this case the consumers will buy from the company which has lower prices. We suppose that the two companies share the total request in two, if the prices are the same.

Bertrand’s paradoxical result is that at an equilibrium level the price is equal to the marginal cost and the profits are null. None of the companies can improve the profits because it would obtain a negative one cutting the price. If a company settles a price higher than the marginal cost, the other company will be interested in settling a lower price in order to cover the entire request. The question is if Nash equilibrium is present where the price is equal to the marginal cost. The Nash equilibrium, if present, is it unique?

In the Bertrand model, Nash equilibrium is a combination of strategies weakly controlled: some players are not interested in settling an equal or higher price than „c” (the cost), others set a price equal to „c”¹⁸⁹. An irrational player who sets a price (P) higher than the cost (c) he obtains the same profit as the player who will obtain Nash equilibrium if the competitor always sets a price (P) equal to the cost (c). The player’s irrationally occurs when a competitor must explore such behaviour, choosing a price (P₁) higher to the cost but lower to P. This kind of argument shows that players can be interested in manipulating their competitors making them believe that they are irrational. If player 1 is an agent with “irrational” reputation, choosing a monopoly price, then player 2 sets a price P₂ lower to the monopoly one. But he is not sure that player 1, declared irrational but being rational benefits by his reputation, then he will chose a price lower to P₂.

Such reputation problems can be studied in a dynamic framework. We will consider the reputation game for two companies of the Single Market, marking with δ the discount factor and trying to settle the perfect Bayesian equilibrium. The game can run by converse induction taking into account the beliefs. If the cooperation was supported in the first period, then in the final period the players will have the same reputation. If the players broke the agreement then they would lose the initial reputation. But choosing a cooperative strategy the player maintains the reputation, without bringing any new information regarding his behaviour, meaning the cooperative one. If we assume that the players cooperated in the first period then in the last one, a player obtained $\alpha\delta\pi$ this one being a price lower than the monopoly one. The question which rises is: are the players interested in cooperating at the beginning? The company has an updated hope for earning equal to $\alpha(\pi/2 + \delta\pi)$ in case of cooperation. In case of non cooperation for the entire monopoly profit the company will obtain $\alpha\pi$, losing its reputation. The company is interested in cooperation when $\delta \geq 1/2$. This model shows that the companies can be interested in cooperating at the beginning when their option for the present is low enough. In this case, we can talk about cooperation at the beginning of the game which degenerates in a price war. The reputation phenomena can be very important if there is the slightest incertitude regarding the perfect rationality of the players. Such a feature can explain many behaviours assuming that the players believe there are other “irrational” players but with a lower probability.

The examples mentioned above express the result of the strategic interaction which is very sensitive to the companies’, products’ and markets’ features. There are many different situations by which the consequences of these features can be studied (for example: the problems related to noticing the products’ quality, the advertising, the strategies of research and development, the network of distribution, the possibilities of market input and output). If we start with a normal game ($x_1, \dots, x_n; u_1, \dots, u_n$) we will assume that the players behaviour is decentralized, each of them having to chose alone a strategy, ignoring any decision of other players. The communication

¹⁸⁹ Kreps D. M., *Théorie des jeux et modélisation économique*, Ed. Dunod, Paris, 2002,p.136.

possibility between players is excluded. There is no initial result or a game history which could emphasize the strategies used more frequently than the one of the others. We can take into account all the strategies as being a priori equally possible and also the choice of the best strategy.

In order to determine a *non-cooperative* behaviour the controlling strategies can be removed. Strategy Y_i of player “i” is controlled by strategy x_i (where the results $(x_1, \dots, x_{i-1}; y_i, x_{i+1}, \dots, x_n)$ represent a non – controlling assembly of strategies of player “i”) when whatever would be the strategic choice of other players, the use of x_i is at least as profitable for “i” than the use of “ y_i ”, meaning strategy “ x_i ” better than y_i . The games which have an equilibrium regarding the controlling strategies will be the decentralized solution of the non-cooperative game.

The strategy used by the company of the Single Market depends on the forecasts made on the reactions of the competitor companies, its analysis can be achieved with the help of the “game theory”. In this game each player must choose between a *pacifist strategy and an aggressive strategy*. The results of this game are described in picture nr.1.

		Y*	
		Pacifist	Aggressive
X*	Pacifist	(2, 2)	(0, 3)
	Aggressive	(3, 0)	(1, 1)

Fig. 1 — Game matrix of the Single Market.

In picture 1 each of the four boxes in the game matrix represent a result of the game with use of X^* in left and use of Y^* in right. We can verify if the pacifist strategy of a player is controlled by his aggressive strategy. In our situation the game has only an equilibrium in controlling strategies (aggressive, aggressive) which corresponds to an open price war of the Single Market. Such a result is not acceptable because the result “peace” meaning (pacifist, pacifist) is proffered by the two players in other words the war is not an optimal Pareto. The dilemma of the game shows that for a player which is not entirely sure on the pacifist intentions of its partner the use of the aggressive strategies is needed to follow the individual interests but the mutual interest recommends that everything has to be done in order to obtain a pacifist result.

The dynamic approach of the economic reality goes to the change of parameters of the variables which economic and social life. The key to survive in case of economic games is the capability of the companies to adjust their strategies to the environment which is in continuous change¹⁹⁰. A correct forecast of the future events it is necessary. The cross - impact analysis, the request - hazard forecast as well as other numerous scenarios are just a few of the methodologies used in economic forecasts.

4. Conclusions

In the economy structural changes and oscillations are the rule and not the exception and the stationary states become instable when certain parameters vary. The economic actors have different behaviours on the Single Market which have different consequences depending on the number, relative size and strategies approached by the other economic actors. Starting with the rationality hypothesis when the agent’s contentment is affected by the others decisions the game theory defines solutions for solving the situations of conflict.

¹⁹⁰ Sirghi Nicoleta, *Microeconomie Aprofundata. Teorie si aplicatii*, Editura Mirton, Timisoara, 2008, p.92.

The economic level of the competition can be considered as a mechanism of resources allocation which allows, in many cases, the promotion of the economical efficiency. The game theory contribution to the development of the competition politics can solve some problems related to the price system and to the intelligence exchange. For this reason the notion of competition was and is related first to the behaviour hypothesis of the economical agents and second to the relative hypothesis of the market operation. When the coordination of the individual actions is adjusted by competition, each economic agent must forecast the other agents' actions and then maximise depending on the results their own behaviour.

Conducting a study in a dynamic environment regarding the Single Market represents a very important problem of the contemporary economy. We are interested in the theoretical results which are revealed in literature regarding the theory of games starting with the key concepts of this one: games, strategies, balance, game value, etc. The research is focused on the main oligopoly market structures from the microeconomics point of view. For this reason it is an opportunity to study the structure of oligopoly type of markets with the aid of non – cooperative games.

The use of the game theory as reference framework regarding the representation of the economic agents' on different market structure opens the way for an expansive field of investigation. The problem of the economic agents is no longer. The problem of the economic agents is no longer conducting studies for the operation of the perfect competition markets but to analyse the means in which they can coordinate the decisions, in dynamic configurations in a competitive environment affected by risk and uncertainty.

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GENDER DISPARITIES IN THE ENTREPRENEURIAL FIELD IN WESTERN ROMANIA

Tănase Adrian

University “Eftimie Murgu” of Reșița

Faculty of Economics and Administrative Sciences

Tănase Diana

University “Eftimie Murgu” of Reșița

Faculty of Economics and Administrative Sciences

The entrepreneurial spirit may develop in any economic sector and any type of business, both in the case of men and women, it is applied to a wide range of organisations, from family businesses to large companies, irrespective of the structure of shareholders, from NGOs to companies gone public on the capital market, firms from all sectors of activity.

As regards the gender disparities in the entrepreneurial field, studies reveal the fact that although the two genders are similar, women entrepreneurs differ from men through motivations, their business ability and occupational past.

Although the gender differences are still important, the number of women entrepreneurs has significantly increased compared to the previous period.

Keywords: entrepreneurship, gender disparities, motivations

JEL classification: L26, M13, M21

1. Introduction

According to the definition of the MacMillan Dictionary of Modern Economics¹⁹¹ the entrepreneur is the factor who organises the manufacturing process, is in charge with the economic decisions regarding what is produced, in what quantities and through which manufacturing methods.

Entrepreneurship is first of all a state of mind referring to the motivation and capacity of an individual to identify opportunity and follow it with the purpose of producing value or economic success.

Entrepreneurship means people and refers to the decisions they make and to their actions in starting, taking over or managing a business.

Although the financial independence is very important, some people say they choose to become entrepreneurs motivated not only by potential earnings, but especially by the challenges the business world implies. For others, who do not feel fulfilled by the position of employees, the chance to become entrepreneurs present the opportunities they need in order to build a better position. It was found that the satisfaction provided by work is higher among entrepreneurs than among employees.

Some persons are involved in the entrepreneurial activity because they have identified certain attractive business opportunities, whereas others are involved in entrepreneurship because they do not see another way of earning their living. For those attracted to entrepreneurship one may identify two major reasons of opportunity, i.e. independence and increase of revenues. The other motives of involvement in entrepreneurial activities are the necessity and the maintenance of the present revenue level.

¹⁹¹ MacMillan Dictionary of Modern Economy, Codecs Editions, 1999, p. 216.

Women are motivated, in general, by their need for independence and achievement, resulted from the frustrations related to the place of work. In contrast, men tend to be led by the desire to be in control, to try new things.

In terms of personality, women and men entrepreneurs match the classic success profile, proving courage, energy, discipline, orientation towards goals, enthusiasm, innovation, persistence, passion, vision, orientation towards the customer and desire of commitment to hard work. In comparison with men, women tend to be more flexible, balanced and tolerant, more realistic. Some researchers pointed out that women are more prudent, more confident, less aggressive and more easily persuaded, with more reduced abilities of leadership and problem-solving, when decision making implies certain risks.

Moreover, women have been described as being dependent of those around them, as caring more about the others; the tendency towards ethic behaviours is more powerful among women, being less likely that women grant incentives for closing a deal.

2. Dimensions of the entrepreneurial phenomenon in the west of the country

Actually, typical studies on women entrepreneurs are focused upon their distinct individual features (motivations, personality traits, experience) or upon the characteristic of the firms they have created (size, sector of activity, management style, strategies adopted by women, performance of the business led by women).

Similarly to the entire country, in the western Romania (Maramureş, Satu Mare, Timiș, Bihor, Arad or Caraș-Severin), although the increase of business owned by women is encouraging, their size is reduced in terms of earnings and number of employees, compared to men's businesses.

Moreover, if as regards the rate of the active population registered in Romania's western counties we find that the data, as they are presented by the National Institute of Statistics, do not reflect the existence of certain gender disparities (the average of these counties is of approximately 96% both for men and for women), in the case of business ownership the discrepancies are still very high between women and men.

By comparison, we may remark that men are more frequently found in the role of company managers, but also among the self-employed (natural authorised persons) in the year 2008.

As regards the number of natural authorised persons (self-employed persons) legally registered until 31 December 2008 (table no. 1), in Timiș county there are only 8348 such entities, less than in Maramureş, Satu Mare, Bihor, Arad; in Caraș-Severin, at the level of the year 2008 a number of 4940 self-employed people were registered. Moreover, we find that in Timiș the number of women registered as self-employed is not even half, compared with the number of men (43.39% of the number of men).

Table no. 1

Self-employed persons legally registered until 31 December 2008

	MM	SM	BH	AR	TM	CS
Women	5955	3528	4024	6277	2526	1896
Men	8848	5512	6528	10136	5822	3044

Source: *National Office of the Register of Commerce, 2009*

Although at a different level, discrepancies are found in all the other analysed counties, where the number of self-employed women is nevertheless above the half of the number of men, the less gender difference are registered in Maramureş county (but here also, the number of self-employed women is much more reduced than in the case of men, because their percentage is only 67.30% of the number of men registered as self-employed).

Table no. 2

Managers of companies registered in 2008

	MM	SM	BH	AR	TM	CS
Women	710	1455	1039	870	1569	399
Men	1985	1592	2754	1956	3792	772

Source: *National Office of the Register of Commerce, 2009*

As regards the management of a company (table no. 2), we remark that in the Timiș county we encounter the highest number of businesspeople, but the gender differences are found also in this case (1569 women and 3792 men).

In the Timiș County also, we register the highest number of women administrators of small and medium companies (table no. 3).

Table no. 3

Administrators of small and medium companies registered in 2008

	MM	SM	BH	AR	TM	CS
Women	4967	4006	8659	5455	9834	2186
Men	10444	7698	17012	10740	20957	4168

Source: *National Office of the Register of Commerce, 2009*

Although the figures in this field, as they appear at the county level, are higher than the national average, the gender disparities are evident, if we were to relate of the number of women and men who are managers of companies, administrators of SMEs, or self-employed persons.

According to the data supplied by the Office of the Register of Commerce, in the Maramureș county there are 4967 women managing SMEs and 10,444 men. Nevertheless, the density of companies in this county is much more reduced in comparison with the regional or national average, as there is a percentage of 16.96% companies per 1000 inhabitants (the regional average being of 26% companies per 1000 inhabitants). We refer mainly to SMEs preponderantly led by men.

One particular fact draws our attention by far, i.e. irrespective of the type of incorporation, the Caraș-Severin county ranges last, as the number of entrepreneurs is much more reduce compared to any of the other analysed counties.

The potential of creating small enterprises in Caraș-Severin county is limited, as there are few people who dispose of private capital, and the banking systems offer a very reduced access to capital. However, where experience was present, solid businesses were created, that efficiently used the valuable management resources and where access to western markets was, there also occurred remarkable results. In other cases, management was confronted with the issue of formulating and implementing a good strategy of survival and development.

As for the gender differences, we remark that in this county also the women managers are much fewer compared to men, but the latter are very few in their turn.

We may remark the fact that in all the analysed counties the number of men managers of SMEs is approximately double than that of women, the discrepancies being more obvious in the case of the managers of large companies (table no. 4), in the latter case the number of men being seven or eight times higher than that of women.

Table no. 4

Managers of large companies registered in 2008

	MM	SM	BH	AR	TM	CS
Women	33	13	38	83	67	11
Men	121	67	141	220	264	89

Source: *National Office of the Register of Commerce, 2009*

On the other hand, we must underline that along with the increase of the number of newly-founded companies, the number of companies created and/or managed by women has increased as well.

We also wish to highlight the concentration of the SMEs in the region dealing in the field of textile industry, a field toward which especially women tend to orient themselves.

The feminine entrepreneurial culture in Romania is closely connected with the attitude of society towards the status of women managers. In a traditionally patriarchal society that expects women to be first of all good administrators of their home (i.e. good mothers and skilled housewives) it is difficult to feel integrated into the men-dominated entrepreneurial world.

Moreover, the segregation on the labour market has major influences also upon the entrepreneurial tendencies of women. Similarly to the labour market, in the field of entrepreneurship the women's interest is also oriented toward traditionally feminised sectors.

It was found that the domains in which women work are preponderantly traditionally feminine, e.g.: public administration, commerce, education, housekeeping, and social work. Nevertheless, their interest for self-improvement are focused on exact domains and sciences such as: finances, management, environment protection, tourism, human resources or methodology.

And yet, women face a series of difficulties men do not normally encounter. The banks and other financial institutions are more conservative and reluctant to grant loans to women entrepreneurs. An explanation is the fact that some banks assign successful entrepreneurs' traits especially to men.

3. Conclusion

The decision to start a business in the case of women is more complex, as they are usually more connected than men to the obligations related to family.

On the other hand, the starting points and the motivation to start a private business are similar for men and women, although women tend to be more motivated by the need of achievement resulted from the frustrations at the place of work, provoked by the lack of opportunities of promotion and talent manifestation, both genders have a strong interest for the domain of the firm.

As regards the sources of financing, women generally rely on the personal assets and savings, as women get loans from banking institutions with more difficulty than men.

We also found that in general the personality traits are similar for men and women entrepreneurs. Both men and women are energetic, independent, sociable. However, men are often more self-confident and less flexible and tolerant than women, which may led to the existence of very different management styles.

The nature of businesses led by men and women are also different. Women tend to start a business especially in the field of services and retail. Consequently, the businesses owned by women are often smaller, and their revenues more reduced than those of men. However, the business opportunities for women have an unprecedented growth tendency, as the field of services exhibits an accented development trend.

As shown by one of the most complex studies in the field of feminine entrepreneurship in the year 2007¹⁹², we may underline the following:

- Potential women entrepreneurs are 35 years of age on the average and they have around 8 years of experience. Most of them (62%) have studies or training in management and business administration r;
- While the new and potential women entrepreneurs declare that their main motivation to start a business is the opportunity to earn higher revenues, the

¹⁹² Driga Otilia, Lafuente Gonzales Esteban, *Feminine entrepreneurship in Romania – Personal traits and effects of socio-cultural variables*, CEBR, 2007, p. 9.

SMEs owners consider that their main motivation is the identification of a business opportunities they wanted to take advantage of;

- The social status associated to entrepreneurs and the feeling of respect towards them are perception factors positively influencing the decision to become an entrepreneur;
- The existence of positive entrepreneurial models stimulate the activity of women entrepreneurs in Romania. 38% of the women who have not started a business yet, but intend to do it in the future, declare to have acquaintances that are entrepreneurs within their social circle (family, friends). In comparison with men entrepreneurs, women however dispose of less entrepreneurial examples. This result confirms the results obtained in empirical studies at the international level and to support the idea that women, because of their exclusion along time from economic and social life, dispose of less entrepreneurial examples.
- Women tend to start smaller businesses than men entrepreneurs. Considering the initial number of employees as the size criterion for the business, this number is of 3 employees in the case of women and 4 in the case of men. Nevertheless, the businesses of Romania women entrepreneurs tend to develop more rapidly by a growth rate of approximately 39% compared to 31% in the case of men.
- Women entrepreneurs in Romania are involved in international business more than men entrepreneurs. 13.2% of the products or services provided by firms created by women are dedicated to export while this percentage is of 13.14% in the case of men.

Consequently, we may conclude that although the gender differences are still important, the number of women entrepreneurs has significantly increased compared to the previous period. The modification of family life and professional activity made more and more women get involved in business. Women entrepreneurs are different from the other women by the fact that they are more inclined to assume risks, they are more decided and firm and they exhibit a higher desire to control their own destiny.

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DEVELOPMENT OF ENTREPRENEURIAL ACTIVITIES – PREMISE OF THE INCREASE OF ECONOMIC COMPETITIVENESS

Tănase Diana

University “Eftimie Murgu” of Reșița

Faculty of Economics and Administrative Sciences

Tănase Adrian

University “Eftimie Murgu” of Reșița

Faculty of Economics and Administrative Sciences

In the context of the integration into the European Union, the issue of the increase of firms' competitiveness has become essential for Romania's economy also, which requires as a mandatory condition the elaboration and application of certain clear strategies, both at the level of firms, and of the Government's, with specific goals and actions.

Although it has made certain progress, Romania has significant competitiveness delays compared to the EU member states.

In this context, development of entrepreneurial activities is a premise of the increase of economic competitiveness.

Entrepreneurship is first of all a state of mind referring to the motivation and capacity of an individual to identify opportunity and follow it with the purpose of producing value or economic success.

Keywords: entrepreneurship, competitiveness, development

JEL classification: L26, O10, R11

1. Entrepreneurship and competitiveness– overall perspective

After several years of rapid and almost unhindered growth, the global economic landscape has changed. The raise of energy and food prices, the international financial crisis and the slow-down caused by it confronts the managerial policies of the present economy with new challenges.

The present context has underlined the importance of competitiveness that can help national economies survive these types of shocks, with the purpose of assuring economic performance in the future.

Competitiveness is a complex concept, largely debated at present by economists and politicians throughout the world.

Representing the highest degree in which, under the conditions of a free market, a nation is capable to produce goods and services that can be successfully launched on the international market, contributing thus to the increase of the living standard of its citizens, competitiveness is a challenge, which applies not only in the case of nations, but also at the level of each of the actors of the national economy.

Competitiveness suggests security, efficiency, quality, high productiveness, adaptability, success, modern management, superior products, and low costs.

Creativity or innovation are needed in order to access and become competitive on a market, to change it or even to create a new market. Moreover, in order to turn a business idea into success one needs the ability to combine creativity or innovation with solid management principles.

In relation with the remarkable importance of *innovation*, P. Drucker¹⁹³ underlined the following: *“innovation is the specific instrument of entrepreneurs, the means with which they exploit change as an opportunity for various businesses or services; it can be also represented as a subject and*

¹⁹³ Drucker P., *Innovation and the entrepreneurial system*, Encyclopaedic Publishing House, Bucharest, 1993, p. 19.

thus it can be learned and practised. Entrepreneurs must seek with precise purpose the sources of innovation, its changes and symptoms, which indicates for them favourable opportunities for successful innovations. They need to know and apply the principles of successful innovation.” Furthermore, entrepreneurship contributes more and more to the creation of new jobs. One remarked at the global level that small firms and not large firms created most jobs. Studies have shown that entrepreneurship can significantly contribute to the stimulation of economic activity, to the integration of the unemployed and social disadvantaged groups, contributing thus to the economic growth of a country.

2. Stimulating factors of entrepreneurship in our country

The new entrepreneurial initiative, the start of a business or the reorientation of an exiting one (after the transfer of a business to a new owner), the support for productiveness - all these raise the pressure of competitiveness, forcing other firms to react by enhancing efficiency.

The increase of efficiency and innovation within the firm, in products, services or markets, raise the force of the competitiveness of an economy as a whole. This process brings thus benefits to all participants in economic life, and thus not only to entrepreneurs, but also to consumers, who have the possibility to choose the best existing offers.

Although slight progress has been registered in our country lately, there is not yet an entrepreneurial culture and consequently the State institutions, the academic institutions and the SMEs recognise the necessity to act in this direction. The limited number of studies on entrepreneurship in Romania made entrepreneurship itself remain in a continuous state of inferiority (because of the absence of resources put at the disposal of universities and governmental agencies).

In spite of the improvement efforts under progress, entrepreneurs identify *bureaucracy* as being a major obstacle in the way of business operations, especially for those who desire to operate and develop within the European market. The legislation is not generally differentiated in accordance with the size of the firm and thus it disproportionally affects smaller companies. The local public authorities must be encouraged to think at the micro level at the beginning and keep the legislation as simple and appropriate as possible.

Adequate *fiscal measures* can contribute to the development, growth and longevity of companies. The structure of the fiscal system, including income tax, corporate tax, labour tax and VAT influence the capacity of firms to expand. The complexity of the fiscal systems is in itself an administrative burden for entrepreneurs.

As the rates of marginal tax raise, the entrepreneurs tend to expand their own business more slowly, to invest less and to employ less personnel. The level of the labour taxation can also be a decisive factor in the decision of the firms in our country to employ staff. The fiscal reform in the past year have not contributed to the creation of a clearer trend as regards the creation of small and medium enterprises, as the labour taxation is still high.

On the other hand, the strangulations on the labour market create barriers in the way of development and one must intensify the qualification efforts for workers.

Although unemployment still constitutes a major challenge for Romania, the recent years have exhibited higher difficulties in *recruiting labour force* in certain regions and counties. The firms already respond to the qualification voids, for instance, by providing formal or informal training for their own staff.

Consequently, we are currently witnessing the need to make sure that most qualifications of the local, regional and national labour force correspond to the economic and technological evolution. The permanent enhanced training represents an effective means of getting a qualification.

Moreover, *the access to financing* is indispensable for development, but most SMEs encounter difficulties such as: the risk capital market is underdeveloped and banks avoid more and more risky loans.

Furthermore, in order to deal with the challenge of a harsh competition, entrepreneurs must be encouraged to innovate and to tend towards the internationalisation of the business. For this reason, they must have *access to knowledge, relevant contacts, specialisation and support* for a first-rate business.

SMEs consider that the Single Market has led to a higher competition, but also to new opportunities of expansion. The competitive pressure makes firms continually exploit knowledge and innovation. Firms can modernise themselves in different ways, including by means of technologic development, quality management, new modalities of work organisation or distribution channels. The human capital is important for creating innovating ideas.

A stimulating factor for encouraging entrepreneurship is also the *business incubators*, a facility putting at the disposal of small entrepreneurs, besides working premises, centralised services of secretarial activities, guarding and cleaning, a package of consulting and business services. In the period of incubation, ranging from 1 to 3 years, the newly-established firms, those in their first years of operation or in their first years of crisis are assisted by the consulting team of the incubator to develop managerial and operation capacities in order to become viable partners of the local business community.

A study performed by GEM (Global Entrepreneurship Monitor) and forwarded in Romania's country report 2007 – Global monitoring of entrepreneurship – highlights the features of entrepreneurship in Romania in an international comparison:

- absence of entrepreneurial tradition, activity and education before the '90s during the socialist period;
- unfavourable entrepreneurial environment in the transition period of the '90s;
- in the period of economic growth, after 2000: acceptance by the population of jobs offered by the large companies, as they are perceived as having a lower risk.

The explanation for the rather low level of entrepreneurship development in Romania can be found in the restrictions faced by small companies as regards resources and their vulnerability related to the environmental changes and uncertainty, the enhanced comprehension of factors and mechanisms explaining the development of firms¹⁹⁴.

3. Conclusion

In the present context of economic crisis, both new SMEs and the existing ones are confronted with financial problems and especially with the absence of resources, limited access to loans and absence of customers, increase of the number of customers with due payments.

As for demand, entrepreneurs consider that their problems depend on the constraints of their competition on the sales markets and the lack of economic resources of their potential customers. Thus, in the context of the economic and social changes exhibited at the national level as a result of the global financial crisis, we find that the labour market is undergoing a continual change. The high rate of BIM unemployment or the absence of prospects of economic investments able to stimulate the development of local communities are factors generating stagnation or social crisis. This reality highlights the need for the intervention of public institutions or other non-governmental organisations for the support of entrepreneurship development. The need for information, counselling, professional training or creating a support network for entrepreneurs or for those who desire to become entrepreneurs can be palliated by certain legislative regulations, efficient programmes and projects able to respond to the specific needs of this category.

Under these circumstances, entrepreneurship can contribute to the economic and social growth in the area whose development is delayed as it is, by stimulating economic activity and creating new

¹⁹⁴ Lafuente Esteban, Rabetino Rodrigo, *Human capital as a determinant of small firms growth in Romania a quantile approach*, CEBR, Working Paper Series 03 – 2007, p. 10.

jobs, **all the above contributing to the regional development and implicitly to the increase of economic competitiveness.**

Entrepreneurship is crucial for competitiveness, as the raise of efficiency and the introduction of innovation in companies, either related to management, processes, products, services or markets increase competitiveness among competitors, and leads to the obtaining of new products and to the reduction of prices.

Entrepreneurship offers the possibility of exploiting the creative potential of the person, as owning a business is not only a way to earn money, but also a modality to earn independence, to deal with a variety of challenges and thus to reach a higher level of satisfaction.

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DE MINIMIS AID FOR LOCAL ECONOMY DEVELOPMENT

Tileagă Cosmin

**“Lucian Blaga” University of Sibiu
Faculty of Economic Sciences**

Moga Ilie

**“Lucian Blaga” University of Sibiu
Faculty of Economic Sciences**

Abstract: Considering the current particular economic situation but also the community regulations developed by the EU Commission to diminish the crisis effects, we believe that local institutions should still take into consideration measures to encourage investments and creating work places by supporting potential investors, which very often have to confront against difficulties in accessing funds. However, unlike large sized companies, small and medium sized ones are confronted to this issue of accessing funds. This global economic situation, not only affects severely the economic situation of most solid enterprises and their employees on short term, but it also has negative effects on long term. In this context we have to stress the fact that future investments from the common market of EU, especially those that concern the long term development and other strategic objectives from Lisboan, could be delayed or even cancelled.

Keywords: minimis aid, European Community, legislation, Council of Competition, fiscal benefit

JEL code: H71, O11, P25

I The content of de minimis aid for stimulating investments and creating workplaces in local economy

The minimis aid schemes for stimulating investments and creating new workplaces follow the criteria's and conditions provided by the EU Commission Regulation nr.1998/2006 regarding the minimis aid for the application of art.87-88 of the Treaty establishing the European Community, published in the OJ nr.379/5 since 28 oct 2006. These schemes are exempted from the prior notification of the EU Commission, according to art.3.E.C Regulation nr.800/6 aug 2008 that declares certain aid categories compatible to common market.

Through this scheme, the minimis aid is granted only if the criteria's of the EC Regulation nr.1998/2006 are respected and followed. This regulation mentions that a measure up to 200.000 Euros for a company over a period of 3 years does not represent a truly state aid. Therefore, the companies that invest more than 500.000 Euros (new buildings) and create workplaces in an area, can benefit of building tax reduction, accessing the minimis aid schemes for stimulating investments and creating new workplaces in that area. The scheme is approved by the Local Council in that area and it can be applied from that moment to a period of at least 5 years, and all the companies that invested and requested a tax exemption have to benefit of the scheme facilities. Such a minimis aid scheme has to provide the whole procedure of granting fiscal benefits in the form of building tax reduction.

The minimis aid scheme's objectives are:

- regional development;
- sustain the development of small/medium companies in that region;
- increase the rate of employment;
- stimulating enterprises which develop economic activities with profitable effects both economical and social.

The general objective should be the regional development in all the 3 main areas of local economy: industrial production, services, commercial activities and tourism.

That certain area can pursue, by applying this scheme, on the one hand a regional development attracted by fiscal facilities in the form of building tax reduction for the companies that invest more than 500.000 Euros, and on the other hand creates a certain number of workplaces. People who issue the scheme should estimate the budget on the whole period (ex.5 years), but also on each year, because granting fiscal benefits is based on 3 criteria's:

- the value of the investment;
- the number of employees;
- the profit of the enterprise.

As a consequence, according to the norms, the building tax reduction(fiscal benefit) varies based on the value of investment, the number of employees and the profit of the company. For example:

-Investments- for investments between 500.000-5.000.000 Euros the reduction is 15%, and for investments over 15.000.000 Euros the reduction can go up to 60%;

-Employees - for creating 20-80 workplaces the reduction is 5% and if more than 300 persons the reduction can go up to 20%;

-Production activity - 20% reduction in services, commercial activity - 5%.

For all the activities, the gathered minimum reduction percentages can go up to 25% and the maximum to 100% from the building tax for a period of at most 5 years.

Beside these 3 criteria's the investment has to be eligible, meaning it has to consist of building industrial hales or other buildings for placing the company's activity. The fiscal benefit solicitor has to invest over 500.000 Euros in building and create new workplaces as a consequence of the investment in a certain area, this being another eligibility condition .Worth mentioning is the fact that the whole value of the minimis aid granted to a company over a period of 3 successive years (2 past fiscal years and the current one),gathered with the value of financial allocation granted conform the respective scheme must not exceed the equivalent of 200.000 Euros, regardless the area of activity, and for the companies that activate in transport must not exceed 100.000 Euros. These limits apply to all minimis aid forms, regardless the objective pursued or the financing source (nation, communitary).The fiscal benefits provided by the minimis schemes are granted only for new buildings, regardless their economic purpose.

The aid provided by the scheme can be granted through the decision of the local council for each recipient, based on a request and a file completed with all the fulfilled eligibility criteria's/conditions.

II The minimis aid scheme's content for companies that place their activity inside industrial parks in an area

Through these schemes, minimis aid can be granted in the form of property tax exemptions provided in the art.250 line 1 point 9 and art.257 from Law nr.571/2003 regarding the Fiscal Code, upgraded, for the enterprises which place their activity inside industrial parks in an area. This aid is exempted from the prior notification of EU Commission, according to EC regulation nr.1998/2006 for the application of art.87-88 from the Treaty of establishing the European Community. The minimis aid is granted by such a scheme if the above mentioned minimis criteria are provided by the EU legislation are respected and followed.

According to OUG nr.117/2006 (Government decision) approved by Law 137/2007 regarding the state aid national procedures, the mayor of that area can issue a decision approving a regulation regarding state aid procedures, after receiving the prior notice from the Council of Competition. The above mentioned procedure is based on art.250 line1 point.9 and art.257, (l) Law 571/2003 regarding the upgraded Fiscal Code, where the buildings and lands subjected to tax exemption are established. In this sense, the real estates and sites part of industrial, scientific, technologic parks are mentioned.

This sort of fiscal benefits are state aid measures because they gather the necessary elements for state aid, transforming the economic and business environment because:

- they create an economic advantage;
- they are selective;
- they are granted by the state or administrative-territorial authorities from sources administrated by themselves;
- distort or threat to distort competition.

Therefore we can conclude that companies can benefit of fiscal facilities for the estates and terrains placed inside industrial parks, in the shape of state aid.

As a consequence, respecting the lines of art.1 (5) Law 571/2003 regarding Fiscal Code, “any fiscal measure that represents state aid is granted according to OUG (Gov. decision) nr.117/2006 regarding state aid national procedures, approved by Law 137/2006”. In this sense, art.3 line 3 from the above mentioned government decision says that “granting state aid measures involves the issue of state aid or individual state aid schemes.

1 Implementing the minimis scheme

The minimis scheme should contain the eligibility conditions but also the exact way of implementing the scheme. Therefore, according to chapter III from HG regarding minimis aid granting for the development and modernization on companies since 26 Nov 2007, only companies that fulfill all the eligibility criteria`s can benefit of special individual allocations, based on the minimis aid scheme. The eligibility criteria`s are:

- are registries according to Law nr. 31/1990 regarding small and medium companies (framed by Law nr. 346/2004);
- activate in the areas specified in the appendix nr.1 to HG regarding the grant of minimis aid in 26 Nov 2007;
- were granted minimis aid that doesn't exceed the 200.000 Euros limit on a period of 3 consecutive years prior to the date of soliciting;
- have an investment plan which reflects the way the sums will be used
- are not in debts to the state (general budget);
- are not in the middle of bankruptcy, judicial reorganization, forced execution, operational closure
- do not find themselves in the “companies in difficulty” category, according to EC Communicaton - *lines on State aid for rescuing and restructuring firms in difficulty, published in OJ of EU - C244/2 since 1 oct 2004*
- no decision of recovering a state aid was issued or if it was, it has been executed;
- no illegal aid was received.

Therefore, the request of solicitor (company) for granting fiscal benefits completed by the justification documents is lodged at the Local Council of that area. In term of 10 working days all the requests go to Fiscal Direction from that area, to issue the file for each solicitor. After the evaluation of each case, a proposal is made, whether the solicitor should or not be granted this kind of facility. The facilities are actually being operated only based on the decisions of the leader of that Fiscal Direction.

To ensure a suitable transparency and an effective control of minimis aid, the local council, through the Fiscal Direction, communicates the scheme to the Council of Competition (applying this way the lines of O.U.G. nr. 117/2006 regarding the state aid national procedures) in term of 15 days since it was adopted.

The local council from that area, through the Fiscal Direction, as a state aid supplier, communicates each year the Council of Competition a report regarding the implementing of the granted minimis scheme. At the same time the allocated budget for that certain scheme is but also the content of “The minimis aid scheme” that all the companies that place the activity inside the industrial parks of that area can benefit of, compulsory published on the local council's site.

As a consequence, the agents of the Inspectorate of Competition, together with the agents from the Fiscal Direction from that county can organize work sessions for ensuring professional assistance to find best ways of granting such fiscal facilities from local financial sources. For example, these would consist of building tax reduction over a period of 5 years, starting right from 1st January 2010, that would generate an intense economic growth and fulfill all the conditions and criteria's established by the approved minimis scheme. *We have to outline the fact that we, the people who started this project have to participate too, as well as the agents of the special direction of the Council of Competition, who can make observations about each structure of the scheme.*

In this context, the Council of Competition can mention its attitude and position if such a minimis aid scheme is the right option or not in the current economic context of granting fiscal benefits.

Moreover, for implementing a minimis aid scheme, the agents of the business environment should be taken into account. This way, through the minimis aid scheme which pursues to create workplaces in that county, the investors bond tight with the local administration, because the estate tax is very high, and the effective reduction of this tax gives the investors a positive signal, at the same time being found solutions for the economic and financial crisis. Nevertheless, this is not either the first or the last measure adopted by the local administration in order to attract investors.

This kind of initiatives should be intensely brought up in the local media, because minimis aid schemes for stimulating investments and creating new workplaces, should be known by those interested in order that all the economic activities influenced by the local administration, contributes to the diminishing of economic crisis effects and improve the standard of living of the population living in that county.

2 EU's economic straightening proposals

Beside the "traditional" state aid instruments, The European Commission decided, in the context of global economic crisis, to make the conditions for granting certain state aids more flexible. In this context, at the end of 2008 (26 nov), the EU Commission adopted the "*Temporary Framework for State aid measures*" (Communication from the Commission — Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis OJ – C.O.16 din 25 feb 2009). This legislation frame purses to allow state members to grant state aid to firms who are confronted with difficulties in accessing funds.

The state aid that can be granted based on this temporary framework are:

- a) state aid in the form of 500.000 Euros/firm;
- b) state aid in the form of guarantees;
- c) state aid in the form of interest rate subsidy;
- d) interest rate subsidies to loans for investing in ecological/green products.

1) State aid in the form of 500.000 euros/firm

This aid is considered compatible with the common market by the EC if the following conditions are cumulated:

- the aid is granted in the aid scheme form;
- the aid must not exceed 500.000 Euros/firm;
- the aid is not destined to export or privilege intern products over imported ones;
- the aid scheme does not apply to firms that activate in primary production of agricultural products and those from fishing;
- before granting the aid, the supplier asks for a declaration from the firm regarding any minimis aid and any aid granted according to this measure in the current financial year and checks if the aid will not lead to the raise of the total value of the aid received between 1st January 2008-31st December 2010 that can exceed the limit of 500.000 Euros;

-the aid can be gathered to other aids granted according other schemes .notified or exempted from notification, with the condition of respecting the intensities provided by this scheme.

II) State aid in the form of guarantees

This aid is compatible with the common market if the following conditions are cumulated:

-a small or medium enterprise can be granted an up to 25% annual prime reduction that has to be paid for the new guarantees according to the level of safe-harbor provided in the appendix to the temporary framework;

-large enterprises can be granted an annual prime reduction up to 15% calculated on base of the same prime;

-the maximum value of the loan must not exceed the salary annual cost (included the budget obligations) of the recipient for 2008. In case of firms established after 1st January 2008, the maximum value of the loan must not exceed the estimated annual cost with salaries for the first 2 years of activity;

-the guarantee must not exceed 90% of the loan, the whole period of the loan;

-the guarantee applies to investment loans but also for work capital loan;

-the guarantee prime reduction applies only on a perios of maximum 2 years since the guarantee grant.

d) interest rate subsidies to loans for investing in ecological/green products

Communitarian regulations provide that this type of state aid is compatible to common market if the following conditions are cumulated:

-interest reductions are granted only to loans for investments destined to financing projects that pursue the production of new products that improve significantly the environment protection

-this aid is granted not only for starting a new project but also for an existent one, if its progress is necessary, taking into account the special economic situation;

-the financed projects consist of fabricating products that imply the anticipated adjustment to future community standards and the investment should start before 31 dec 2010 and the new product should come out on the market at least 2 years before the standard;

-the loans can cover investments costs in tagible and intangible fixed assets;

-the loans should be granted until 31 dec 2010;

-the interest rate reductions can reach 25% for large firms and up to 50% for small/medium firms, being taken into consideration the risk factors of the company;

-the subsidies interest rate applies for a period at most 2 years since the grant of the loan

In the context of economical-financial crisis, the banking system plays an important part. Concerning the state aids that can be granted to banking sector, a high authority from the General Direction of Competition of EC, said that the “banking stability is the most important element to limit the extension of negative effects of financial crisis over real economy”. The banking system was in danger of crashing but EC activated the article that allows state aid grant in crisis situations and permits the regulation of problems in state members.

This context includes also capitalizing of CEC Bank with the sum of 900 million lei and Eximbank, with the sum of 170 million lei, taking part in the anticrisis measures program included in the Romanian budget in 2009. The CEC Bank and Eximbank funds will be used mainly to ensure co financing and granting projects accomplished from European funds and financing small and medium firms.

Moreover, “Prima Casa” (First House) and “Rabla” (Wrecked car) programs (the recipients are physical and legal persons) initiated by the Romania Government are a successful example according to official sources. The Council of Competition collaborated with the Government, Finance Ministry, banking sector so as to find the most acceptable solutions for these programs so that no more competition problems, and the program is as quick as possible operational.

Another example: EC authorized for Romania through Decision 467/2009, the state aid scheme for supporting investments in extending and modernizing the distribution lines of electric energy and natural gases notified by Romania authorities.

The total budget of the scheme is 28.400.000 Euros, and the state aids will be granted in form of non-reimbursable financial allocations from EU and national funds. This state aid scheme, initiated by the Economy Ministry, will be implemented in applying the proprietary Axe 4 "Raising the energetic efficiency and the security of supplying in the context of climate change" in the frame of Sectorial Operational Program "Raising the economic competitiveness".

As a *conclusion* to the above information, we can affirm the fact that granting fiscal benefits is, usually the creditor's attribute, but unfortunately, there are some exceptions provided in the Fiscal Code, that, in our opinion, are not necessary. For example, *it is not natural for a creditor (ministry) to grant fiscal benefits on behalf and on the account of other creditor (local public authority)*. In this case, fiscal benefits related to local budget obligations should be granted only by the administrator of the local budget (The Local Council) through its documents. Proceeding the modification of the norms of Fiscal Code, the local autonomy principle would be exactly respected, a main principle in the context of EU integration. Thanks to these legislative modifications, the local public administration is offered the possibility of guiding better the local economic life, including with this fiscal aid. The fact that the state is the only competence to promote fiscal policy is acknowledged but, at the same time, respecting all the constitutional principles is necessary.

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THE FOREIGN INVESTMENTS IN THE ECONOMIES AFFECTED BY THE WORLDWIDE FINANCIAL CRISIS

Țirlea Mariana Rodica

“Dimitrie Cantemir” Christian University

Faculty Of Economic Sciences Of Cluj-Napoca

The direct foreign investments are related to the real investments and represent an investments undertaking in an economical object or in a services activity, which functions on the territory of another country. The resources for the direct investments can materialize in material or un-material assets, and offer the right or direct control over the economical agent where the investment was made.

Keywords: Direct foreign investments, portfolio investments, external financing, the capital offer and demand, portfolio investments oversea.

JEL Classification: G

Content

The modern economies, in the context of the worldwide financial crisis are more and more related of the international financial cash-flows which, in the context of global and economical integration actions, play at the same time the role of cause and of effect into these financial cash-flows.

In this situation, the foreign investments represent for suppliers and for paymasters, during this crisis period, an investment on long term oversea, and for users, these investments can be materialized in two ways: direct investments and/or portfolio investments.

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The foreign direct investments are considered a real industrially package, which contains: capital, technology, organization methods, managerially experience, marketing methods, modern financial instruments, etc, which allow to the paymaster to have the control over the funds users but, at the same time, creates premises for a sustained development, on performing coordinates for the direct investments users, even during this profound financial crisis.

The portfolio investments are related to the financial investments and represent found investments oversea, in securities (value papers, patent acts, programs, etc.)

They generally mean buying shares and bonds which are published by the public authorities (countries, local authorities), by economical agents with national or private capital.

In present, the financial market uses a lot of financial instruments related to the monetary market, but also to the capital market.

These foreign portfolio investments don't give to the funds suppliers the right to manage the activity of the value paper issuers, but they offer to the investors important incomes and/or financial wins specifically to the financial market.

Regarding the financing procedures, as forms of the most representative practices of international economical cooperation, the two big classes of foreign investments can be characterize:

- The direct investments, which can be realized by different ways:

co-production, under-production, mixed production or marketing capital companies, tripartite international cooperation, production on order, production licenses cession, common programs

and instruments of research, special technical assistance, international marketing specialization, common goods offer, mixed banks, international banking consortium, etc.

- The portfolio investments, financing by the capital quotation or extra-quotation market, futures contracts, options, international factoring (the financial technique), etc.

Despite the global present crisis, foreign investments can happen in all the economical domains: industry, exploration and natural resources exploration, infrastructure and telecommunications, civil, industrial and military building, scientific research and technological development, marketing, transport, tourism and banking and assurance services, as in many other activities.

But, in some domains are necessary prior advices (for example, for the foreign investments in telecommunications, is necessary the advice of the minister. For the military investments, is necessary the advice of the Defense Minister, etc), but there are also domains where is interdicted the creation of enterprises or companies with foreign or mixed capital, as for example the activities which represents country monopoly or in domains interdicted by the law, as the production and commercialization of drugs, occult activities etc.

By the aspect of the nature of resources in the external finance, there are the following classes of foreign investments:

- investments financed by the own available resources, mobilized by the foreign paymasters, which can be: big foreign economical agents, natural persons, entities or collectivities, foreign state;

- investments financed by the own available resources, mobilized by the foreign paymasters, which can be: big foreign companies, natural persons, entities or collectivities, foreign state;

- investments financed by the foreign banking and financial system from different countries, system which goes over an internationalization action;

- investments financed by financial international organisms;

Basically, the foreign investments are related to the capital offer and demand from the international financial market and it's possible to appreciate that, into the present international financial crisis, for any financial market it's impossible to ignore the international market, as well as, thanks to the present expansion of the financial transactions, a part of the financial assets available in a country are invested in an another country, and a lot of the funds needs of the economical agents of a country are covered by external resources.

The external capital offer is related to the strategy and to the international development strategy, to the external due problem, and, finally, to the global economical atmosphere. Hereby, the international development strategy from the 6-th development decade of the Unites States, which regarded the period 2000-2010, has established an economical growth with 7% on year, able to assure the employment, with acceptable salaries, at the same time with the creation of the necessary resources for the social protection and for the environmental protection. Particularly, the alimentary protection should have an annually growing rate of 4%, near the resolution of the demographical and environmental problems. In reality, these previsions could not have been accomplished in many countries because the extern capital offer did not evolve to sustain the development, according to the ONU predictions. There is, in fact, a real vicious circle, because the under-developed countries need resources, but, because they are under-developed, they are avoided by the foreign capital.

Regarding the foreign capital demand, there are more ways to attract the capitals from the international market:

- the financing of direct investments;

- the contraction of extern credits;

- financial assistance for development;

- investments of securities, offered by the economical agencies from a country, on the capital market of an another country, or on more markets;

- joining on other countries bourse with financial investments;

It's very important also the inverse economical action, the cash outflow, named "the running" of the financial funds from the countries considered politically and economically unstable, over international capital markets, so that sometimes, paradoxical, the "poor countries" offer more funds to the "rich countries".

In these economical-financial process are concerned at the same time the authorities of the poor countries, that don't assure the development of their own economies or can not control the illegal cash-outflows, and the rich countries which allow "the money wash" or accept illegal speculative operations.

The international cash-flows of the last years can be characterize by a lot of important divisions, regarding the geographical orientation, their volume and their destination in the developed economies, comparative with the under-developed economies or the economies which are in transition, namely:

a) first, these cash-flows have place, usually, between the economical developed countries, resulting a marginalization of the countries or zones less developed;

b) second, the volume of foreign investments had a permanent tendency to grow for the economies of developed countries, but a tendency to go down for the under-developed or transition countries;

c) on the impact of the spectacular grow of the international financial markets, the destination of the international financial funds modified as rapport between the direct and the portfolio investments; hereby, in the developed economies occur every day huge capital transfers on the share markets and extra-share markets. On the other side, for the under-developed economies, the portfolio investments are insignificant. For example, Romania has a very small daily transaction volume.

Conclusions

The conclusions that result from these aspects show that:

- the international cash-flows and the creation of extern investments are an aspect of the modern economies which are open, dynamic and with a high organization and stability level;

- the growth of the international financial markets role in this period of serious economical crisis created an orientation overt portfolio investments, so that the financial market has a big influence over the amelioration of the economical activity in general, and also over the necessity of an investment activity specially on micro and macro economical level for the countries where this type of investment was made;

- the creation of economical marginalization for some countries, related to a specially orientation on the international flows, bring to the growth of the economical global differences and of the economical crisis of these countries;

The possibilities to stimulate a development of the foreign investments depend of international political factors, but also of the specific factors of every country, especially in the less developed countries.

The big transformations and political openings after 1989 confirmed the fact that the east-European countries have a lot of natural resources, a cheap and high qualified labor, enough elements to attract foreign paymasters.

But the reality shows that in the modern economies exists other condition to locate the available resources for investments.

The foreign paymasters run first over the strictly economical interests, so they prefer the economies which are already based on economical principles and are politically stable, proved by the level of efficiency of the investments.

Other said, the foreign paymasters don't agree the economies from countries with problems of political instability, because the solution of the intern problems of a country costs and has too big risks.

So, a country can not attire an investment as long as that country don't have political stability, an economy that can be modernized, which can assure important economical effects, and the efficiency of the investments can allow the recovery of the amounts allocated in a short time.

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SUB-SECTION: BUSINESS ADMINISTRATION

THE COSTS AND BENEFITS OF ROMANIA'S ADERATION TO THE EURO ZONE AND ADOPTION OF THE UNIQUE CURRENCY

Apetri Anișoara Niculina

“Ștefan cel Mare” University

Faculty of Economic Sciences and Public Administration

Universitatii Street, No. 13, e-mail: anisoarad@seap.usv.ro, Phone: 0742624676

Hlaciuc Ana Maria

“Ștefan cel Mare” University

Faculty of Economic Sciences and Public Administration

Universitatii Street, No. 13, e-mail: hlaciuc_anamaria@yahoo.com, Phone: 0230522978

The accession to the Economic and Monetary Union, though not a criterion of accessing the European Union, involves the compliance with the convergence criteria of Maastricht: stability of the exchange rate, of interest rates, of the inflation, of the external debt and budgetary deficit. Even if the joining of the EMU represents therefore no conditioning of accessing the EU as a full rights member and, maybe, no priority of the candidate countries, the consequences of this option must be seriously put into balance, taking into account the most the fragile macro-economical stability of the pretending countries, such as Romania. A major regime change, as the monetary unification, is clearly made when there are strong motivations given by benefits, but such a change involves costs, risks and difficulties. The adoption of the unique currency in an unsuitable time can have more bad consequences than positive ones.

Keywords: Economic and Monetary Union, nominal convergence, real convergence, money

JEL code: E51

Giving up the national currencies and adopting an unique currency rose serious and numerous controversies in the target countries, where there are supporters and critics of this idea. The introduction of the euro certainly involves a series of indubitable advantages, but also a series of costs both at the micro and macro-economical level. The literature analyzing the costs and benefits of the monetary union is rather diverse, and there we may find certain divergences referring to costs or benefits. Lutowski (1997) identifies that the main benefits of the EMU joining are the following: *eliminating uncertainty* deriving from exchange rate fluctuations, *suppressing the inflationist phenomenon*, *adopting active competitiveness increasing measurements* to correct the deficit of the commercial and payment balances as alternative to the devaluation, and as final effect of these positive evolution having the long-term macro-economical stability¹⁹⁵. The same author considers that, for the countries showing to have a commercial deficit to the European Union and a high inflation, the joining of the Economic and Monetary Union's exigencies is not recommendable in the first years of the EU joining.

1. Benefits of the Monetary Union

Though the benefits are identified and felt first of all at the macro-economical level, there also exist a series of benefits that come from the *macro-economical stability*, and also due to a better

¹⁹⁵ Golban, R., Silași, S., *Eurosistemul o tensiune arhitecturală a convergenței*, Ed., Economică, București, 2009.

international position¹⁹⁶. *Macro-economical level benefits. First of all, the use of the same currency by more countries reduces transaction costs.* As for the benefic influence of the unique currency by the price mechanism, the explanation lies in the fact that the existence of more currencies reduces price transparency, which may determine or support, on the unique market, the price discrimination between the national currency areas. As for the enterprises, an important benefit of the EMU joining is to be given exactly by *transaction cost reduction*, dissolving the element of currency-to-currency conversion afferent cost. Second of all, *the monetary unification eliminates the exchange rate volatility and its costs.* In this context, the diminution or even the elimination of uncertainties relating to the exchange rate stimulates commerce between the monetary union's members. Another economical benefit of joining the EMU is *the improved attractiveness for foreign capital*, encouraged by the macro-economical stability and of the exchange rate. *Third of all, the influences on the local preference are monitored.* It is said that this element is strong in Europe (as it is in the US and Canada), even if custom controls disappeared.

The macro-economical benefits reside from price stability, access to a wider and more transparent market that improves the external financing possibilities and, nonetheless, the elimination of production flows that may come from various economical policies. Benefits coming from the international role of the new currency. First of all, seniorage income is obtained, because an emission of currency is made as debt of the target country, not carrying interest. The currency is used outside the emitting economy and represents profit. If the US frequently imports more than they export, the international liquidity is improved, but in the same time makes profit from surplus. The Governing Council of the Federal Reserve System estimate seniorage profit of the US to be from 11 to 15 billion \$/ year. Second of all, as the international role of the currency rises, the loans, investments, goods and services acquisition (national or international) will be more and more settled by the financial institutions of the emitting entity. Therefore, the profits of the financial sector are to rise. Third of all, the use of own currency in the exterior commerce makes the emitting economy to be less vulnerable to its exchange rate modification than of other economies.

In the opinion of the authors Turliuc Vasile and Cocriș Vasile, the main **direct economical advantages** of the euro are: **the elimination** of the currency risk in case of commercial exchanges between the euro zone countries; the reduction of currency costs, by eliminating the exchanges between the communitarian currencies; price transparency and, among the **indirect economical advantages** of the unique European currency we have¹⁹⁷:

- *interest rate reduction.* The inflation's reduction as consequence of the Central European Bank's monetary policy, that concerns first of all the countries previously recording weak results in facing it (Italy, Portugal), leading to the obvious decrease of interest rates in the euro zone;
- *the stimulation (of the continuation) of the structural reforms.* If, in order to pass onto the unique currency, the current member countries of the EMU had to adjust their economies, complying with the convergence criteria, The stability and increase Pact imposes the same austerity and rigorousness in the financial and monetary plans, also after joining the unique currency;

¹⁹⁶ Golban, R., Silași, S., *Eurosistemul o tensiune arhitecturală a convergenței*, Ed., Economică, București, 2009

¹⁹⁷ Turliuc, V., Cocriș, V., Stoica, O., Roman, A., Dornescu, V., Chirleşan, D., *Monedă și credit*, Ed. Universității „Alexandru Ioan Cuza” Iași, 2009

- *encouraging the economical growth.* The lower costs of transactions, the reduced currency risk (or even eliminated), price transparency are only a few factors capable to push the development of the euro zone economies;
- *gaining the international currency status.* The euro shortly became, as estimated, a currency in which the international reserves are widely placed, a credible alternative to the American dollar, having a more important role than any of the extinct currencies.

The advantages and disadvantages of entering the euro zone must be taken into consideration and analyzed for each country, what for a certain country may be an advantage at a certain moment, for another country may be a disadvantage. For example, if for a strong economy, price transparency may be an advantage, for a less developed economy, the direct confrontation of the national products with the foreign ones may be a disadvantage (not as much for the consumers, as it is for the producers).

2. Costs of the monetary union

The main problem of the monetary unions refers to the costs of this process. The costs may appear due to the fact that, when participating to a monetary union, the countries lose important instruments of the economical policy, more specific- the ones specific to the monetary policy, that is maneuvering the interest and exchange rates. These costs are felt in the case of the asymmetrical shocks. There are two main costs at macro-economical level. A component is represented by the operational costs, necessary to adapt the systems to the new currency: accounting, contracts, devices etc, expenses that *are made only once*, which is very important. The second component is represented by strategic challenges, that is- redefining competition and the apparition of specific risks. The member states of a monetary union cedes the prerogatives of the monetary policy to a central authority, which makes the national authorities unable to make adjustments in case of asymmetrical shocks, by the use of monetary instruments. Moreover, varying with the institutional architecture, the member states are to have a more or less important influence in the decisional process, situation that may be perceived as negative for the low-influence states. What must be known is the nature and probability of asymmetrical shocks and the alternative instruments that may be used when there is no exchange or interest rate. The properties or criteria of the optimal monetary zones are conditions that the states wanting to participate to a benefic monetary union must comply with. The existence of such conditions makes less probable the presence of asymmetrical shocks, or in case of such shocks assures efficient adjustment instruments.

In order to resume the problem, the costs increase when offer or demand shocks appear, variously affecting the economies participating to the monetary union, when there are different preferences for unemployment or inflation, legislative differences, or differences between the growth rates or the adjustment mechanisms do not work.

3. Opinions against the unique currency introduction

The euro-skeptics often invoked critics referring to the introduction of the unique currency, one of them referring to the cost of the euro introduction, made by the printing or minting the new currency and the withdrawal of the national currencies of the member countries, and costs of the informing campaigns on the euro, of the consumers, replacing the banking and ATM software's costs being huge. Others consider that the functioning of the Monetary Union without a budgetary union is to lead to malfunctioning. Another fear regarding the introduction of the unique currency refers to the price increase, consequence of the

adjustment effect speculated by traders, in spite of the consumers. The main critics formulated by the euro-skeptics, concerning the unique currency, can be summarized¹⁹⁸:

- *the regulations regarding the EMU and the unique currency adopted at Maastricht are unreal*, being the result of an economic and financial-currency conjuncture favorable even since the beginning of the 9th decade. This aspect was confirmed by the difficulties encountered by the European states developed after the year 2002 in order to maintain the budgetary deficit under 3%GDP. On another hand, it was often seen that these convergence criteria were made at a time when the extension of the EU was not anticipated, and the average development level of the member states was a lot over the ones joining the union in 2004 or 2007.
- *the convergence criteria of the Maastricht Treaty* assure the premises of a low inflation, but determine also a low economical growth, the critic referring first of all to the restriction on the maximum budgetary deficit level;
- *the loss of monetary and currency autonomy*;
- *price increase*. There were fears, that partially also became true, that the euro introduction is to lead to price increase, but the impact of the euro introduction is even more relevant comparing the value of a 500 Euro bill with the value of the greatest banknote previously circulating;
- *the existence of a monetary union without a budgetary union*. It is appreciated that the existence of a budgetary union (that does not exist now) would have been capable to compensate for the impact of negative influences on the national economy, which are hard to combat in the absence of the monetary policy autonomy.

Nevertheless, Europe has its own currency, whose introduction generated the following effects¹⁹⁹:

- the creation of a large-size monetary market;
- the increase of monetary market liquidity, giving the banks liberty in movement both in what regards placing resource excess and the possibility to loan;
- the monetary policy gains more rigorousness and answers to the common exigencies, the CBE being the only responsible with the monetary policy;
- the unique momentary market that accelerates the integration process of the other markets in special of the financial market;
- the increase of investments' volume;
- competition accentuation on the financial markets;
- the increase of price transparency as consequence of currency exchange rate disappearance.

The balance of the first existence decade shows that the euro has not fulfilled even the extreme prophecies of the euro-skeptics, who warned that this is a "serious error" that is to irreconcilably deepen the differences between the economies of the states that are to adopt the unique currency, but has not opened any growth or economical convergence era without precedent in the Euro Zone, as hoped by the most enthusiastic promoters. The introduction of the euro currency is an "extraordinary success", as said by the governor of the Bank of France Christian Noyer, a success "not due to the result of a magical wand movement, but of

¹⁹⁸ Turliuc, V., Cocriș, V., Stoica, O., Roman, A., Dornescu, V., Chirleşan, D., *Monedă și credit*, Ed. Universității „Alexandru Ioan Cuza” Iași, 2009

¹⁹⁹ Golban, R., Silași, S., *Eurosistemul o tensiune arhitecturală a convergenței*, Ed., Economică, București, 2009

the fact that this introduction was carefully thought and the bases of the EMU are extremely solid and effective”²⁰⁰.

It is important to mention that the adoption of the euro currency must not be treated by any “pretending” countries and, as consequence, nor by our country, as a purpose itself. The most important thing for Romania to make, now, resides in recovering the gaps in the real economy domain, in order to assure the success of the unique currency adoption. The Romanian National Bank’s policies are concentrated on fitting Romania on the euro adoption trajectory in 2014. On middle term, the retaking of inflation and price increase bringing as close as the European standards are not the only elements taken into consideration, but also is the imbalance minimization – especially, the gradual reduction of the external deficit, in order to give durability to the inflation reduction process²⁰¹. Regardless of the target date Romania sets, the advantages and disadvantages the euro adoption generates in a short-term and long-term period must be taken into calculation, and those are:

Long-term postponing of the euro adoption		Accelerating the euro adoption in a relative short term	
Advantages	Disadvantages	Advantages	Disadvantages
Longer period to make the structural adjustments that are still not made	Persistence of greater transaction cost associated to the currency risk, that may inhibit investments and economical growth	Earlier manifestation of the benefits of currency risk disappearance, leading to stimulating the sustainable economical growth	Loss of monetary policy and exchange rate autonomy, which would move the whole burden of structural adjustments to the level of economical activity and occupation degree, given the still limited flexibility of the Romanian economy
More accentuated progress in the real and nominal convergence plan	Possibility of postponing structural reforms and relaxing the macro-economical policies (especially the fiscal and salary ones) given the establishment of a far target period of the euro adoption	Minimizing the motivations of relaxing the structural reforms’ rhythm	Lack of synchronizing the business cycles of Romania and Euro Zone, which may improve the risk of generating asymmetrical risks, hard to face in the absence of independent monetary and exchange rate policies
Synchronization of the business cycle from Romania to the one of the Euro Zone (pre-condition of minimizing the risk of asymmetrical shock apparition)	The unclear message sent to the international capital markets, the postponing may be attributed to structural or economical policy weaknesses, less visible to the investors, than to the authorities’ decisions	Stimulating the time consequence of the macro-economical policies’ assembly	Difficulty in decelerating a representative central paring for the balance exchange rate leu/euro, leading to the substantial participating period to the ERM2
Longer-term keeping of the monetary and exchange rate policies			Probability of a stronger manifestation of the Balassa-Samuelson effect, in the first part of the economical adjustment process after joining the EU, with repercussions on disinflation

²⁰⁰ Christian Noyer, *Euro - O monedă stabilă în slujba unei economii dinamice*, București

²⁰¹ Isăescu, M., *Probleme ale convergenței reale în drumul spre euro*, www.bnr.ro

			limiting and/or on the national currency appreciation
			Limiting the period in which the efficacy of the inflation target, as monetary policy regime, can be finished

It is worthy to signal that, in order to join the euro zone, the convergence criteria taken into consideration are only the nominal ones: exchange rate stability, low inflation, interest rates close to the euro countries' ones, moderate budgetary deficit and public debt stock, but we still must be assured that at the date of complying with the nominal criteria, a significant progress in the real convergence will have been made²⁰².

The adoption of the unique currency by our country before having made a minimum real economical convergence would be risky and even counterproductive. It is essential that the main reforms (restructuring, privatization, salary policy, mobility of labor force, fiscal policy) to be approached *before*, and not entering the ERM2 (or the euro zone). There, the support is possibly greater, but the costs of an eventual failure are also exponentially multiplied²⁰³.

Given that, for most of the west-European countries, it is unanimously accepted the advantage of using the unique currency, it is hoped that also Romania, whose exterior commerce is oriented almost 2/3 towards this market, is to have real benefits from adopting the unique currency. The introduction of the euro must be a stability factor that will reduce a lot the losses of the national commercial agents, caused by the risks of exchange rate. The euro is to reduce the costs the companies support as consequence of exchange rates. These costs were estimated to 1-2% of the transaction value. also, due to the adoption of the unique currency, valuable time is saved in the management activity, the need of risk analysis and expenditure/profit report disappearing for each operation the company makes.

4. The euro adoption by Romania cannot be forced

In short, the euro adoption means giving up the monetary policy before having assured the necessity for real convergence and its sustainability. That is, before having eliminated the imbalances faced nowadays, and the phase shift of our economical cycle compared to the main economies of the monetary unions. The Romanian Economy represents 1.5% of the euro zone economy, which would make the Romanian inflation irrelevant for the CEB decisions. The CEB monetary policy may be inadequate from the Romanian economy problems' point of view. To the eventual relatively great volatility of production and inflation, an adequate answer is not strongly assured. After both the European Committee and the CEB will have confirmed the compliance with the convergence criteria by Romania, the EU Council is to adopt a decision according to which Romania can join the Euro Zone, time that dissolves the derogation concerning Romania's status as EU member country. At the proposal of the European Committee and after consulting the CEB, the EU Council will adopt a fix and irrevocable exchange rate between the LEU and EURO. With the passing to the Euro, the Romanian National Bank will be part of the *Eurosystem*, transferring to it the responsibility of adopting the monetary policy.

Some analysts proposed the adoption of the euro as soon as possible as a solution of avoiding costs showing up from the materialization of the exchange rate risk. The quick adoption of the

²⁰² Isăescu, M., *Probleme ale convergenței reale în drumul spre euro*, www.bnr.ro

²⁰³ Lazea, V., *Drumul spre Euro*, (<http://www.bnro.ro>).

euro would help the ones with great loans made in Euros, but are paid in currencies of countries aspiring to enter the euro zone. The rush of adopting the euro has its cost, which may be greater than the benefits given by the elimination of the exchange rate. The premature adoption of the euro means the premature elimination of the exchange and interest rates' modification of the adjustment processes, of the differences between Romania and the other monetary union countries. This involves putting the accent too much on the labor market and goods' prices adjustments. Practically, these are the only markets remaining to adjust.²⁰⁴ The adoption of the Euro needs a sufficient start in the plan of the real and nominal integration with the euro zone. In this process, continuing the convergence of the RBN monetary policy convergence with the one of the CEB is essential.

In conclusion, in order to participate at the ERM II and further adopt the euro, the efforts to make the nominal and real convergence of the Romanian economy must be accentuated. The euro adoption makes an irrevocable process, and therefore the convergence process must be made in a durable manner, not only in a certain moment. In order to reach a high degree of sustainable convergence, the efforts made by our country must be significantly intensified. These efforts refer mainly to the necessity of making and maintaining the price stability on a durable manner, and reducing the shown budgetary deficit, during the economical-financial crisis, in most of the member states and in our country, of making and maintaining an optimum level of the public finances. Creating a favorable environment for the sustainable convergence in Romania needs, among others, a monetary policy oriented towards stability and strict implementation of the fiscal consolidation plans. The adoption of the unique currency in a bad time can have more negative consequences than positive ones.

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²⁰⁴ Golban, R., Silași, S., *Eurosistemul o tensiune arhitecturală a convergenței*, Ed., Economică, București, 2009

ENTREPRENEURIAL MOTIVATIONS: ARE WOMEN DRIVEN BY DIFFERENT MOTIVATORS THAN MEN? (II – SOME EVIDENCE FOR EU AND ROMANIA)

Bădulescu Alina

University of Oradea

Faculty of Economic Sciences

The present article has the goal to reveal the (eventually) differences between entrepreneurial motivations between men and women, in the case of EU and Romania. In the first part, we make a brief research into the literature related to this subject, and in the second part we shall reveal the facts and figures in the EU and Romania.

Key words: entrepreneurship, women entrepreneurship, motivation for business start-up

JEL code : M13, G32

1.Methodology

In order to reach both the primary objective of finding the motivation driving women to enter the entrepreneurship, and the second one, of identifying similarities or differences between female and male motivators, in Romania and in the EU, we used the dataset “Enterprises managed by the founder - broken down by gender of the entrepreneur”, available in Eurostat database. We select from this database the data regarding the start-up motivation available for Romania and European Union (aggregate changing according to countries available), NACE: Industry and services excluding public administration and management activities of holding companies. Available data are for the year 2005.

First, we select the data for the EU, broken by the gender of the founder and manager of the firm and search to arrange the motivation starting with the most important, e.g. more nominated by the respondents. Second, we did the same thing for the data available for Romania, sorting them by relevance. Third, we tried to make some comparison between:

- Male versus female entrepreneurs in EU
- Male versus female entrepreneurs in Romania
- EU women entrepreneurs versus Romanian women entrepreneurs.

Finally, we will conclude and emphasize some implications of the findings.

2.Discussion

The main driving forces motivating women to enter into entrepreneurship is the desire for independence, with the answer “desire to be one’s own boss” indicated among main motivators by 73.7% of the female entrepreneurs. The second motivation, indicated by 70.6% of the respondents, is the prospect of making more money, which expresses the desire for financial independence and payoff. The third motivation is the desire for new challenges.

It is remarkable the pre-eminence of full factors, generating the classical, opportunity entrepreneurship, and also motivation directly related to the Schumpeterian-innovative approach: realizing an idea for a new product or service. Besides the classical factors, it is to note the relatively great importance of the push factor “avoiding unemployment”, indicated by 54.8% of the female entrepreneurs. Another push factors, indicating the extension of the necessity entrepreneurship, are: getting away from unsatisfactory work situation; only possibility to carry out profession.

As expected, motivations related to work-family balance are present: “combining work and private life” indicated by 49.5% and „children are big enough” indicated by 22.6%. The last motivation indicates the women previously forced to be involved in family and child care activities, activities which had not left them enough time for work (self-employment or wage-employment).

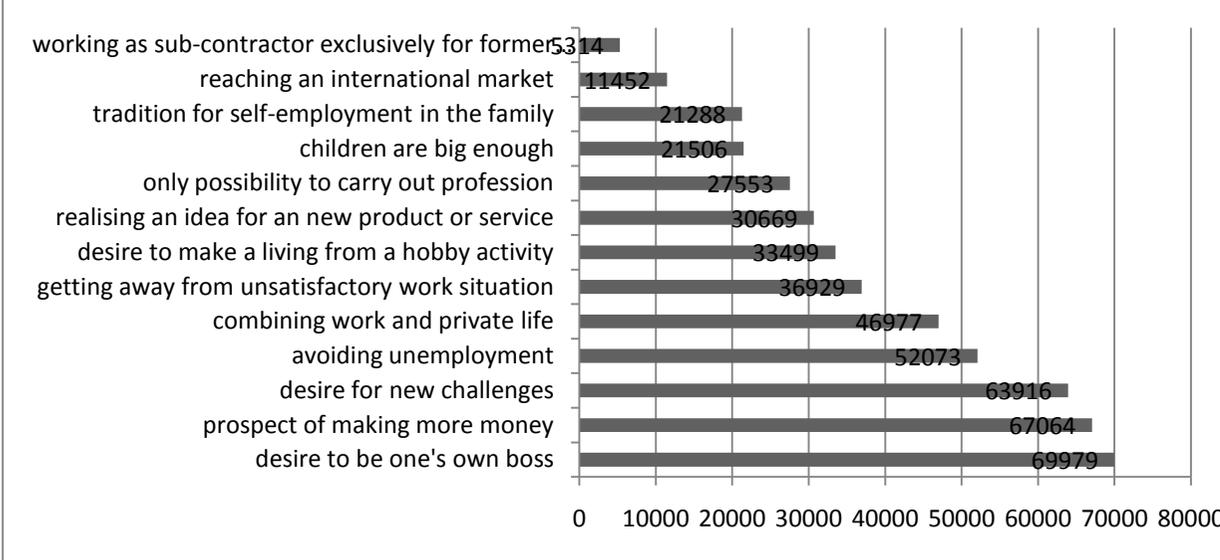


Chart 1. The motivation for start-up of the enterprises founded by the manager – EU 2005, women

Source: own calculation based on Eurostat database

Male entrepreneurs bring out mainly the same motivations, the top 3 indicated motivators being the same. The desire for independence, more money and new challenges motivate men to start up a business. The pull factors are the most important drivers, but there are also present the push factors, such as: avoiding unemployment, getting away from unsatisfactory work situation.

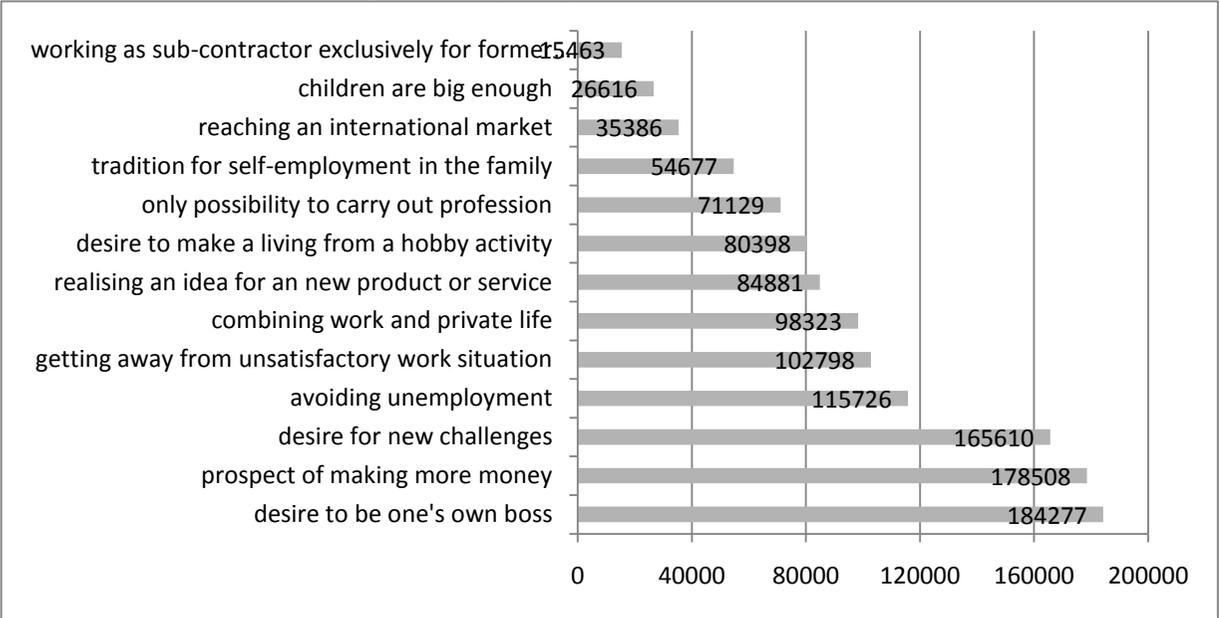


Chart 2. The motivation for start-up of the enterprises founded by the manager – EU 2005, men

Source: own calculation based on Eurostat database

A brief comparison between females and males reveal that the motivations are basically the same. Nevertheless, some differences can be drawn:

- The “children are big enough” motivator was indicated by 22.6% of the women, twice the proportion of 11% of the males; this fact is a major difference, indicating that child carrying is still a women activity, and gender matters a lot when it is about to factors inhibiting the economic participation of females;
- The “combining work and private life” motivator was nominated by 49.5% of the females but only 40.5% of the males; the work-family balance (including the children carrying issue) is a more concerning problem for women than for men;
- “avoiding unemployment”, motivator indicated by 54.8% of the women versus only 47.6% of the men, testify that unemployment is usually a problem affecting women more than men, and thus the concern has a gender dimension;
- The last motivation indicated in a greater measure by women than by men (but with not a big gap) is “desire to make a living from a hobby activity”; this can be related with the fields of services, arts etc., field and profession more associated with women than with men, and where female entrepreneurs tend to operate rather than males.

The other motivations were rather indicated by men than women, but the differences are far not to be as important:

- desire to be one's own boss (75.8% males versus 73.7% females)²⁰⁵;
- prospect of making more money (73.5% males versus 70.6% females)²⁰⁶;
- desire for new challenges (68.2% males versus 67.3% females)²⁰⁷;
- getting away from unsatisfactory work situation (42.3% males versus 38.9% females)²⁰⁸;
- realising an idea for an new product or service (34.9% males versus 32.3% females)²⁰⁹;
- reaching an international market (14.6% males versus 12.1% females)²¹⁰;
- working as sub-contractor exclusively for former employer (6.4% males versus 5.6% females).

Virtually with the same frequency among men and women there are: “only possibility to carry out profession” and „tradition for self-employment in the family”. The complete picture is shown in Table 1.

Table 1. Start-up motivations: females versus males, EU versus Romania (2005)

Start-up motivation	Nominated by ... % of the females (EU)	Nominated by ... % of the females (RO)	Nominated by ... % of the males (EU)	Nominated by ... % of the males (RO)
prospect of making more money	70.6	81.6	73.5	86.5
desire for new challenges	67.3	76.3	68.2	79.1
desire to be one's own boss	73.7	62.5	75.8	68.7

²⁰⁵ Are men willing and loving freedom and independence more than women?

²⁰⁶ Are men more money-oriented?

²⁰⁷ Are men more adventure and change oriented?

²⁰⁸ Are men suffering more in the case of unsatisfactory work? Are women more resigned?

²⁰⁹ Are men more innovative or more self-confident? Do the prevalence of their technical education play a role?

²¹⁰ Are men more desiring of adventure, more open to unknown, or simply more self-confident?

Start-up motivation	Nominated by ... % of the females (EU)	Nominated by ... % of the females (RO)	Nominated by ... % of the males (EU)	Nominated by ... % of the males (RO)
combining work and private life	49.5	56.7	40.5	55.7
avoiding unemployment	54.8	54.1	47.6	54.1
desire to make a living from a hobby activity	35.3	35.7	33.1	37.8
getting away from unsatisfactory work situation	38.9	30.7	42.3	28.5
children are big enough	22.6	24.8	11.0	20.4
only possibility to carry out profession	29.0	22.5	29.3	22.6
tradition for self-employment in the family	22.4	21.0	22.5	24.0
realising an idea for an new product or service	32.3	18.0	34.9	21.9
reaching an international market	12.1	13.2	14.6	19.6
working as sub-contractor exclusively for former employer	5.6	6.3	6.4	6.9

Source: own calculation based on Eurostat database

The second problem we try to answer holds of a eventually national determination, e.g. are there or not noticeable differences in the motivations of female versus males entrepreneurs in Romania. In order to draw the picture, we use the same database, available for the year 2005, for Industry and services excluding public administration and management activities of holding companies. Mostly, females are driven into entrepreneurial activities by the need for money. It is hard to say if this motivator is a pull or a push factor, given the low income level of the majority of the households. Other motivations indicated were the desire for new challenges, the desire for independence, the work-private life balance and the avoidance of unemployment. The other factors are mentioned at a considerable distance (see Chart 3).

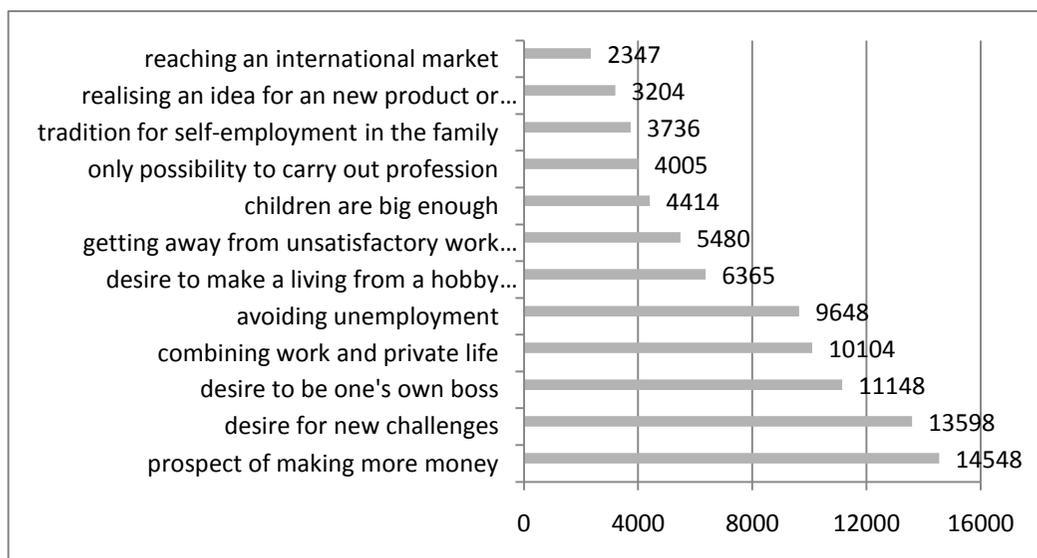


Chart 3. The motivation for start-up of the enterprises founded by the manager – Romania 2005, women

Source: own calculation based on Eurostat database

About the Romanian male entrepreneurs, the first 7 out of 12 indicated motivators are the same. The need and desire for independence, financial payoff, new challenges, but also the necessity factors related to family-work like, unemployment, and also the desire to change either activity or unsatisfactory work are mentioned (see Chart 4).

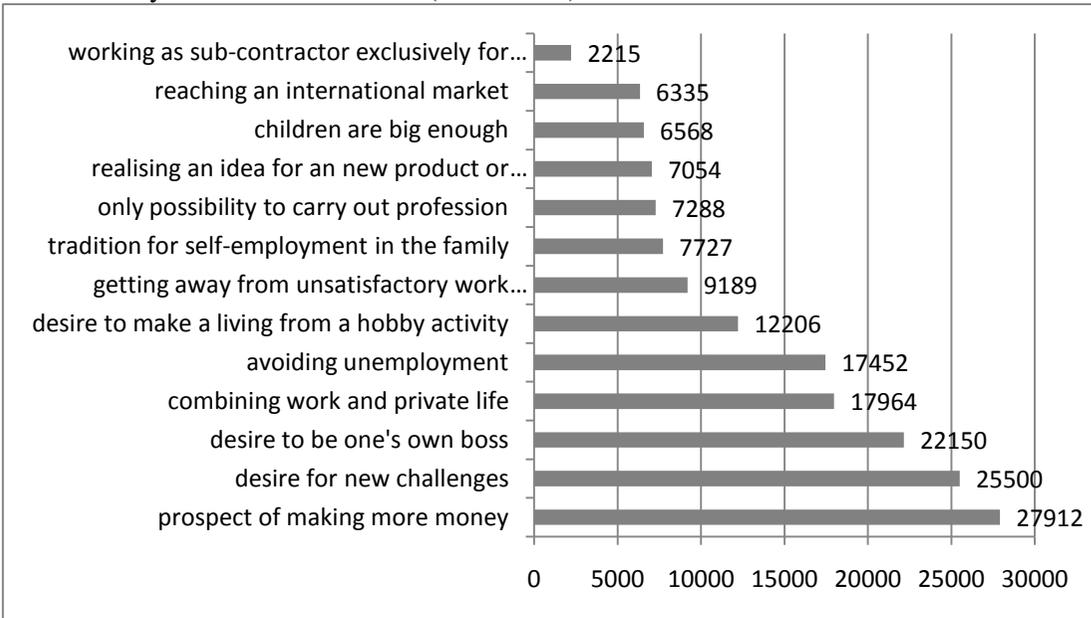


Chart 4. The motivation for start-up of the enterprises founded by the manager – Romania 2005, men

Source: own calculation based on Eurostat database

As was the case with the EU dataset, the only relevant difference is related to the family issues. The more “feminine” motivations (see Table 1) are:

- children are big enough: 24.8% of the females indicated this motivation, against 20.4% of the males;
- getting away from unsatisfactory work situation (30.7% of the females versus 28.5% of the males);
- combining work and private life (56.7% of the females versus 55.7% of the males);

Women appear to be less money oriented, less willing for independence and new challenges, the prospect of making more money motivating –motivated, less motivated by tradition factors, innovative ideas or international dimensions. Briefly, Romanian women entrepreneurs appear to be more conservative than man, more oriented to family and children carrying issues, an less motivated by money making than men. Virtually the same role irrespective to gender have the push factors: avoidance of unemployment, the entrepreneurship as the sole possibility to carry out profession etc.

3.Concluding remarks

Finally, putting together all motivations indicated by females and males in EU and Romania, we conclude (see Table 1) that:

- the prospect of making more money is a greater motivator for males than for females, both in Romania and EU, but the strength of the motivator appears to be

more obvious in Romania compared to the EU average; this fact can be related with the reality of more opportunities to make profit on the Romanian market, full of shortages and thus with better prospects for rapid gains, but it also can be related with the lower level of well-being and the higher level of poverty in Romania, factors that strongly motivate people, and also create great expectations regarding the entrepreneurial profits;

- The desire for new challenges is considerably a stronger motivator for the Romanians entrepreneurs; however, surprisingly, “getting away from unsatisfactory work situation” motivated considerably less Romanian as other EU citizens;
- The desire for independence is also not as strong for the Romanian entrepreneurs, largely habituated with the employee role;
- “Combining work and private life” and “children are big enough” are stronger motivators for the Romanian entrepreneurs; this fact can be related with the traditional cultural models, but also with the insufficient child care services and facilities etc.
- The motivation of realising an idea for an new product or service is considerably less motivating for Romanian entrepreneurs; its nomination is nearly half in the case of women;
- The motivation of avoiding unemployment is mentioned in the same measure by Romanian women and men and EU women entrepreneurs; only EU male entrepreneurs appear to be less concerned about that possibility
- It is interesting that tradition for self-employment in the family is nominated in very similar measures by male and female in Romania and Europe; that means that there are already functioning the entrepreneurial family models, but it could also mean that the presence of entrepreneurial models in the family acts not so strong as motivator.

The final conclusion is that there are no outstanding differences between entrepreneurial motivations between men and women, with the exception of those related to the family-work balance. This conclusion holds also for the analysis in terms of EU male entrepreneurs versus female entrepreneurs, but also in the case of Romanian male versus female entrepreneurs. It appears also that there are several difference on a international basis comparison, revealing enhanced motivators for Romanian entrepreneurs than in case of other countries: the prospect of making more money, the desire for new challenges, combining work and private life. In the same time, Romanian are considerably less motivated as entrepreneurs by the desire to be one's own boss, by getting away from unsatisfactory work situation, and especially by realising an idea for an new product or service. More necessity and less opportunity and innovation entrepreneurship appear to characterise Romanian entrepreneurs' motivations.

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ROMANIA'S TRANSITION IN THE CENTRAL EUROPEAN CONTEXT

Băc Dorin Paul
University of Oradea
Faculty of Economics

The Eastern bloc countries have been under communist leadership for almost fifty years. After the 1989 collapse of communist leadership, new regimes have been installed. The roads from socialism to capitalism, from totalitarianism to democracy have been extremely difficult and tested both the people and the leaders. The present paper takes a look at the first years of Romania's democracy and its economic reforms. Although democratic elections have been organized and some reforms have been undertaken, compared to other states Romania might not have done enough.

Keywords: socialism, capitalism, democracy, Eastern Europe,

JEL code: P21, P51

Introduction

1989 was a year of revolt in Eastern Europe. Poland, Hungary, Czechoslovakia and Romania won back their freedom by eliminating their leaders peacefully, in the case of the first three or violently in the case of Romania, as “Nicolae Ceausescu, was the one Communist despot who was determined to shed blood rather than relinquish power”²¹¹. The most representative moment of the year was the dismantling of the Berlin Wall which started in November.

All the above mentioned countries had to go through massive and painful reforms to change their economies, political and social life from socialism to capitalism and democracy. But the process was different from country to country. White²¹² considers two main types of change: transition from below (the case of Poland, Romania and Czechoslovakia) and transition from above (Hungary, Bulgaria and USSR)

In the case of Poland, the Solidarity was considered the most powerful symbol of liberty in the communist world²¹³. Its leader, Lech Walesa had a major role in 1989 and became the first elected president in 1990. The change of power was peaceful and based mainly on round-table negotiations between the leaders of the Communist Party and the leaders of Solidarity.

In Hungary, the democratic breakthrough between March and June 1989 consisted in a considerable shift from a dichotomy between officialdom and the opposition towards a growing self-inclusion of party hardliners into the opposition. It continued in October, when the Communist Party Congress decided to form a European-style Hungarian Socialist Party, committed to democratic socialism and mixed economy. The elections in the spring of 1990 were won by the Democratic Forum, and together with their allies they formed the new government, thus eliminating the old communist leadership of the country.

The change of regimes in Czechoslovakia was known as the “Velvet Revolution”, which stands for the peaceful mass gatherings that toppled the Czechoslovak government in November 1989. While the notions “velvet revolution” or “soft revolution” referred only to the mass protests in November, they soon came to signify the whole process of the demise of communism²¹⁴. The process of change ended in June 1990, when Vaclav Havel was elected president.

²¹¹ Muravchik, J. (2002) *Heaven on Earth: the rise and fall of socialism*, Encounter Books, San Francisco p.306.

²¹² White, S. (2001) *Communism and its Collapse*, Routledge, London, P.52.

²¹³ Wydra, H. (2006) *Communism and the emergence of democracy*, Cambridge University Press, UK, P.205.

²¹⁴ Wydra, H. (2006) *Communism and the emergence of democracy*, Cambridge University Press, UK, p.206.

The political perspective

Romania became a republic again after the communists won the 1946 elections and forced King Mihai I to flee the country the next year. In the case of all the Eastern Europe the original transition to socialism did not arise by organic development: “the socialist system does not originate spontaneously from the intrinsic, internal forces of the economy. Instead, the socialist system is imposed on society by the communist party with brutal force, when it gains power. It liquidates its political opponents and breaks up any opposition. The communist party that comes to power has a vision of what society, economy and culture it wishes to create: a system that eliminates private property and the market, replacing them with state ownership and planning”²¹⁵. All the above mentioned characteristics could be observed in Romania’s evolution during 1946 and 1989.

More than forty years later, in December 1989, Romanians fought and won back their freedom. The repression of demonstrations for democracy in Timisoara, when the security forces, the hated Securitate²¹⁶, shot dead 71 on the weekend of 16–17 December²¹⁷, sparked off mass protests in Bucharest. Ceausescu, and his wife Elena, refused to budge and ordered the mobilization of the Securitate, and the army, to put down the demonstrators by whatever means necessary.

The army hesitated, as did a section of the Securitate. In face of continuing intransigence, and growing popular opposition (Ceausescu was heckled by the protesters in Bucharest when he appealed to them to go home on 21 December), long hidden opponents within the Party, headed by Ion Iliescu, army officers and even some Securitate leaders, organized to overthrow him. Arrested as they tried to flee the country, Ceausescu and his wife were executed on Christmas Day, an execution seen on television by a global audience

The exact nature of the events of December 1989 in Romania has long been the subject of intense speculation, it is still unclear whether the events constituted a revolution or some other form of irregular political challenge such as a coup d’état or popular uprising. The overall conclusion is that although a revolutionary situation arose in the country in 1989, a revolutionary outcome is not yet assured²¹⁸. There are critics that argue that Ion Iliescu and NSF took advantage of the chaos in order to stage a coup. It is still not clear if it was thought in advance or whether it was a pragmatic action of an elite group who took advantage of the situation. What is without doubt is that because of his ruthless politics, Ceausescu was abandoned by numerous officials of the Government, the Party, the Army and his secret police²¹⁹.

After the events on December 1989, Romania became a democracy again and it organized its first free elections in May 1990. The big winners of the elections were, as expected the National Salvation Front and its leader Ion Iliescu. The National Salvation Front was a coalition of former communists which took over the functions of the government after the overthrow of Ceausescu in December. It later split into the Social Democrat Party, led by Iliescu and the Democratic Party, led by Petre Roman, and later by Traian Basescu.

Ion Iliescu was a former member of the Politburo – considered by many the future leader of Romania, after the death of Ceausescu. Iliescu did not have the “revolutionary’s aura” of Havel or Walesa, but he still won the 1990, 1992 and 2000 elections.

Unfortunately, 1990 was a year marked by violence as coal miners “visited” Bucharest to stop anti-communist demonstrations organized by the political and social opposition of NSF. One of

²¹⁵ Kornai, J. (2000) *What the Change of System from Socialism to Capitalism Does and Does Not Mean*, The Journal of Economic Perspectives, Vol. 14, No. 1, p.31.

²¹⁶ Secret police, similar to STASI in East Germany, Gestapo in Nazi Germany and GPU in Russia.

²¹⁷ Kowalski, R. (2006) *European Communism 1848 – 1991*, Palgrave Macmillan, New York, p.222.

²¹⁸ Siani-Davies, P. (1996) *Romanian Revolution or Coup d’etat?*, Communist and Post-Communist Studies Vol. 29, No. 4, p.453.

²¹⁹ Tilly, C. (1993) *European Revolutions: 1492-1992*, Blackwell publishing, Oxford p.248.

the greatest discontents of the demonstrators was the implication of the second level activists of the Communist Party in the new structures of Power²²⁰.

The new Government, led by Petre Roman wanted fast reforms and established new relations with the EU and USA. Roman's failure to explain adequately both the purposes and the consequences of genuine liberalization and stabilization fueled the resentment of precisely those constituencies to whom the NSF owed its May 1990 electoral victory. So, in 1991 Petre Roman was replaced with Stolojan, the finance minister.

The 1992 elections were won again by Iliescu who made an alliance with the nationalist parties and the party of the former communists. Although the composition of the Parliament and government changed, the domination of Iliescu and the presidency continued²²¹. Vacaroiu was named prime-minister and the goal of the new Government was to "slow down market reforms that might favor foreign business interests"²²². The 1992-1996 period was marked by privatization scandals and frauds made by the people in power, determining the halting of progress and reforms needed at that time.

Economic perspective

There is a debate regarding Romania's economic situation. Some argue that as Romania entered the 90s, the country was in many ways in a better position to pursue economic restructuring than other East European countries. In December 1989, Romania had almost no foreign debt and maintained a current account surplus of \$2.8 billion and foreign exchange reserves of \$ 1.7 billion. Other economic indicators (current account balance, debt-to-GDP ratio and hard currency holdings) were better than any other East European country²²³. Others consider that Romania started its transition to a market economy at a serious disadvantage, with significantly worse initial conditions than those prevailing in the leading reform countries. Romanian policy makers have had less room to maneuver in taking the painful political steps necessary to liberalize Romania's formerly Stalinist economic system. Apart from the reduced level of investment, growth possibilities were also impaired by a sharp reduction in imports of machinery and equipment from the West. The heavy overtaxation of domestic consumption, which took place during this period in order to meet external debt obligations, resulted in lower growth rates of production, reduced welfare (consumption), and bigger domestic imbalances, both visible and hidden²²⁴.

Privatization moved slowly in the first years although the legal framework was set up to sell of 55% of state equity. The state maintained its control in strategic areas as energy, transport and telecommunications. In selling equity 30% was to be allocated to Romanian citizens, leaving the rest for foreign and domestic investors. The allocation to the citizens was done through vouchers, but the system proved its limitations because of inflation, speculation and public apathy.

In 1992, industry was still 90% controlled by the state and registered a continuous fall to score a cumulative decline of 54% over 1989²²⁵.

The macroeconomic data for 1993 and 1994 would seem to suggest an unanticipated level of success for Vacaroiu's policies. The decline in GDP was reversed (with 1.5 and 3.9 percent gains, respectively), and industrial production increased (with increases of 1.3 and 3.3 percent, and with overall industrial productivity jumping to 9 and 14.7 percent, respectively)²²⁶. However,

²²⁰ Cesereanu, R. (2003) Fenomenul Piata Universitatii 1990, Revista 22, 12 mai 2003.

²²¹ Roper, S. (2005) *Romania, the unfinished revolution*, Harwood Academic Publishers, Amsterdam, p.75.

²²² Turnock, D. (2005) *The East European Economy in Context*, Routledge, London, p.228.

²²³ Roper, S. (2005) *Romania, the unfinished revolution*, Harwood Academic Publishers, Amsterdam, p.88.

²²⁴ Daianu, D. (2004) *Fiscal and Monetary Policies*, published in "Romania since 1989" (ed. Henry Carey), Lexington Books, Oxford, p.394.

²²⁵ Turnock, D. (2005) *The East European Economy in Context*, Routledge, London, p.227.

²²⁶ <http://www.insse.ro/cms/files/pdf/ro/cap16.pdf>

due to high inflation and further price liberalizations, real wages fell by 16.7 percent in 1993 (with a marginal 0.4 percent recovery in 1994).

Table 1.

Selected economic indicators of Romania's economy (1990 - 1997)

Indicator	90	91	92	93	94	95	96	97	98
Unemployment (%)	1	3	8,2	10,4	10,9	9,5	6,6	8,9	10,4
Inflation (%)	5,1	170	210	256	136	32	38	154	59
GDP (%)	-5,6	-12,9	-13,6	1,3	3,9	7,1	4	-6,6	-7,3
Foreign debt (billion. \$)	1,14	2,13	3,24	4,24	5,51	6,64	8,3	9,5	9,8

Source: http://www.indexmundi.com/romania/gdp_real_growth_rate.html, <https://statistici.insse.ro/ipc/>, <http://www.insse.ro/cms/files/pdf/ro/cap3.pdf>

Moreover, the Vacaroiu government's decision to continue subsidies to state enterprises increased the budget deficit to 4.4 percent of GDP in 1994; and despite the National Bank's reluctance, the money supply was increased by 500 percent during these two years, resulting in inflation of 256 and 136 percent respectively, for 1993 and 1994 (Table 1.).

Critics asserted that while temporary improvement in some areas had been reported, it was largely at the expense of, rather than due to, genuine economic reforms. The World Bank's comparative analyses of transitional economies (1995) found Romanian liberalization and private sector development near the bottom of Group 2 (which, in addition to Romania, included Bulgaria, Albania, the Baltic countries, and Mongolia).

Bacon is trying to find out why did the macroeconomic data reflect so dramatic a recovery? His considers the data on the state budget's deficit as a proportion of GDP are enlightening. While the deficit was 2.6 percent of GDP in 1993, the transitional year, it had risen to 4.2 percent in 1994. Despite the attempts by the National Bank to institute a tight monetary policy, the government, out of the political need of their voters, continued to pursue a policy of "soft credit"—heavily subsidizing indebted and inefficient state economic units, directing the state's fledgling commercial banks to provide negative (1993) and low-interest (1994) loans to loss-making enterprises and state farms²²⁷.

In 1994, the private sector accounted for only 35 per cent of the economy, a low figure when compared with 55 per cent in Hungary and Poland and 65 per cent in the Czech Republic.

1995 was an even more favorable year. GDP grew 7.1 percent, and industrial output grew by 9.4 percent, while inflation fell to 27.8 percent²²⁸. Real income, "electorally the most fungible indicator, rose 12.5 percent"²²⁹. However, the budget deficit remained at an unacceptably high 4.1 percent of GDP. The expansion of the GDP, which should have enabled the economy to "grow" out of indebtedness, had been realized. However, genuine reform within the framework of the "Washington consensus" remained inconsistent²³⁰.

An unexpected energy crisis began in 1996, a year of discontent for Romania. After some delays, the government was obliged in May 1996 to raise prices for basic consumer goods, including energy, after a sharp devaluation of the forced its hand. The annual inflation rate, projected by the government to be 20 percent for the year 1996, soared to nearly 60 percent by year's end (Table 1.). To add to the uncertainty, two Romanian banks, Credit Bank and Dacia Felix, became illiquid due to massively nonperforming loan portfolios, incompetent management, endemic cronyism, and corruption. The National Bank, already overextended by a looming increase in

²²⁷ Bacon, W. (2004) *Economic Reform, "Romania since 1989"* (ed. Henry Carey), Lexington Books, Oxford, p.377.

²²⁸ http://www.indexmundi.com/romania/gdp_real_growth_rate.html

²²⁹ Bacon, W. (2004) *Economic Reform, "Romania since 1989"* (ed. Henry Carey), Lexington Books, Oxford, p.378

²³⁰ Cojanu, V. (2007) *From Washington Consensus to Lisbon Agenda: What Lessons for Economic Models in Romania?*, Romanian Journal of European Affairs, Vol. 7, No. 4.

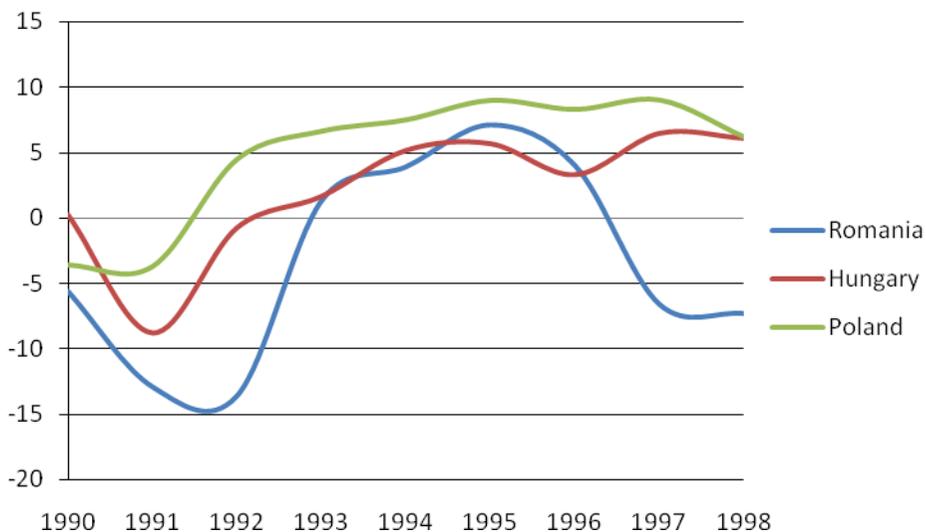
foreign and domestic debt, had to bail out the banks, all the while trying to counter the government's spendthrift ways.

Conclusions

Romania's transition has been a long and strenuous road. According to Crowther, there have been two significant turning points in Romania's transition: 1) the events in December 1989 which displaced the Ceausescu dictatorship and 2) the 1996 transfer of power to the liberal opposition parties which initiated a second phase of reform.²³¹ Although the 1989 events brought change and democracy, the elites of the old Romanian Communist Party, or at least a sizable number of them, were actually the beneficiaries of the revolution. In fact, one could easily argue that they have taken full advantage of the transition to the "free market," using their inside knowledge, political power, and control of state resources to *privatize* their power over the Romanian economy, transforming, quite legally, the political domination of the old nomenklatura into the economic domination of a new oligarchy²³².

Figure 1.

Economic growth of Romania, Hungary and Poland 1990-1998 (%)



Source: http://www.indexmundi.com/romania/gdp_real_growth_rate.html, http://www.indexmundi.com/poland/gdp_real_growth_rate.html, http://www.indexmundi.com/hungary/gdp_real_growth_rate.html

Compared to the progress of Poland, Hungary and Czechoslovakia, Romania has and is still lagging behind. A proof of this lag is the date of joining the EU, which the first three countries have achieved three years faster than Romania.

Turnock considers that in Hungary privatization moved also slowly, but the Government was able to privatize faster than Romania its main industries and services and also established numerous joint ventures with Austrian, German and Swiss companies²³³.

In Poland's case, we have to take into consideration the unions. After 1989, the reform program adopted by the new government sought to stabilize the macroeconomic environment and to begin moving the country toward a market economy. Although initially the economy went into a deep

²³¹ Crowther, W. (2010) *Contemporary Romanian politics*, Communist and Post-Communist Studies No.43, p.1 .

²³² Gabanyi p.353

²³³ Turnock, D. (2005) *The East European Economy in Context*, Routledge, London, p.194

recession, by 1992 growth resumed. “By the end of the decade the Polish economy was one of the fastest growing in Europe, with an average rate of growth of 6.5 percent between 1995 and 1997 and 4.5 percent between 1998 and 1999, and Poland was seen as the most successful of Central European countries that had embarked on similar political and economic transitions in 1989”²³⁴.

From a political perspective, one notable difference when compared to other former communist states is the background of the post-revolutionary leaders. In Poland, Czechoslovakia and Hungary the number of former communist leaders in the new governmental apparatus was rather low. Two decades after the December Revolution, it is still unclear if it had been a transition to democracy: communist party figures are still influential²³⁵, property has been privatized but allowed to accumulate in the hands of a small group of oligarchs, and although there were free elections, there had been “only a partial move to a form of limited and accountable government that was based on the rule of law”²³⁶.

We can conclude that the political will for real reforms did not exist. Most of the decisions were populist, and in spite of this regimes changed every four years. One excuse could be the avoidance of popular unrest which could have led to civil war.

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COMPETITIVENESS THROUGH SUSTAINABILITY AND FINANCIAL EFFICIENCY OF SPA TOURIST DESTINATIONS

Băbăiță Carmen

*University of the West Timisoara,
Faculty of Economics and Business Administration*

Ispas Andreia

*University of the West Timisoara,
Faculty of Economics and Business Administration*

Aniș Cecilia - Nicoleta

*University of the West Timisoara,
Faculty of Economics and Business Administration*

In the specific literature, success may be achieved by two important attributes: competitiveness and sustainability. Competitive advantage represents an essential criterion for surviving on the tourist market and defines the ability of one destination to use these resources effectively and in the long term. The paper work continue a study begun last year by the same authors about tourist perception of attractiveness of the two tourist SPA destinations (Buziaș and Băile Felix) on a different market segment (18-35 years old people). This time, we undertake an analysis on SC Turism Felix SA in order to determine and underline the tourist competitiveness through sustainability and financial efficiency (tourism performance indicators evolution, market share, turnover, investment volume, financial returns and costs).

Keywords: Competitive advantage, financial efficiency, sustainability, SPA

Cod JEL: L, L8, L83

A certain destination may be considered successful if it offers its visitors a similar or better experience compared to other destinations. Therefore, all that a destination offer to a potential visitor in terms of information, images, impressions, must be appealing and interesting. Thus, the destination may be competitive on the market.

Competitiveness in tourism defined as “the level a nation, under the circumstances of a free and honest market, can provide competitive goods and services increasing its citizens’ real income”²³⁷, competitiveness is therefore a challenge available not only to nations but also to worldwide regions and cities/ resorts.

Tourism companies should be aware of the fact that, nowadays, they operate on powerful competitive markets, and they have to come up with those specific elements in order to obtain profits considering their consumers’ needs, thus distinguishing themselves from the other companies. Hence, one can define tourism competitiveness as “*the ability to cope with competition efficiently and productively*”.

Although the issue of competitiveness of tourist destination has been approached by many researchers, such as M. Porter, who put into practice the diamond pattern for tourism, Crouch and Ritchie have designed a pattern being named after them a.s.o., at the moment there is no singular pattern. However, the existing patterns have many common elements, which have different names.

²³⁷Kotler Philip - *Marketingul locurilor*, Teora, București, 2001, p. 232

The concept of sustainable development has been set during years, within scientific debates worldwide and has been awarded specific political connotations within the globalization process. Sustainable tourism is a new approach for tourism and entertainment development in a country, region or tourist destination. This approach considers the main principles of sustainable tourism and embraces concerns for social equity and quality of life, environmental protection, cultural diversity and local economy of the host region. The relationship among these three pillars is represented by a concept called “*sustainability triangle.*” According to this pattern, a society is divided into three main groups called “dimensions”:

- *Social dimension*: elements concerning health, education, training, culture etc.;
- *Environmental dimension*: natural resources, quality of environment, biodiversity, etc.;
- *Economic dimension*: technology, fixed assets, financial means etc.;

The purpose of sustainable development is to maintain a balance among these three dimensions, both locally, nationally and internationally. Lately, there has been added a fourth dimension, concerning the preservation of cultural heritage and traditions.

Purpose of the paper and research directions:

This paper undertakes a study to determine and underline the tourist competitiveness of a major tourist destinations, spa resorts S.C.Turism Felix S.A.

We have taken into account *three research directions*:

- tourist competitiveness through activity’s financial performance: 2005-2009
- evolution of tourism performance indicators (average level (days) and number of tourists, turnover)
- an analysis based on quality services and correlation between staff competency (according to their training in tourism) and tourist satisfaction.

Research methods and results

The resort’s competitiveness based on the growth of the activity’s financial performance

The financial performance of the activity intends to highlight the efficiency ratio between the profit effects and the efforts needed to obtain them.

$$r = \text{Effect/Effort} * 100$$

The measurement of the financial performance is made taking into consideration the size used to create it and is made throughout a number of rates.

- Profitability rates; they are build as a ratio between profit and income results and expenses.
- Rentability rates: they are build as a ratio between the profit results and the actives or capital.
- Stock return rates: they track the stock investment efficiency.

The building of the financial performance rates, generally reports a profit result, either to a workflow or to a stock, intending to best characterise the economic performance of the company. The different rates used have different information power, reflecting the efficiency of different sides of the whole activity.

The rates that are build taking into consideration the advanced capital express the investors interests, while the rates build on the consumed resources express the managers interests.

In this article we will analyze the comercial pofitability rate and the consumed resources profitability rates, by using the available information.

Tabel no.1 Profitability rates analysis for SC Turism Felix SA

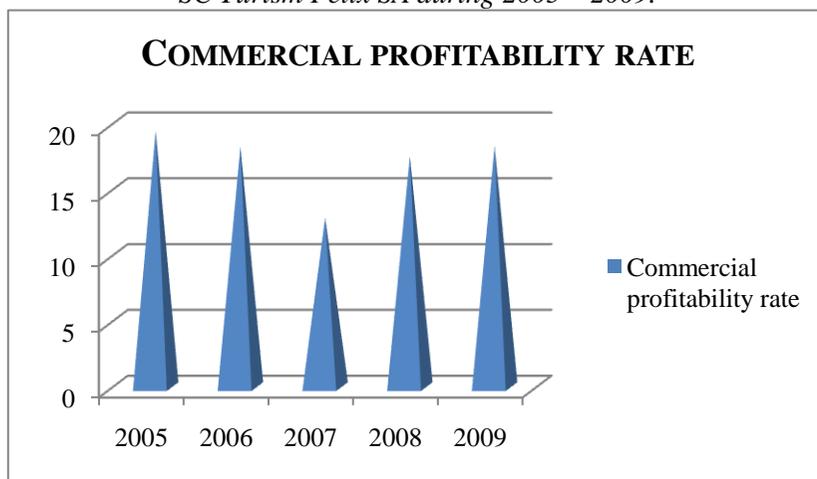
Specificati on	Period of time					U M lei
	2005	2006	2007	2008	2009	
Gross result form exploitatio	6.891.218	6.838.223	5.650.000	8.460.000	9.755.000	

n						
Business revenue	35.374.369	37.494.458	43.918.000	48.300.000	53.300.000	lei
Exploitation expenses	29.121.774	32.829.832	39.760.000	41.250.000	44.945.000	lei
Commercial profitability rate	19,48	18,24	12,86	17,52	18,30	%
Consumed resources profitability rate	23,66	20,83	14,21	20,51	21,70	%

The commercial profitability rate characterise the commercial policy efficiency (supply, store and sell) and te competition between the company’s products reflecting especially their price policy. The commercial profitability rate is determined by reporting the result of exploiting to the result of the business revenue . Thus we evaluate the company possibility to generate a certain level of profit for a given size of the business revenue.

In the economic practice it is considered that a commercial profitability rate of 5 to 20% is acceptable. If the company achieves a great sales volume, this rate will decrease without threatening their market position.

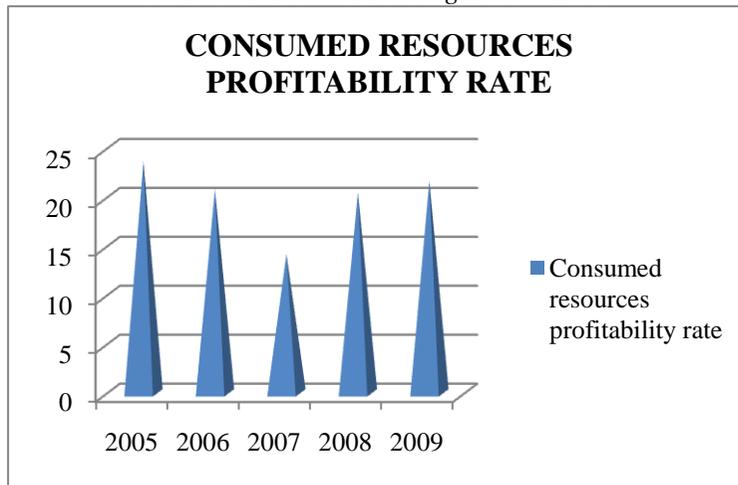
Figure no 1. The commercial profitability rate evolution at SC Turism Felix SA during 2005 – 2009.



In the case of SC Turism Felix SA we observe the fact that the commercial profitability rate register an ascending trend, reaching a minimum value for those 5 years of 12,86%, in 207 reaching then the value of 18,30% in 2009.

The consumed resources profitability is established by reporting the business revenue result to the entire cost of the sold production. This rate is also known as the standard model for the profitability rate and it measures the capacity of the activity to generate profit through costs. The recommended level of the consumed resources profitability rate is between 5% an 20%.

Figure no 2. The consumed resources profitability rate at SC Turism Felix SA during 2005 – 2009



The case of SC Turism Felix SA, the consumed resources profitability rate, as the commercial profitability rate registers a minimum value of 14, 21 % in 2007, with an ascending tendency in 2009, to the level of 21, 70%. The growth reserves of the commercial profitability rate as of the consumed resources profitability rate refers to: improving the structure of services, in the way of growing the shares of those with high commercial profitability rate. Also rising prices; increasing the power to negotiate with the suppliers and obtaining good prices; sales increase (high occupancy of the hotel's rooms)

The evolution of performance tourism indicators: 2006 - 2008

We took into account for this study performance indicators as average level (days) and number of tourists, turnover (See table no 2)

As you can see from the table below the average level of accommodation inregistered a continuously growth from 6,77 days in 2006 to 7,16 in 2008 although the number of tourists during the analyzed period has decreased (66.136 tourists to 60.644 tourists). The continuously growth of the average level of accommodation determined an increase of the turnover from 37.494.458 RON in 2006, to 55.448.042 RON in 2008.

Table no 2. General Tourism Indicators SC Turism Felix SA

Year	Average level of accommodation (days)	Turnover (RON)	Number of tourists(persons)
2006	6,77	37.494.458	66.136
2007	7,05	43.341.563	62.569
2008	7,16	55.448.042	60.644

Source: data where processed by the authors.

Data where collected from SC Tourism Felix SA

Analysis based on employee competency and tourist satisfaction.

From the table (Table no 3) below you can see the level of qualification of employees to SC Tourism Felix SA. Tourism professionals say that the staff must have a training or faculty tourism background, qualification but it also must have a smile on their face, courtesy and decency in order to be part of a quality services system.

Table no 3. Staff Skills and qualification SC Turism Felix SA

Year	Highly qualified staff with a BA in Tourism	People attending training courses	Total	Staff skills and qualifications (%)
2006	9	19	794	3,53
2007	7	49	845	6,63
2008	10	30	844	4,74

Source: data where processed by the authors.
Data where collected from SC Tourism Felix SA

Tourist perception about staff competency in Felix is (Staff is highly qualified – 45%, Employees display a professional behaviour-51%).The recommended measures would be: to select qualified people or business graduates (for management positions) and employees who followed professional training courses. We can say that overall the tourists are pleased of services and staff behaviour.

In a previous study accomplished in April - May 2009, we point out that Buziaş SPA recorded a higher degree of staff qualification than in Felix SPA (Staff is highly qualified 67%, Employees display a professional behaviour - 69%). We also developed a *competitiveness polygon* of the two touristic enterprises for 2006, 2007 and 2008.

Another tourist perception regards reasons why Felix SPA is avoided: no programs and special offers for students, lack of information, advertising concerning the offered services, lack of attractiveness, high tariffs, poor services, poor infrastructure, and bad condition of buildings. Thus, it may be useful designing some tourist packages for young people (students) and using aggressive advertising to promote them, embracing new price policies suitable both for older and younger segment.

The advantage of Băile Felix is the fact that, it has European acknowledgement, being visited by Hungarian and German tourists. 45% have admitted its regional competitiveness and 25% admitted its international competitiveness.

Conclusions

For higher level of services, managers must hire persons who graduated a faculty of tourism or persons which have a qualification diploma (waitresses, chambermaids, etc). Also, managers must take care of soft skills (how to act in a urgent or critical situation, how to make a good day for your client etc) and abilities, and must offer to their employees trainings on this kind of needs. According to the Development Strategies of SC Tourism Felix SA 2007-2011, since 2006 it has begun the modernization of many pleasure, entertainment activities (for eg: swimming place Apollo and Felix). It also is under construction an AquaParc valued at 12 millions euro in Felix. Total value of investments program is about at 285 millions RON.

Overall we can say that a tourism enterprise performance do not depend only of its higher financial results. It also depends on importance given to employee involvement in professional development programs. They are those who are in direct contact with tourists and they know that a satisfied customer is a reliable source of positive publicity. The employers are those who bring added value services.

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GUEST SERVICES QUALITY ASSESMENT IN TOURISM, USING AN ATTRIBUTES SCALE

Ban Olimpia

Universitatea din Oradea

Facultatea de Științe Economice

Popa Luminița

Universitatea din Oradea

Facultatea de Științe Economice

It is considered that a weakness of the Romanian tourism offer is the quality of guest services. In this paper we established as an objective to examine in detail the importance given by the consumers to the components of guest service quality and their perceived performance, based on the three pillars of service quality: the material base (equipments), staff training and staff behavior. The emphasis is on the investigation regarding staff training and behaviour, taking into account the multiple attributes SERVQUAL scale. On the basis of this work lies a survey done in March-April 2010 on the population of Oradea, on a sample of 1060 people. Results confirm the importance granted to staff in ensuring quality of tourism services and their perceived relatively weak performance.

Key words: service, quality, tourism, evaluation, Romania

JEL Classification: M21, M31

1. Introduction

Human resources in tourism has a key role in ensuring the quality of tourism services. Interaction between employees and consumers of services is recognized as a critical factor in determining consumer satisfaction²³⁸. Interaction time is the moment of truth. Of meeting the consumer's expectations depends its retention and loyalty, reason why this is one of the important sources of competitive advantage of a destination.²³⁹ The pleasure to be served completes and sometimes overcomes the pleasure of the actual products consumption³.

2. Challenges of guest services work

Service staff has a major role in ensuring service quality.

- The most important difference from the productive sphere is that among the duties of service workers is the interaction with customers²⁴⁰.

The contact between employees and customers is a co-participation in the service experience. The employee must not only be task oriented but also able to interact, to oversee the customer while he is consuming the services. Thus, the employee must be able to motivate the client to assume the role of co-producer of the service, to instruct and to correct, to monitor and help the consumer to assess their own performances²⁴¹.

Employee relationship with customers is an interpersonal experience²⁴², with everything it implies: communication, knowledge, relationship.

²³⁸ Suprenant, C.F., Solomon, M.R., 1987, *Predictibility and personalization in the service encounter*, Journal of Marketing, 51 (April), 86-96.

²³⁹ Cejas-Martin, R.R., 2005, *Tourism service quality begins at the airport*

²⁴⁰ Bowen J., Ford, R.C., 2002, *Managing Service Organizations: Does Having a Think Make Difference?*, Journal of Management, 28(3), 447-469, p.460.

²⁴¹ Idem.

²⁴² Idem.

- A specific aspect of the service employees is that in the definition of the ideal employee, positive personality has a dominant role. A category of service positions requires specialized training and high-class preparation, but for the majority emphasis is on personality, energy and employee attitude. Selecting a suitable employee for customer interaction is „like a casting for a movie”²⁴³, because it means hiring for various roles.
- Service employees may be harder to follow when interacting with customers. Intervention in the interaction between employee and customer would disrupt the service process on one hand, and on the other hand, the employees have freedom to find specific solutions for specific problems.
- Working in the first line of service involves a certain emotions management. Emotions management means the effort of controlling the body language, to build a side that conveys the desired message. An employee in guest services should be a perfect actor (no matter how cynical this sounds). If he is not a good actor he is not a good professional. The way in which a doctor delivers a diagnosis is more important than the healing prognosis. A teacher must show interest in a student, in his needs for knowledge.
- The employee in guest services, who is in direct contact with consumers is called front-line staff because he is in the conflict zone. The employee is the interface between the company and the client and any complaint, any unsatisfied expectation is transmitted to this staff, although it usually has little power of decision. This employee receives all complaints though is often not empowered to resolve them. Depending on consumers' exaggerated claims, the causes of conflict are: unreasonable customer requests, claims against company policy, unacceptable treatment of employees, violation of social norms, particular needs of clients and drunk clients²⁴⁴.
- Front-line employees can reinforce and promote the company offers and the company itself or - on the contrary - they can undermine it, there is no middle option.
- The perception of service employees on the organization working climate influences consumers' perception of service in regards to the services they received²⁴⁵. By this we understand that the working environment/climate is leaving a mark on the employees, which is reflected in their work.

3. THE SERVQUAL INSTRUMENT- research and applications

Quality in guest services is evaluated from two perspectives, namely the quality standards of the service provider and the consumer's quality standards. The quality of service will be given by the extent to which service providers offer meets consumers' expectations. Lewis and Booms say that: "service quality is a measure of how well the service level delivered matches customers' expectations"²⁴⁶.

Researches on service quality have been focused initially on the way of offering high quality services.

The studies conducted by Parasuraman et.al in 1985, 1986 and 1988 resulted in a quality assessment tool. This instrument called SERVQUAL is a scale with multiple attributes that allows measuring expectations and perceptions of service quality²⁴⁷.

SERVQUAL was initially applied in banking and later on it was applied in tourism services²⁴⁸.

²⁴³ Idem, p.52.

²⁴⁴ Fitzsimmons, J.A., Fitzsimmons, M., J. (1994), *Service Management for Competitive Advantage*, McGraw-Hill, Inc., pp.168-169.

²⁴⁵ Baker, D.A., Fesenmaier, D.R. (1997), *Effects of service climate on manager's and employees' rating of visitor's service quality expectations*, *Journal of Travel Research*, 36(1), pp.15-22.

²⁴⁶ Lewis, R. , Booms, B. (1983) , *The marketing aspects of service quality*, in Berry, L., Shostack, G., and Upah (eds), *Emerging Perspectives of Services Marketing*. Chicago: American Marketing, pp.99-107.

²⁴⁷ Parasuraman, A., Zeithaml, V.A. and Berry 1988, L.L., *SERVQUAL: A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality*, *Journal of Retailing* , 64, Spring, 12-37.

²⁴⁸ Fick, G.R., Ritchie, B.J.R. 1991, *Measuring Service Quality in the Travel and Tourism Industry*, *Journal*

The assessment of service quality is made by comparing the expectations regarding the service quality and the perceptions regarding the performance of received services (importance-performance analysis). When expectations exceed perceived performance, services are assessed as having low quality and performance, but when expectations are exceeded by the perceived performance, the level of service is considered high. A critical point of service consumer satisfaction represents the construction of expectations that through reality-check do not subclass the reality. Initially, in 1985, SERVQUAL had 10 categories of attributes, which were then reduced to five categories with 22 items.

The five dimensions of service quality, SERVQUAL scale components are²⁴⁹:

Tangibles: Physical facilities, equipment, and appearance of personnel;

Reliability: Ability to perform the promised service dependably and accurately;

Responsiveness: Willingness to help customers and provide prompt service;

Assurance: Knowledge and courtesy of employees and their ability to convey trust and confidence;

Empathy: Caring, individualized attention the firm provides its customers.

SERVQUAL experienced improvements in several directions made by the creators themselves²⁵⁰. Thus they attempted to clarify further their conceptualization regarding satisfaction as a component of quality service.

Carman was among the first researchers who gave a reply to SERVQUAL and proposed improvements and adjustments in order for the instrument to be applied in retail.²⁵¹

Fick and Ritchie²⁵² extend the use of SERVQUAL instrument in tourism services, for four categories of services. It regards services provided by: airlines, hotels, restaurants and ski slopes.

4. Empirical research study for quality tourist services

During March-April 2010 a survey was conducted among the population of Oradea, Romania. The sample was composed of a total of 1060 people, sampling method chosen was the stratification method²⁵³ (margin of error of 3%). The criterion used was age. Distribution criterion was chosen as follows: 150 people aged 18-24 years, 234 people aged 25-34 years, 208 people aged 35-44 years, 192 people aged 45-54 years, 152 people aged 55-64 years, 124 people aged 65-80 years. The respondents were persons who received accommodation services at least once since 2007 till presently.

Research goal was to investigate the level of Oradea inhabitants satisfaction, with the quality of tourism services and the performance of service personnel.

The research instrument was a questionnaire with 21 questions, plus some questions related to socio-demographic aspects.

The respondents were investigated on three dimension of tourist services quality, respectively: the material base (equipments), staff training and staff behavior. It was investigated the importance given to these dimensions and their perceived performance for tourist services in Romania.

and Travel Research, 30, 2.

²⁴⁹ Parasuraman, A., Zeithaml, V.A. and Berry, op.cit.

²⁵⁰ Zeithaml, Valerie A., A. Parasuraman, and Leonard L. Berry (1990). *Delivering Quality Service*. New York: The Free Press.

²⁵¹ Carman, J.M. (1990), *Consumer perceptions of service quality: An assessment of the SERVQUAL dimensions*, *Journal of Marketing* 665(1), pp.33-35.

²⁵² Fick, G.R., Ritchie, B.J.R., op.cit.

²⁵³ Studiu realizat în colaborare cu ActiveJob Consulting

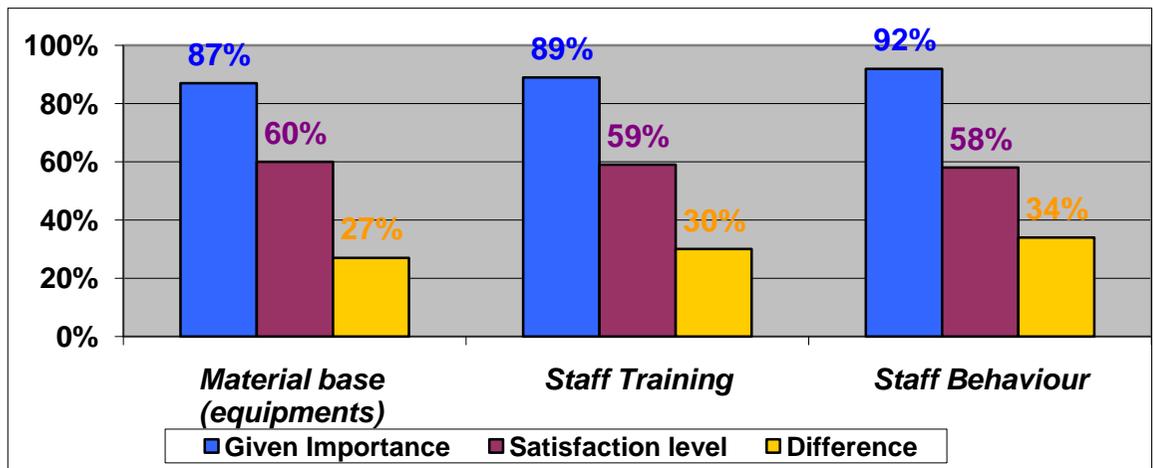


Figure no.1 Importance / performance dimensions of tourist services quality and their relationship

The results reflect that out of the three dimensions of service quality the utmost importance is given to staff conduct, which is also evaluated at the lowest level in terms of performance. A discussion should be the extent to which high expectations lead to a more severe performance evaluation. Zeithaml, Berry and Parasuraman argue that expectations are dependent on the consumer's background experiences²⁵⁴, therefore a richer experience leads to more realistic expectations. Next place as level of importance is the *Staff training*, also on second place as perceived level of performance.

Guest services staff in general, but tourism staff in particular has a crucial role in ensuring quality of provided services.

There were 19 attributes chosen for tourism staff, in correspondence with SERVQUAL, for which it was done the analysis of the importance given by respondents and the analysis of the perceived performance of the staff from Romania (Table no.1). A scale with five steps was used in this research, from "unimportant" to "very important".

The results show that a great importance is given to all attributes. Situated on the first places, with values over 4.5 are attributes of Staff Kindness (Courtesy) and Responsibility, Communication and Timeliness. Also, from another study by Ban²⁵⁵ among customers of six hotels situated on the Black Sea seaside, it resulted that the characteristic Politeness of staff is the most important from clients' perspective. The lowest values were obtained by the attributes Anticipation and Enthusiasm of staff, the reason being maybe the insufficient definition of these attributes or misinterpretation. (Figure no.2)

In assessing the performance it was observed a decrease for all attributes. The best values, although all were average level, were obtained for *Physical Appearance* and *Staff Communication*.

Interesting correlations were highlighted by identifying the links between the education of the respondents and the importance given to *Staff Kindness (Courtesy)*, the education of the respondents and the importance given to *Professional Knowledge* of staff and education of the respondents and the importance given to *Communication*.

²⁵⁴ Parasuraman, A., Zeithamal, Berry, L. (1993), *The nature and determinants of customer expectations of service*, Journal of the Academy of Marketing Science, 1-12.

²⁵⁵ Ban Olimpia, *Synthetic measure of the quality of service taking into account the client s perspective in the hotel industry*, Economia Aziendale Online-International Business Review, N. 1/2008, Special Issue ISSN 1826-4719 Reg. Trib.Pavia-n.685/2007 R.S.P., pp.1-7, www.ea2000.it.

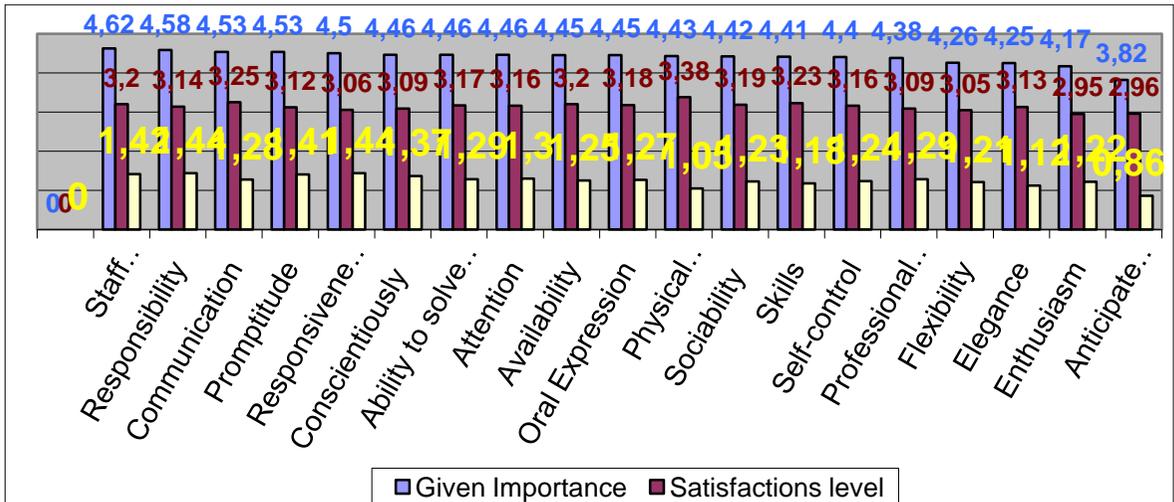


Figure no.2 Importance / performance of the attributes of tourism personnel and their relationship

An analysis of the investigated attributes, divided into groups, as proposed by SERVQUAL, shows that Oradea inhabitants are giving the highest importance to *Trust* and *Responsiveness* categories. Highest level of satisfaction was expressed for the *Tangibles* category. (Table no.1) In research done by Fick and for all four categories of services provided by: airlines, hotels, restaurants and ski slopes, resulted that it is given utmost importance to *Confidence* and *Assurance*.²⁵⁶

Table no.1 Correlation between service quality dimensions (SERVQUAL) and the studied aspects

Nr.crt.	Service quality dimensions (SERVQUAL)	Studied service quality dimensions	Given Importance
1.	Tangibles	Appearance and hygiene of personnel Elegance	87%
2.	Reliability	Conscientiousness Skills Responsibility	90%
3.	Responsiveness	Attention Promptitude Availability Responsiveness to problems Staff Kindness / Courtesy	90%
4.	Assurance	Professional knowledge of staff Ability to solve problems Self-control Communication Oral expression	89%
5.	Empathy	Anticipate desires	83%

²⁵⁶ Fick, G.R., Ritchie, B.J.R., op.cit.

		Flexibility Sociability Enthusiasm	
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If we analyze the histogram for the importance given to *Confidence* and the histogram for the importance given to *Elegance* of staff, we observe a relatively large dispersion, suggesting a relatively broad range of responses.

5. Conclusions

Tourism service staff has an essential role in ensuring quality of tourism services. Research done on Oradea population showed that between the three components of quality of service, the utmost importance is given to staff conduct, and then staff training and material base (equipments). This view is reinforced by the important attribute of tourism staff located on 1st place: *Staff Kindness/Courtesy*. Staff Kindness is an attribute which is difficult to define and standardize, however service quality is often measured by Staff Kindness by the Romanian customers. After Staff Kindness, *Responsibility* is much appreciated by the Romanian tourism consumers. We can see there is need of (re)gaining trust in the tourism services employees in România.

In regards to the perceived performance, evaluations reflect an average level of consumer satisfaction, the most appreciated attributes being *Appearance*, *Communication* and *Staff Skills*. Divided into the five dimensions of service quality, according to SERVQUAL, we see that Romanian consumers give the utmost importance to *Confidence*, followed by *Receptivity*.

We observe a sensitivity of the Romanian tourism consumer towards service staff behaviour, also because of some negative past experiences.

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DERAPAGES DE L'ECOTOURISME DANS LA CONCEPTION D'ANNE VIGNA

Borma Afrodita

Universitatea din Oradea, Facultatea de Ştiinţe Economice

The paper has three parts:

Introduction wich has the following sub chapters: 1.1. Tourism a double faceted activity and 1.2 OMT and ecotourism. The second part, Ecotourism failures, structured on the following sub chapters: 2.1.A list of disgrace, 2.2. The archaeological site of Mirador, 2.3. Paraiso del Mar, 2.4. Micos Beach, and the last part Conclusions and Bibliography. The paper is meant to define ecotourism, especially its failures in Central and South America, famous tourist destinations, natural sites and lanscapes, spectacular and vergin teritories. These future destinations are becoming an easy prey for „human sharks“, careless of natural and social environment. They hide themselves under the magic word „ecotourism“

Keywords: ecotourism, OMT, El Mirador, Paraiso del Mar, Micos Beach

Cod JEL: O13

1. Introduction:

1.1. Le tourisme: activite a double visage

À partir surtout du XX ème siècle, le tourisme est devenu un secteur majeur de l'économie mondiale et un phénomène social incontournable. Souvent présenté comme un flux de personnes et de capital, le tourisme est, avant tout, un vecteur d'interaction entre les visiteurs et les composantes sociales, économiques et d'environnement des espaces visités. Vu de cet angle, le tourisme se présente comme un secteur qui façonne les territoires, crée des dynamiques d'acteurs du secteur, confère un nouveau sens a des facettes oubliées de notre milieu naturel et humain, ou meme il en modifie les caractéristiques.

Le tourisme constitue donc un élément dynamique du développement, mais egalement une raison du renforcement de la dépendance des pays. Et comme il modifie profondément la société dans laquelle il s'exprime, **le tourisme est une activité à double visage, en meme temps structurante et destructurante, productive et dégradante, facteur de liberte et instrument de dépendance.**

Il y a 20-30 ans on tirait le signal d'alarme sur la massification du tourisme, qui a toutefois permis d'initier un nombre croissant de personnes dans la pratique récréative et des voyages, massification qui crée des dégats à la nature et à l'environnement, facteurs majeurs de l'attrait des sites, et qui n'est pas toujours positivement accepté par la population concernée. On parle de plus en plus de biopiraterie, d'incidences négatives du tourisme, de requins du tourisme, comme les appelle Anne Vigna²⁵⁷ dans un article du Monde diplomatique.

Liliane Bensahel et Myriam Donsimoni²⁵⁸, soulignent elles aussi le fait que l'image de marque du tourisme n'est pas toujours flatteuse ou bien fort positive. Les deux auteurs dénoncent, et pour de bonnes raisons, le tourisme sexuel, la dégradation des cohérences familiales, sociales, écologiques, patrimoniales et culturelles, des couts du tourisme qu'il ne faut pas ignorer lorsqu'on parle du role du tourisme dans le développement d'une société. Ce sont toujours elles

²⁵⁷ Anne, Vigna, juillet 2006. L' ecotourisme frelate. *Le monde diplomatique.*

<http://www.monde-diplomatique.fr/2006/07/VIGNA/13608>

²⁵⁸ Liliane Bensahel, Myriam Donsimoni, 2009. *Le tourisme, facteur de developpement local.* PUG, coll. Debats

qui soutiennent l'idée de l'information et de la protection contre les excès et les dérapages du tourisme.

1.2. L'OMT et l'idée de l'écotourisme

L'Organisation Mondiale du Tourisme²⁵⁹ a promu, il est vrai, l'idée de l'écotourisme²⁶⁰, en a donné la définition, ou plutôt les définitions, mais dans certains cas et certains pays il s'avère être un simple mot, très alléchant pour les touristes conscients de la nécessité de protéger le milieu naturel et social. Malgré les signaux d'alarme tirés par des ONG (comme le Tourism Concern britannique), ayant pour objet l'étude de l'impact du tourisme sur les gens et leurs milieux, la promotion d'une activité propre et honnête dans le tourisme, malgré les discussions sur une éthique du développement, terme développé par Amartya Sen²⁶¹ (prix Nobel d'économie), on maintient dans le tourisme, surtout dans les pays en cours de développement, d'importantes et visibles disparités entre un secteur riche et bien fourni et le maintien d'une zone de pauvreté importante et pratiquement irréversible.

Tout le monde a adopté l'idée d'un tourisme sain, propre, vert, tourisme-nature, d'un écotourisme respectueux des sites et des gens, mais dans certains coins de la terre, comme par exemple en Amérique centrale, du sud, en Afrique, en Asie, les objectifs financiers des requins du tourisme ne tiennent pas compte du patrimoine, des réserves protégées, du sort des populations, certaines obligées de délocaliser ou de s'enfoncer dans une plus grande pauvreté.

Et tout cela malgré l'intensification des lois de préservation de la nature, de l'environnement, tout un arsenal législatif que les faux promoteurs de certaines zones à potentiel touristique réussissent à éluder, avec l'aide, certes, des gouvernements des pays concernés, des conseils locaux, des présidents mêmes.

2. DERAPAGES DE L'ECOTOURISME

2.1. Liste de la honte.

De tels exemples on peut avoir en Europe aussi, mais là, quand même, les lois s'appliquent et des sites menacés par la massification ou la voracité des promoteurs se voient aujourd'hui protégés par la loi et la conscience des touristes. Et pourtant...

Le magazine britannique *Wanderlust* publie chaque année une liste de la honte, **Threatened Wonders List**²⁶², une liste des merveilles en danger. On y a mis huit destinations les plus menacées: en Jordanie, Wadi Rum²⁶³; Yangshuo²⁶⁴, un village de Chine qui attire plus de trois millions de visiteurs par an, par-dessus la capacité d'accueil; viennent ensuite: Tulum²⁶⁵, au Mexique, le site néolithique Stonehenge²⁶⁶, en Grande Bretagne, Machu Picchu²⁶⁷, sites incas piétinés chaque jour par 2500 touristes! N'oublions pas Jaisalmer²⁶⁸, Timbuktu²⁶⁹, les 30 km de plage de Bay of Fires... Les causes? trop de touristes, mauvaise organisation et faible surveillance.

On s'arrête sur trois pays de l'Amérique centrale (Le Guatemala, le Mexique, le Honduras) parce que là des choses touristiques assez louches se font sous le couvert du mot écotourisme ou bien tourisme vert. Et parce que, 60% des touristes actuels recherchent à tout prix des zones de

²⁵⁹ http://fr.wikipedia.org/wiki/Organisation_mondiale_du_tourisme

²⁶⁰ <http://fr.wikipedia.org/wiki/%C3%89cotourisme>

²⁶¹ http://en.wikipedia.org/wiki/Amartya_Sen

²⁶² http://www.wanderlust.co.uk/article.php?page_id=3135

²⁶³ http://en.wikipedia.org/wiki/Wadi_Rum

²⁶⁴ http://en.wikipedia.org/wiki/Yangshuo_County

²⁶⁵ <http://en.wikipedia.org/wiki/Tulum>

²⁶⁶ <http://ro.wikipedia.org/wiki/Stonehenge>

²⁶⁷ http://en.wikipedia.org/wiki/Machu_Picchu

²⁶⁸ <http://en.wikipedia.org/wiki/Jaisalmer>

²⁶⁹ <http://en.wikipedia.org/wiki/Timbuktu>

nature vierge, des endroits pas encore vus ni visités. Et des fois, la voracité et l'inconscience des promoteurs sont à même de détruire l'équilibre écologique pour toujours car très fragile dans ces coins-là. On a d'ailleurs l'exemple du Galapagos²⁷⁰, dont le système écologique, fragile par lui-même, se voit dangereusement bouleversé par les activités touristiques. C'est pourquoi, on a mis cette zone sous protection par l'UNESCO, elle fait partie du Patrimoine mondial de l'humanité. Les décideurs de la zone n'y ont même pas participé.

2.2. Le site archéologique du Mirador²⁷¹

Bien que l'OMT ait promu l'idée d'un tourisme écologique, bien que ce soit un mot qui sonne bien aux oreilles de certains touristes consciencieux, dans l'absence d'une définition précise, des gouvernements et des groupes privés mettent ce label au front de leurs projets très peu écologiques et même antisociaux. Anne Vigna²⁷², dans l'article "*L'écotourisme frelaté*", présente le site du Mirador, situé au nord du Guatemala, comme la plus importante aire protégée de l'Amérique Centrale. Le site était un vrai bijou gardé par les forêts l'entourant. Il n'y avait que les archéologues et les gens du site qui étaient au courant de l'existence des 26 cités maya, de la période préclassique et antérieures à d'autres sites comme Palenque, Copan et Tikal. Il y a là les pyramides les plus hautes de l'Amérique (147m). Jusqu'au jour où un archéologue américain, Richard Hansen²⁷³, a vu dans ce patrimoine une mine d'or, un potentiel touristique de premier choix pour le Guatemala, combinaison unique de forêt tropicale et des sites archéologiques uniques. Le projet El Mirador prend contour avec l'appui du président du pays, Oscar Berger, et d'une longue liste d'institutions qui ne jurent que sur la conservation et la protection du milieu naturel et social, mais en réalité l'impact de ce projet aura un effet tout à fait contraire.

2.3. Paraiso del Mar²⁷⁴

Au Mexique, l'offre des plages croît, il y a 142 projets en cours visant l'enlèvement des plages dans du béton. Les décideurs de ces pays (un peu moins le Costa Rica) se rendent compte que la nature se vend bien. Mais le plus souvent, les projets qu'ils qualifient d'écotourisme n'impliquent pas la participation des habitants à la définition et à la gestion du projet, pas d'aménagements écologiques qui puissent réduire la dureté de l'impact. Le président mexicain, Vicente Fox, a soutenu dès le début un projet catastrophique pour l'environnement: **l'exploitation du dernier aquarium mondial**, dans la Basse Californie, zone d'une biodiversité marine unique au monde et lieu de reproduction de la baleine grise et du requin-baleine. Transformer donc 244 îles, très sensibles à la pollution sonore et chimique, en zones touristiques pour les bateaux de plaisance américaines (il y a de la place pour 50 000 embarcations privées), voilà ce que le projet Mar de Cortes (dont fait partie Paraiso del Mar) pense faire car ils attendent cinq millions de touristes jusqu'en 2014! Ils n'ont pas encore obtenu les autorisations nécessaires mais ils prévoient la construction de 1500 villas, 2000 chambres d'hôtel, terrains de golf, parc de distractions, deux hôpitaux...UNESCO²⁷⁵, pour essayer de sauver ce coin paradisiaque a classé les îles dans le Patrimoine de l'humanité, en 1978. Malgré cette classification, l'UNESCO a les mains liées car elle ne peut intervenir que si le gouvernement du pays l'exige! (Gonzalo Halffter)²⁷⁶.

2.4. Micos Beach²⁷⁷

²⁷⁰ <http://ecotourism-ro.blogspot.com/2009/03/turismul-distruge-insulele-galapagos.html>

²⁷¹ Anne, Vigna, juillet 2006. L'écotourisme frelaté. *Le monde diplomatique*.

<http://www.monde-diplomatique.fr/2006/07/VIGNA/13608>

²⁷² <http://mondediplo.com/Anne-Vigna>

²⁷³ http://en.wikipedia.org/wiki/Richard_D._Hansen

²⁷⁴ Anne, Vigna, juillet 2006. L'écotourisme frelaté. *Le monde diplomatique*.

<http://www.monde-diplomatique.fr/2006/07/VIGNA/13608>

²⁷⁵ <http://whc.unesco.org/>

²⁷⁶ <http://whc.unesco.org/>

²⁷⁷ Anne, Vigna, juillet 2006. L'écotourisme frelaté. *Le monde diplomatique*.

Micos Beach représente un projet écotouristique du Honduras sur la plus belle partie de la cote des Caraïbes. Le pays avait déjà vendu aux nord-américains ses îles pour la pratique de la plongée sous-marine, et des terres agricoles pour l'ananas à une compagnie américaine. Pour le projet Micos Beach, le Ministère du tourisme du pays a exproprié 300 hectares et en 2004, il a vendu cette partie du littoral (19 millions de dollars) à une société privée qui s'était constituée en vue du projet. un terrain de golf de 25 hectares, 2000 chambres d'hôtel, 170 villas...L'attraction principale étant le Parc national ou devraient avoir lieu de nombreuses activités, un terrain de golf de 25 hectares, 2000 chambres d'hôtel, 170 villas...

3. Conclusions:

Tous ces projets dont on a parlé ignorent ce qui est le plus important: l'environnement, le milieu naturel et social, la nature est vendue et exploitée, ce n'est que le profit qui compte. Ils vont faire de ces coins de paradis ce qu'ils avaient fait, il y a quelques dizaines d'années, avec la superbe baie d'Acapulco. Les méthodes sont restées les mêmes: corruption des autorités, informations floues, indemnités ridicules ou même inexistantes pour s'approprier les terres des gens, et, qui plus est, faire tout sous le si joli label écotourisme! À l'origine de ces projets, les mêmes requins du tourisme, les mêmes investisseurs à la recherche des derniers coins vierges, intacts de la terre. Il y a, certes, un code mondial de l'éthique du tourisme et des tas de déclarations sur l'écotourisme, mais nulle part une stricte définition de l'écotourisme ni des lois qui puissent forcer les gouvernements à s'engager sur la voie honnête d'un tourisme sain et respectueux de la nature et des gens. Il faut, certes, continuer à mettre en valeur et à valoriser le patrimoine de chaque pays mais également, et surtout, faire en sorte d'assurer aussi, en même temps, sa conservation.

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MEASURES AND INITIATIVES ADOPTED TO MANAGE AND DEVELOP TOURISM ACTIVITY IN THE UE MEMBER STATES

Cojocariu Steliana

Ministry of Regional Development and Tourism

Molnar Elisabeth

Remtours

Abstract

The paper presents measures adopted to manage and develop tourism activity by the UE member states as: Croatia, Germany, Greece, Hungary, Denmark, Italy, Ireland, Malta, Spain and Romania.

Key words: measures, seasonality, demand, tourism activity

JEL Classification: M29

Current position of tourism in the World and Europe

Latest data from UNWTO was presented; in 2009 to July, we have seen a 7% decline on 2008 in worldwide tourism, whereas Europe has seen a 9% decline.

The UNWTO Resilience Committee is focusing on three main areas: market intelligence, stimulus measures and the green economy. It was noted that the downturn has identified the underlying weaknesses and threats which should be tackled if we are to ensure the long term competitiveness of tourism in Europe. In particular, we need to undertake work on product development, sustainability and to increase the marketing of tourism towards Europe²⁷⁸.

Measures taken in tourism to reduce the seasonality of demand

Croatia

One of the key problems of Croatian tourism is seasonality. In the period from June to September 86% of total overnight stays are realised and 62% in the two peak summer months. The reasons for outstanding seasonality are focusing to the one main product 'sea and sun', adverse structure and quality of tourism offer and its concentration in the coastal region of the country. Steps to ease seasonality are mainly connected to raising the quality of tourism supply and thus higher usage of accommodation, focusing on diverse segment of tourist's demand as well as to diversification of tourist products that are not closely related to the summer period such as spa and wellness tourism, urban tourism, wine roads and traditional dishes, excursion routes and national parks etc. Relevant documents are: The Development Strategy of Croatian Tourism by 2010 and Ordinance on Classification and Hospitality Facilities Categorization.

Germany

The Federal Government's Commissioner for Tourism advocates staggering the school summer holidays in the Länder, in order to bring about a broader utilisation of available capacity in the hotel and restaurant sector.

Greece

An important purpose of the Ministry of Tourism is to mitigate seasonality in tourist demand. In order to succeed, it seeks to enrich and diversify the tourism product through special forms of

²⁷⁸ UNWTO, Eu Tourism and the Economic Downturn: new Opportunities for a Sustainable Prosperous Future?, 8 th European Tourism Forum, Brussels / Belgium 9 th October 2009.

tourism. The Ministry aims in particular at nine sectors of specialised tourism products (Seaside, Sea, Cultural, MICE, Rural, Health and Wellness, Luxury and “City Break” Tourism). The overall aim is to offer a variety of options concerning the Greek tourism product, penetrate into as many and different markets as possible as well as set an influential tourism pattern, confirming the country’s capability to meet the expectations of visitors with varied motives and multiple demands.

This differentiation of the tourism product aims at the sustainability of enterprises which have completed 12 months of operation. The main objective is to improve quality in all domains (services, tourist infrastructure, visitors) which will help upgrade the international presence of Greece (new markets, enhancement of traditional markets) and will guarantee the conditions for bigger investments.

Hungary

In the National Development Plan until 2013 1.197 billion EUR can be spent for tourism development as indicated in point 2.5, mainly for tourism attraction development, accommodation development and for the establishment of destination management system. The developments contribute to the establishment of high quality tourism services and widening the tourism offer throughout the whole year.

In the priority tourism product development areas detailed substrategies are established outlining the major aims and development measures. A substrategy has been already elaborated in health and spa tourism, ecotourism and equestrian tourism development. A cultural and a youth tourism one is under development. These strategies serve partly quality development of the main tourism products, partly to decreasing the seasonality through widening the product offers throughout the whole year. It gives guidelines to the evaluation of applications for funding of developments and supports co-operation between the governmental bodies and industry organisations.

One of the main objectives of the Hungarian National Tourist Office is to reduce the seasonality of inbound and domestic demand in order to help the sustainability of the sector. Some major marketing actions in co-operation with the service providers also contribute to decreasing the seasonality. In the field of inbound tourism, the most successful measure has been the Budapest Winter Invitation campaign that aims at inviting tourists to Budapest off the high season: between the 1st of November and the 31st of March. This is the third year of this campaign that attracts more and more visitors to the Hungarian capital while more and more hotels and other service providers join the campaign. What refers to domestic tourism, the Hungarian National Tourist Office has several initiatives with the regions and service providers (for example 2=3 or 3=4 nights in hotels) to help reducing seasonality in the framework of the so called thematic years (2006: the Year of Gastronomy, 2007: the Year of Ecotourism, 2008 the Year of Water tourism, 2009: the Year of Cultural Tourism, 2010: the Year of Festivals). Through thematic year promotions the HNTO promotes a specific product through the whole year by this generating demand towards certain tourism products all over the year.

The promotion of off-season mega events like Budapest Spring Festival also contribute to decreasing seasonality. The HNTO also stimulates the utilization of the holiday cheques for domestic travelling which also contributes to decreasing seasonality. The HNTO has developed the national tourism database as a united source of tourism information to public and professionals which makes the all year round events available.

The first results of developments can be measured as regards the seasonality. Even though the average stay of tourists did not change in 2007, the share of the first 4 months in the total demand increased by 5 %.

Denmark

In 2006 VisitDenmark initiated the project “All-year tourism” with the aim of developing strong tourist destinations and attracting more tourists off-season. The project is supposed to support innovation, co-operation and growth in Danish tourism and focuses on product development (accommodation facilities, attractions, general tourism offers and experiences, tourism service infrastructure etc.) and branding. Seven destinations through-out the country have been chosen as “all-year destinations” and a few might be added. VisitDenmark is responsible for the project management, including the planning of workshops and seminars, study tours etc. In January 2009 the seven destinations have finished their implementation plans for their development 2009-2015. The project will continue throughout 2009 with a focus on strategic organisational development (DMOs), target group oriented product and experience development and strategic marketing.

Italy

Face to the current economic downturn, the Secretary of State for tourism signed in January 2009 a decree on “holidays vouchers” to benefit low income families. Vouchers can be used from the 6th of January until the first week of July, and from the first week of September until the 20th of December. The amount granted covers between 20% and 45% of the average family expense for holidays, calculated according to several criteria, such as annual income and number of persons in the family.

Ireland

The tourism agencies have been working with industry for a number of years to encourage tourism in the non-peak season, in particular by offering good value packages at these times. A National Conference Centre is due to open in 2010. A number of conferences have already been secured in the off-peak season and strategies are being implemented to grow this business. A new Cultural Tourism Initiative should encourage visitors outside of the peak season.

Malta

One of the main objectives of the National Tourism Policy is to reduce seasonality, though it is acknowledged that tourism activity is by its own nature seasonal.

Product improvement projects are being developed aimed at encouraging tourists to visit and experience the different localities during their stay on our islands. This will help to achieve a fairer distribution of income and increase employment throughout the islands whilst alleviating some of the pressure off the more visited sites and locations.

Cruising – Government will continue its efforts at promoting Malta as a ‘cruise and fly’ destination. Cruise passenger visitors are potential tourists. Investment in artistic projects will be undertaken to ensure the possibility of providing a local art experience to the tourist. The sister island of Gozo may be promoted with operators of clippers (small cruise ships carrying less than 1000 visitors). These will visit Gozo and Malta. Travelling in smaller numbers but providing a higher yield, these tourists are more attractive for Gozo. Government will make the necessary investments in order to have offshore berthing facilities.

Strengthening short breaks – Government will continue to maintain and promote a national calendar of events. Various measures are being taken aimed at attracting low cost airlines to operate to and from Malta thereby increasing the number of short-stay holidays in Malta. Government will continue supporting events that add value to the visitor’s stay in Malta.

Relaxation – In the last couple of years a number of hotels have invested in health and spa facilities in order to market Malta for this emerging market. These facilities provide an added-value for short break holidays.

Medical Holidays – Government will continue supporting private institutions interested in developing this niche. Private hospitals are working with international organizations in order to

obtain permits to be able to carry out medical procedures on their behalf. Marketing efforts are underway to support these initiatives.

Wedding Holidays – The related product and services are continuously being refined to offer a memorable experience to the growing number of foreign spouses who are deciding to get married in Malta.

Our policy is to ensure that marketing, product development, human resource development and quality assured initiatives are well co-ordinated and integrated to ensure that the identified segments continue to develop and result in a positive economic and social contribution to Malta and Gozo.

Spain

The model of action used in most tourist destinations has hitherto been marked by a two-pronged approach of standardisation and diversification. These concepts must be replaced by specialisation and differentiation in response to the new challenges facing the sector. This will inevitably have an impact not only on the setting of priorities for action but also on the content of the actions to be implemented.

Actions to support the design and planning of tourism products

The aim of developing the reference methods for designing and planning tourism products is to provide support to the tourist destinations that need it, so that actions can be appropriately defined and implemented in order for these destinations to be able to achieve the required level of specialisation and differentiation.

The most important actions that will be carried out or promoted relate to the following areas:

- The planning, organisation and management of the specialist product.
- A manual for the specialist tourism product.
- The creation of a specialist product club and/or specialist tourism association at national level.
- A tourism product observatory - scorecard.
- Comparative analysis with the leading international specialist destinations.
- Fostering innovation with regard to tourism products.
- Destination specialisation
- A model signposting system – homogenisation.
- Marketing and commercialisation of the specialist tourism product.
- Marketing and commercialisation model for the specialist tourism product.
- Guidelines on the image and positioning of the specialist tourism product.
- Customer service and information model for dealing with tourists in the destination.
- Internet presence and online marketing.
- Loyalty to the specialist demand.

Romania

There are 3 programmes developed for extending the season by offering low price tourist packages for holidays taken in spring and autumn: “The Sea Coast for Everybody”, elaborated by ANAT - the National Association of Travel Agencies and Tour Operators, “A Holiday in the Countryside” elaborated by ANTREC - the National Association for Rural, Ecologic and Cultural Tourism, and a “A Week of Recovery in Spas” and the “Spa Decade”, elaborated by OPTBR -the National Association for Spa Tourism.

Conclusions

This measure provides Member States with an opportunity to outline specific initiatives and policies that are or are going to be adopted to manage and develop tourism activity in ways which respond to the key challenges of the Agenda and which fall within the six main aims of the Agenda itself.

1 Economic prosperity

To ensure the long term competitiveness, viability and prosperity of tourism enterprises and destinations.

To provide quality employment opportunities, offering fair pay and conditions for all employees and avoiding all forms of discrimination.

2 Social equity and cohesion

To enhance the quality of life of local communities through tourism, and engage them in its planning and management

To provide a safe, satisfying and fulfilling experience for visitors, available to all without discrimination by gender, race, religion, disability or in other ways.

3 Environmental and cultural protection

To minimise pollution and degradation of the global and local environment and the use of scarce resources by tourism activities.

To maintain and strengthen cultural richness and biodiversity and contribute to their appreciation and conservation.

Due to the crisis, competitiveness of the industry has come more into the picture. Different elements such as sustainability, branding or diversification strategies receive more attention than before the crisis.

Improving competitiveness has to be achieved, firstly, by improving price/quality standards and, in a second stage, by implementing sustainable development process.

Emerging markets (e.g. China, India) constitute new market opportunities for the european tourism and hospitality sector. However, the current visa policies should be facilitated. Training is being organised to facilitate the hosting of these new giests with different cultures.

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SOFTWARE DEVELOPMENT BUSINESS MOVING TOWARDS A UNIFIED COLLABORATIVE SYSTEM IN IT. SAAS MAY BE THE NEW ORIENTATION.

Costin Aurelian-Răzvan

Universitatea Babeș-Bolyai, Cluj-Napoca

Facultatea de Studii Economice și Gestiunea Afacerilor.

Țolea Eniko Elisabeta

Universitatea Babeș-Bolyai, Cluj-Napoca

Facultatea de Studii Economice și Gestiunea Afacerilor.

In this paper we will present an alternative way of programming. Our opinion is that, in the next few years, software development business will suffer serious changes. Software vendors will adopt SaaS (Software as a Service) as the new way of selling their products. We will try to guide you through the basic concepts of this relatively new domain. The article also includes a brief description of an application, developed indoor but using SaaS applications for some of its modules. In the end we want to make an SWOT analysis of the opportunity of using SaaS.

Keywords: Software as a service (SaaS), informatics, business, vendors, new technology.

Introduction

Application to be described in this article is a dynamic site which aims to create a mode of communication between lawyers and those who need advice on legislation. Thus users are both those who need answers to various questions related to legislation and those that will provide answers and are able not only to advertise through this site but also to gain something from their involvement in this business.

The basic idea of the application is relatively simple and can be summarized as follows: A client, a user who needs legal advice in the legislative field, will post a question on this site and lawyers who are willing to provide information, will establish a supply response. The supply response means that they will set a price they are willing to answer the question posted. The customer will decide based on reputation and offer which lawyer will offer the answer that he needs. The application will download from the customer's account the amount of the transaction and will transfer it in to the lawyer account (90%) and the remaining 10% in to the webmaster account.

As will be seen in this paper we will debate whether the use of free tools that can be found on the Internet and integrate them into an application is or isn't a good idea. We will elaborate on this process in what follows.

Not everyone can post their questions on the site, only those customers who have made an account in advance, and more, have uploaded their budget with a certain amount of money. In a classical way, the work on this application begins by creating an account. To access all the features of the site, a visitor will need, whenever he visits the site, to login. This procedure is valid for lawyers as well. The procedure is a standard for most online applications. Using logging is clear an opportunity, whereas it provides some security in terms of users but, also to prevent overloading the application with non-human users, or so called robots.

Applications Description

For creating this application we have chosen to use PHP and MySQL. The system is built using our own set of code and, where needed, using outsource services. This paper goes on to explain how the site works and which the innovative elements of our application are.

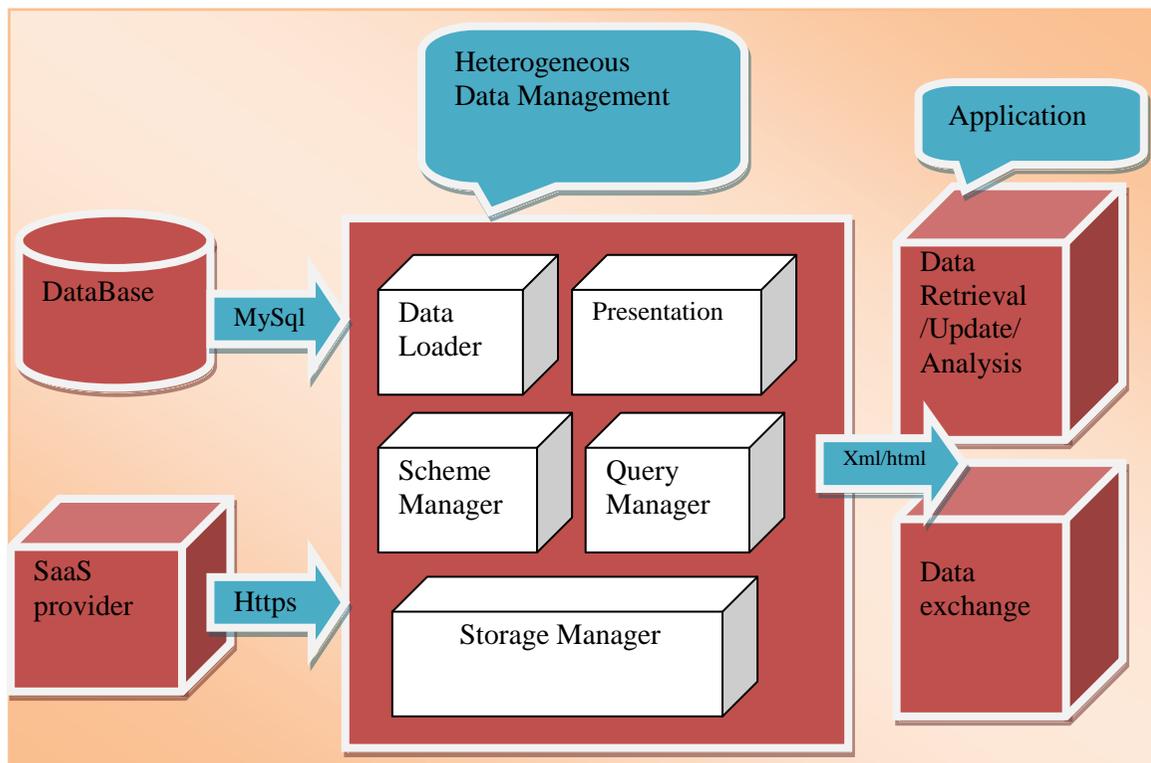


Fig.1. Applications Architecture

Virtual communities are one of the most important developments in Internet history. Due to rapid exchange of information, they have brought major benefits in almost all areas of everyday life. Legal advice is not an exception. Thus both lawyers and clients can meet and make exchanges of information using the digital advantages of having quick information, eliminating bureaucracy and endless queues.

We have inserted a virtual community in this site using a forum application, named Simple Machine Forum (<http://www.simplemachines.org/>). This choice is understandable as it is easy to use, secure and relatively high positioned compared to the popular PHPBB. For more enjoyable browsing of the site we chose to integrate the forum using an iframe. This allowed us, as programmers to save a lot of time and hard work. This forum is the first free source that we used to sustain our idea that one does not have to reinvent fire when he develops an application.

So, the site has a forum that allows stakeholders to communicate. Access is allowed from the outset and does not require prior authentication. This is because we consider that a new visitor must be able to pursue such discussions and know how other users use the application, and thus be motivated to create their own account and to commence their activity. About the economic side will discuss later in this article.

What is SaaS?

“Quite simply, Software as a Service (SaaS) is a service that allows you to outsource the technical aspects of your business. By finding a good SaaS provider, you can eliminate the worry about purchasing, installing and maintaining software or hardware, and focus on managing and expanding your business. The SaaS model is expected to become an important alternative - especially during a financial crunch - not only for larger companies but also for small and medium businesses with low budgets for IT. Since a traditional IT budget is made up of an IT team, SW licenses, and equipment such as servers, SaaS offers a significantly reduced TCO (total

cost of ownership). This is due to low cost of deployment, no expensive equipment purchases, and the ease and speed of implementation. As SaaS is often put into service on a pay-per-use basis, or subscription based on usage, this further reduces corporate expenditures. The right SaaS provider offers a business approach to ease your decision-making regarding IT and will reduce your budget. Implementing SaaS also eliminates the time spent for upgrades and maintenance.” (Galor Systems & Software Development, March 2009, content cannot be changed).

Types of SaaS

SaaS must be defined depending on the type of its users. So software as a service can be considered an:

-On-demand software purchasing where clients purchase applications using the Internet. For software providers, this type of SaaS represents a cost-effective sales channel and software delivery mechanism. Another asset for vendors is the fact that they would no longer have to think about a licensing protocol. For users, it provides a fast and easy way to obtain software, information and all this at a very cheap price, comparing with buying software traditionally.

-On-demand IT service-oriented architecture (SOA) where an application or software is created using exchanged information between programmers. A SOA offers a flexible approach to application development that encourages service re-use and reduces the need to build point-to-point connections for data and application integration.

-On-demand application services where individual users or organizations pay external third-party providers for the use of their application services. The objective of this type of SaaS is to trim software and hardware costs, and to reduce IT staffing and skill requirements. This approach may also be used as an interim step before bringing application software in house.

Some industry analysts describe the on-demand application services model as SaaS 2.0, because it extends the capabilities of earlier SaaS initiatives. An on-demand application services vendor may, for example, support a SOA for providing easier access to the services it offers. (Colin White, 2010)

SaaS- the end of classical IT business

Software as a service could turn out to be the end of classical business in software providing world. Customers would have a lot of benefits from using these alternatives: They can have access to sophisticated technology without up-front expenses or the hassles associated with the installation and maintenance of traditional software. For providers, SaaS could mean the opportunity to challenge new markets, to break down classical frontiers and no more headaches concerning software licensing.

So a great thing concerning SaaS providers is that they offer their application with their obligation to maintain it and to host it on their servers. As it can be seen this alternative could turn out to be very cheap for a user as his costs with maintenance and hardware requirements would be minimal.

Like any new concept, SaaS has its own shortcomings. The fact is that not even today theoreticians agree on a definition, as SaaS still experience a perpetual process of evolution. At a global level, people are still reluctant to use such services as there is a lack of trust to save data bases outside an organization’s firewall. We couldn’t help but wonder: Could you run a business entirely on hosted offerings? The answer is not clear but even so IDC said that in 2009 people all over the world spent \$10.7 billion on SaaS.

In my opinion healthy enterprises need to develop their own unique applications, and any modern IT infrastructure needs to be fully integrated in a manner that cannot be achieved with SaaS solutions today. But an urgent need to stop piling cost and complexity on IT is sowing the seeds of change. Although enterprises may not be replacing effective, large-scale systems with SaaS alternatives, the SaaS option suddenly becomes perfectly viable when it comes to adding new

functionality. And, as Salesforce.com discovered, SaaS can be particularly successful at replacing in-house or off-the-shelf software that has failed miserably.

As I have mentioned SaaS has some deficiency. One of them is the lack of trust providing, so that an organization to use only outsource software. Indoor software still seems more reliable and efficient in a manager's eye. In my opinion this happens, not because SaaS is not the best alternative, but because the infrastructure all over the world is not allowing an exclusive usage of this kind of services.

SWOT analysis for SaaS

<ul style="list-style-type: none"> -Domain knowledge -Low cost -Infusion of investors -Customer relationship -Web API scanning -Pay per use model 	<ul style="list-style-type: none"> -Customer understanding -Quick deployment -Uses existing solutions -High growth -DB scanning -VMware capability 	<ul style="list-style-type: none"> -Server level management -Low transparency -Small research team -Operations cost -Infrastructure -Low access -Lower security -Small support team -Web-centric sales -User experience
<ul style="list-style-type: none"> -New markets -New distribution channel -technological development -Integration with 3rd party blocking technology -Higher profit opportunity 	<ul style="list-style-type: none"> -Greater market share -3rd party experience 	<ul style="list-style-type: none"> -Lot of competitors -Address weaknesses -Big players already on the market -Company acquisition -Lack of trust -Alternative technologies -Malicious impostors

What to look for in a SaaS provider?

There are a number of elements to consider when evaluating a SaaS provider:

1. Industry expert – When deciding on a software provider it is logical to try to find the one that is most familiar with your industry. Familiarity with your specific vertical market ensures the solution that is tailored to your needs.
2. Experience – it is one of the most important criteria as an experienced provider could offer you a plus of value and security.
3. Team – ensure the team who will be servicing your business knows the ins and outs of your industry.
4. Support – make sure your SaaS provider includes implementation support, help desk, and training in your agreement.
5. Security – always check security services are included. This includes backup, recovery, encrypted data, firewalls, and unique ID and password access

Electronic payment

PayPal is an online electronic payment system recognized worldwide for its benefits to the electronic trading methods. Recently this system has entered the Romanian market with a fairly high success, given that Internet commerce status in Romania is at a relatively low level, compared with other EU countries. It is a safe (secure) application for e-payment, bringing many benefits to the protection of user data.

PayPal provides a powerful tool for automatic creation of HTML code for its integration in virtual shops. HTML code is defined by a series of specific parameters. Beside this, in the website we had to integrate and sequence PHP code to manage the database.

Thus each client after authentication will be given the possibility of loading the budget account. This will be possible by accessing the load account page. Once the page is activated, it will generate a payment process through PayPal. Through a secure connection, the client is returned to that page Avocat.NET and the amount of money enters in the sites circuit. This will refresh the account values.

The database contains the client identification code, time and date of loading account. Note that the load transaction does not charge commission. All administrators can withdraw the amount available under its credit card account registered at any time.

A counsel may request a withdrawal. Its request is processed by an administrator who will send the Advocate a transaction confirmation message. Money circuit in Avocat.NET system is described in the following scheme:

Step1: The client account on Avocat.NET loads using PayPal.

Step2: Following the transactions between clients and lawyers a fee of 10% of transaction value is passed into administrators account and the rest of 90% is transferred into the lawyers account. The total amount is deducted from customer's account. It represents the questions price. This operation takes place within the site.

Step3: Attorney may request the withdrawal amount from his account. The request is being processed by the administrator manually. Once satisfied the transaction, the administrator will notify the lawyer by a confirmation email.

Why PayPal

We have chosen PayPal for our payment facilities as we consider that it is very easy to use by the applications clients, the provider is accomplishing the criteria mentioned above, and last but not least is very easy to integrate in our web-site. More than that PayPal has a pay per use type of pricing, consisting on a \$0.30+ 1.9-2.9% of the transaction value. It's by far the cheapest solution on the net.

Conclusion

One of the biggest problems in informatics is the tendency of the designers to reinvent fire. When developing an application, most programmers don't pay attention to the solutions that already exist on the market. They just start creating. If we analyze all e-commerce applications we would observe that most of them have a similar structure. A lot of their modules have same functionality, but each one of them was created by different people. Isn't that a waste of time?

Unfortunately, comparative with other industries, in informatics, there is still a lack of standardization and work efficiency. In the Microsoft Visual Studio 2010 Conference that took place on 15 February 2010 in Cluj-Napoca, Ciprian Jighici said that an IT project has no more than 20% chance to succeed. Another 60% of the projects are starting for a reason but turn out to be something completely different. The last 20% are totally failed. If we compare informatics with the airline transportation industry, for example, the statistics are really frightening. Lets imagine what would be if we would have to leave from an airport and the chances to arrive to our destination to be only 20%; in 60% to go elsewhere; and in 20% of the departures to be sure we won't land at all.

This issue is debated by theoreticians since the explosion of Dot Net technologies. The question everybody asks is how could we make programming process more efficient? How could we share our work to help others and gain something of it? The first intention to respond to this question was represented by ASPs (application service providers) and now the domain concerned to give answers to these questions is SaaS (software as a service). The promoters of this type of services thought to give designers an alternative to programming. A designer can decide to implement a service for a module that has a common functionality. Having this into consideration, we have implemented in our application the PayPal service for the online payment. We consider that

developing an on-line payment mechanism is time consuming, very expensive and the final result isn't at all secure. PayPal, on the other hand, is a service that is cheap and easy to use. One needs only 6-7 hours to transform his marketing site into a veritable e-commerce application only by using the PayPal's service.

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CRIMINAL LIABILITY FOR CERTAIN ECONOMIC ACTIVITIES-TAX EVASIOAN

Fodor Alexandrina

Universitatea din Oradea, Facultatea de Stiinte Economice

Evasion is equivalent to the offense or crime, and what is civil or criminal depending on the seriousness and rufnesse. Reasons for this phenomenon in Romania is difficult to quantify and are prevented complex and numerous, among them may be mentioned: many imperfections and speculiarities in the tax laws, the business tax accounting method, not using the national macroeconomic record, massive tax evasion carried out by various interest groups and economic agents only appear to take advantage of loopholes laws lack of a tax code, the principle of confidentiality.

Key Words: taxes, evasion, economical, illicit, budget, law, taxpayer, strategies

As the development of capitalism the technique of settlement and collecting taxes has also continuously improved, but was not able to ensure the universality of imposition because it remained in practice in one form or another to circumvent the imposition of the taxpayer.

Evasion is a form of circumvention of the tax effects together with the repercussion.

Tax evasion is at present an economical and complex social phenomenon. It is imperative for all the world, that the result of this phenomenon have to be limited, reduced, to lose the scale, where it became clear to everyone that they can not be eradicated. Tax evasion has a direct and instant effect on the levels of tax collections, which leads directly to imbalances in market mechanisms and the enrichment, in illicit ways, of the practitioners of this method of deception affecting the state and ultimately each of us , honest taxpayers. There are many interpretations and names of this phenomenon, so it is normal for it to be hard to define. There are used phrases like "fraud, illegal fraud, international evasion, legal fraud, fraud by law, the underground economy". Terminology is not the only element of confusion, but also the ambiguous law, the boundary between licit and illicit being very fragile.

The Law no. 87 of 18 October 1994, published in the Official Gazette nr.299 of 24.10.1994, in its first article, considers tax evasion as "circumvent by any means, in whole or in part, from taxes, fees and other amounts due to state social insurance budget and special extra-budgetary funds by individuals and legal persons of Romanian or foreign ...".

Evasion is the flight from taxation, which means that trough the tax evasion the state loses, the amount that should get in its cashiers. Depending on the relationship with the phenomenon regulations, tax evasion is of two kinds: non-fraudulent and fraudulent.

In Romania you can not say that tax evasion was imported, but this phenomenon is a result of the economic situation, the passiveness of the authorities, interest groups that pursue their own affairs under the endorsement of past or present governance, the living standards of most citizens, the degree of civilization, culture and civic consciousness, and especially the aggressive fiscal policies, and even exaggerated sometimes taken by the authorities. Not for nothing was found, over time, through experience, that a tax system is not effective or appropriate in light of the big revenue, but the extent to which it is accepted by the taxpayer, whether natural person or legal entity. In time there have been developed numerous ways to circumvent the payment of tax liability, but those who use them can be divided into two categories: those who exploit the shortcomings of the normative acts in the field and those who use illegal methods. Legal tax evasion is an action by the taxpayer to circumvent the law, recourse to an unforeseen combination of law and therefore "tolerated" by the slip of memory. The legal support that is given to the principle is that what the law does not forbid is allowed. Art.983 of the Civil Code

Romanian example states: "Conventions should be interpreted in the sense most favorable to the debtor."

Non-fraudulent evasion occurs in two situations, when there is such an organization of tax collection and settlement that allows certain categories of taxpayers to not pay or pay less tax. Carefully studying the law, some taxpayers may find the shortcomings and use them to remove the subject of a tax matter fully or partially. By non-fraudulent evasion, the law is not violated. Non-fraudulent evasion, involves interpretation of the favorable tax laws, so cases of legal tax avoidance, for example:

1. The formation of the depreciation funds or reserves in an amount greater than what is justified from an economic point of view, lowering the taxable income.
2. Family associations and societies of his wife and children and the entrepreneur. The result of such maneuvers is imposing separate their income distribution associated with each leading to lowering the tax burden. By such solutions there are speculated the legal provisions governing the tax rate or lower set of reductions or exemptions for income tax up to a particular ceiling.
3. The use within certain limits of legal proceedings on philanthropic donations, whether they occurred or not, lead to the unlawful removal of part of the revenue realized from taxation.
4. A taxpayer has the option to opt either for income tax of individuals, either for the applicable income taxes of legal persons (system comprising numerous tax incentives).
5. The decrease in taxable income of the protocol costs, and advertising services, whether made or not.

If the second form of tax evasion - fraudulent evasion - taxpayers violate legal provisions on taxation or falsely stating not certain amount of income which means that the wrong therefore rule against them take very serious. Some of the forms of tax fraud, like the preparation of false statements, preparation of documents for fictitious payments, setting up accounting books unreal, non-tax matter, the declaration of taxable income below the actual register double record, a real copy another fictional, made without a sales invoice, falsifying balance sheets.

Evasion is equivalent to the offense or crime, and what is civil or criminal depending on the seriousness and rufeness.

Reasons for this phenomenon in Romania is difficult to quantify and are prevented complex and numerous, among them may be mentioned: many imperfections and peculiarities in the tax laws, the business tax accounting method, not using the national macroeconomic record, massive tax evasion carried out by various interest groups and economic agents only appear to take advantage of loopholes laws lack of a tax code, the principle of confidentiality, etc.

Forms banks to eliminate tax evasion:

- Among the measures that may be taken or items that might be contained in future acts in the field can apply: The correlation of the fiscal system with socio-economic realities and appropriate tax strategies for at least 4 years, the period for which the word order to be stability.
- The application of a differential tax, adapted to each sector of economic activity, also under the strategy, this measure is very useful in terms of lack of initial capital.
- Following these strategies under the principle of publicity, to be followed the development of each area of social interest, by application of low levels of taxation for that area.
- Decrease the number of non-deductible expenses when calculating taxable profit, gradually.
- Resizing tax base in terms of contributions to special funds that currently creates difficulties in targeting tax reform, because they are numerous and do not take into account the economic situation of the payer.

- The use of more efficient modalities for the reimbursement of VAT for sales of goods and services for non-individuals.
- Elimination of preferential treatment regarding payment obligations to the state budget and any other tax liability.
- Distribution of the payment of excise duty between producers and retailers of alcoholic beverages and cigarettes, so that final traders are more responsible when it comes both on the origin of products sold and the payment of contributions to the state.
- Organizing an integrated information system on taxpayers of any kind and their history (including previous employment, wages, taxes paid, the tax staff).
- Introducing the same information system able to link the activities of fundraising by the treasuries, the preparation required to implement file tax for individuals, all these measures will lead to discourage undeclared work.
- Cancellation facilities for real or so-called revolutionaries.
- Providing a system of punishment/reward for all those working in state tax and a payroll system and sufficient enough to remove the temptations.
- Establishment of an administrative body, under the supervision of Parliament, who has sufficient powers and logistics so that it can detect and send directly prosecute anyone has done a fraud.

As a measure to eliminate tax evasion, since 1 January 2005, was introduced single tax rate, tax on such companies' profits will be reduced from 25% to 16%, and the system overall, the income tax individuals will be replaced with a quota of 16%. People have more jobs they will hold a tax of 16% of income (after less social contributions), without the need to complete statements of income in 2006 for income earned in 2005. To not be registered losses by employees as a consequence of flat, a deduction system, whose value depends on the number of persons in the maintenance and salary. Deduction amount will increase if the number of dependents within is greater, and will decrease as salary increases. Personal deductions will be granted once only for income derived from salaries to workplace rules.

In conclusion, adoption and implementation of a modern legal framework and transparent, with enhanced motivation of personnel in these institutions would lessen the harmful effects of the true economic scourge of the contemporary world and to create preconditions for better cooperation with the taxpayer but also for the development of civic consciousness in the obligations to which the State must charge him as a protector and not as a despoiler.

Criminal liability is one of the fundamental institutions of the criminal law. It's a form of legal liability, along with civil, administrative, and disciplinary patrimony. Criminal liability is the most serious form of legal liability. It consists in the obligation of people who break the rules to bear the criminal legal consequences of criminal deed sale. Criminal liability as long time as she could for effective recovery and referral of offenders.

The activity of criminal liability is not carried out at random, but is organized by specialized organs. These bodies act according to rules established in advance, called rules of procedure. Based on these rules to the discovery of acts of crime, identifying perpetrators, to determine culpability and criminal liability for them. Activity is integrated in what is called a criminal process.

In order to analyze the criminal liability of legal person, believe it is necessary first to give it a notion.

Legal person is a matter of law, is subject to collective right, meaning a group of people, meeting the conditions required by law, is the proprietor of subjective rights and civil obligations. By a legal person means being an abstract, intellectual fiction created by law in a social and in a purpose of public utility, having a great heritage, capable of rights and duties. Only the legislature has the right to create such persons for any fiction can not exist without law, because only by will

power, which only by laws, institutions and establishes rules to prescribe public order, morality and defend the general interests society.

Criminal liability of legal persons is not a new problem, it goes back to their origins in ancient right, then returns to the end of the XIX century the attention of European criminal doctrine, that today reach one of the central themes of scientific and legal approaches .

The question whether a legal person may see their criminal responsibility engaged in the consideration of its actions or inaction of the subject of a dispute that has marked criminal doctrine throughout the last century. Criminal liability of legal person constituted in the framework of international studies, articles, notes and monographs, devoted to this problem, over time, doctrinal confrontations between partizanii and opponents of this idea.

Legal persons shall enjoy legal recognition capacity in most branches of law, as a patrimony own separate assets which comprise members have rights and obligations distinct from those of members, so their existence is a reality both in the social , and plan juridic118.

Also, people enjoy legal recognition capacity liabilities, including in the sphere of criminal law. When a crime is directed against a legal person, is widely accepted that it is subject to liabilities of the crime, and can act as a party in criminal proceedings by means of its organs. It would be bizarre to at least consider that the person is a legal reality when he was prejudiced in his rights as a result of a crime, but that same person is an imaginary entity, fictional, when it violates the very rights to others.

Taking into account the provisions of international conventions in criminal matters to which Romania became a part, which establishes criminal penalties apply in case of legal persons, as well as commitments made by our country in the negotiations for accession to the European Union has drafted the Law no. 278/2006 - on criminal liability of legal person. Juridical person, except state, public authorities and public institutions to criminal liability in cases stipulated by law for offenses committed in the name or legal interest. The criminal liability of legal person does not exclude criminal liability of the person who participated in committing the same acts.

For crimes and offenses committed, the legal person and may apply penalties and punishments main components.

System of legal punishments include, besides the main penalty fine and penalty complements. Additional penalties are:

- Dissolving the legal person - can be pronounced when the legal person was constituted for the purpose of crime was committed or when the object or activity was diverted for the purpose of crime was committed and has the effect of the opening of winding-up proceedings.

- Suspension of activity or activities of a legal person for a period from one year to three years - is to ban the activity or activities of the same legal person in the exercise of which the crime was committed and can be applied over a period of one year three years.

- Dissolution and suspension can not be applied to political parties, trade unions, employers, religious denominations or organizations of citizens belonging to national minorities, established by law, can not be applied to legal persons who exercise their activity in the press or broadcasting, and also work in press or broadcasting can not be suspended.

- Prohibition to participate in public procurement for a period from one year to 5 years - consists in the prohibition of participating, directly or indirectly, to the procedures for awarding public contracts, provided by law for a period of from one year to five years.

- Prohibiting access to some funds for a period from one year to five years - is to ban to get funds from credit institutions or financial institutions for a duration from one year to five years.

Additional penalties may be applied in a cumulative manner, wholly or partially. Displaying the decision of conviction or disseminate them in the Official Gazette of Romania, through the press or by means of audio-visual communication is achieved at the expense of the legal person

convicted, these charges can not exceed the amount of fine imposed punishment legal. Court may order the display or distribution, in whole or extract a decision of conviction and establishes where and when, can not exceed a period of two months. The identity of the victim or his legal representative shall not be disclosed without their consent.

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EIGENSTÄNDIGE PRÄ- UND NOTFALLKLINIK ALS ZENTRALES RETTUNGSZENTRUM FÜR DIE REGION 10

Heribert Fastenmeier
Klinikum Ingolstadt GmbH

Mirela Leuca
Wirtschaftswissenschaftliche Fakultät
Universität Oradea

The German health care system has been undergoing many reforms. The introduction of the DRG-financing system, as one of the major changes for the German hospital setting in the last decades, had huge impact on the evolution of the hospital resources and capacities, economic situation, organization, structure, processes and average length of stay. In this context, the optimal organization and structure of emergency departments is becoming a strategic factor of success for hospitals. This paper presents briefly the present situation with regard to the organization and structure of emergency care in Germany and describes the strategy, goals and expectations when establishing a new interdisciplinary emergency department for Region 10 in Germany.

Keywords: Notfallversorgung, eigenständige Notfallklinik, Rettungszentrum.

JEL Classification Code: I10 M10 L20

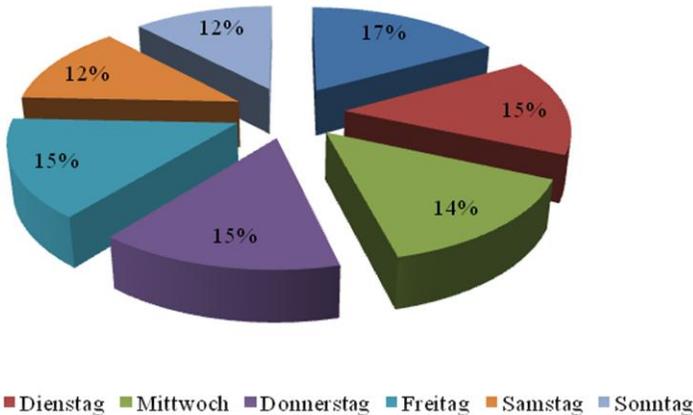
1.Einführung

Die ambulante und stationäre Notfallversorgung im Klinikum Ingolstadt war seit den achtziger Jahren so organisiert wie in allen deutschen oder europäischen Kliniken. Ärzte der verschiedenen Fachabteilungen wurden entweder bei eintreffenden Notfällen alarmiert und aus den Fachkliniken tagsüber abgezogen und zu den Notfällen entsandt oder nachts wurden die im Hause tätigen Bereitschaftsdienste der Fachabteilungen informiert einen aufgenommenen Notfall zu behandeln. Das System zeigt schon ganz zu Beginn seine Schwäche! Die Leitstellenkraft oder die Pflegekraft taxiert und bewertet den Notfall nach Schwierigkeit, Komplexität und Dringlichkeit und alarmiert die Hausdienste der Fachabteilungen? Diesem Alarmierungsruf geht somit eine „erst Diagnose“ durch genannte Personen voraus, die eigentlich dazu weder ausgebildet noch in der Lage sind. Die Dringlichkeit des Falles konnte überdies durch den reinen „Piepser ruf oder das Telefonat „ nicht vermittelt werden. Oft waren die Diensthabenden auch durch und an ihre geplanten Routinen der Fachabteilungen gebunden und nur mit zeitlicher Verzögerung abkömmlich. Zeit ist Qualität zumindest in der Notfallversorgung, dies erkannte man zunehmend oft. Ein weiteres Problem das offensichtlich wurde war die Qualität der entsandten Mediziner die sich mit den Notfällen beschäftigen sollten – Ärzte in Weiterbildung, oft am Anfang ihrer Medizinerlaufbahn mussten sie sich mit den schwierigsten und kompliziertesten Fällen im ersten Zug beschäftigen. Manchmal dauerte es sehr lange bis sie sich fachärztliche Kompetenz der eigenen und oder anderer Abteilungen zu Rate zogen oder gar den Fall an diese abgaben. In einem ersten Schritt hat man vor Jahren teilweise eigene Schichtbesetzungen und vor Ortbesetzungen in den Notfallzentren etabliert ohne dabei auf die Struktur oder Qualität zu achten und man sich nicht wirklich mit dem Fallaufkommen und den Strukturen beschäftigt - die medizinische Versorgung blieb auch in der Notfallaufnahme ein Teil der Fachklinik und war zu sehr „spezialisiert“ und am üblichen Aufnahmeverfahren orientiert.²⁷⁹

²⁷⁹ Für ergänzende Literatur siehe auch: Hogan, Barbara, *Veränderung in der Versorgung von Notfallpatienten in den Notaufnahmen deutscher Krankenhäuser – ein Paradigmenwechsel?*, in: das Krankenhaus, 2010, Nr. 4, S. 304- 312.

Erst als sich die Notnahmefrequenz erkennbar änderte und die Häufigkeit der Aufnahmen stieg und die Bevölkerung sich mit den tradierten Klinikstrukturen zunehmend wenig identifizieren konnte war man in der Ärzteschaft und im Pflegedienst bereit neue Strukturen an zu denken und um zu setzen. Nachfolgende Graphiken verdeutlichen das Aufnahmespektrum, die Aufnahmestruktur und die fachliche Diversifikation für das Jahr 2009.

Notfallzentrum - Fallzahl je Wochentag

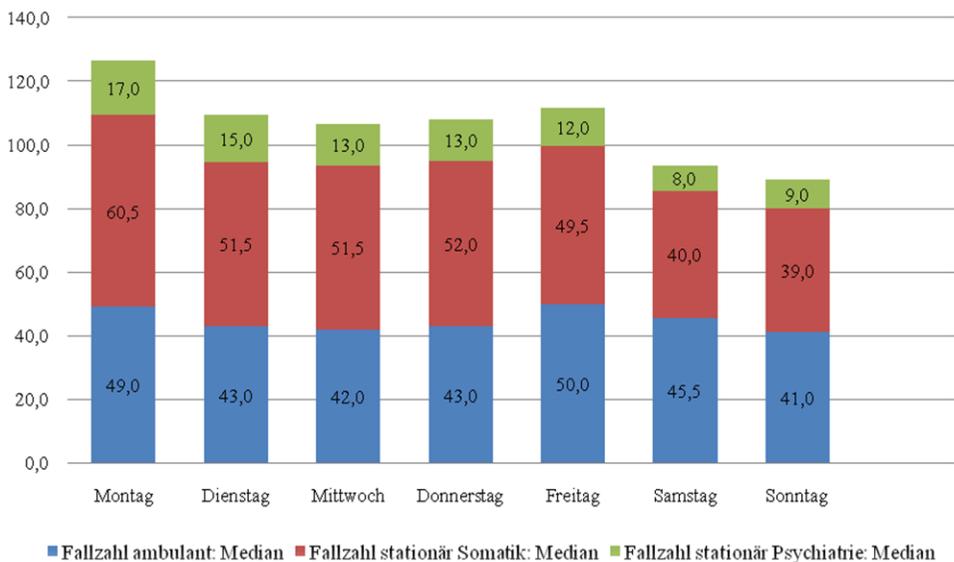


Graphik 1: Notfallzentrum- Fallzahl je Wochentag in 2009

Quelle: eigene Berechnungen auf Basis der Daten des Klinikums Ingolstadt.

Das Klinikum Ingolstadt hat sich fortan mit diesem Thema beschäftigt und die unternehmerische Leitentscheidung getroffen eine eigenständige Prä- und Notfallklinik als Rettungszentrum für die Region mit eigenständigem Personalkörper und verantwortlichen ärztlichen Leiter(Chefarzt) ein zu richten.

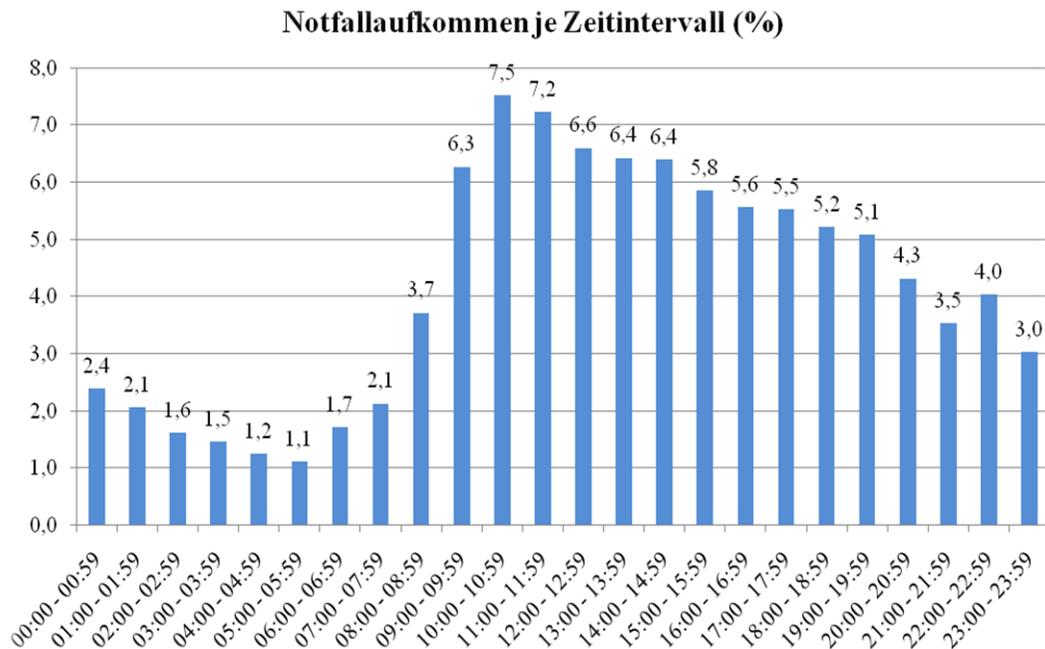
Notfallaufkommen: Median



Graphik 2: Notfallaufkommen: Median (2009)

Quelle: eigene Berechnungen auf Basis der Daten des Klinikums Ingolstadt.

Dieses Thema wurde auch in der deutschen Fachliteratur analysiert und beschrieben.²⁸⁰



Graphik 3: Notfallaufkommen je Zeitintervall (%) in 2009

Quelle: eigene Berechnungen auf Basis der Daten des Klinikums Ingolstadt.

2.Strategie und Organisation

Im Klinikum Ingolstadt soll eine Klinik bautechnisch eingerichtet werden, die in der Lage ist alle Notfälle aufzunehmen und kompetent und zuverlässig die Erstversorgung garantiert. An einer Stelle soll die ambulante und stationäre Versorgung gewährleistet und abgebildet werden. In einem Triage-System soll dabei ohne großen Zeitverlust (grün – gelb –rot) der Patient im Hause ohne es selbst zu merken von den noch rechtlich getrennten Systemen einheitlich und prozessual zusammenhängend versorgt werden. Dabei muss das KI die baulichen Voraussetzungen schaffen und die Anfahrtswege zwischen und für leichte und schwerverletzte Patienten trennen und eigene zu diesem Zweck notwendige Behandlungseinheiten schaffen.

Das inhaltliche Ziel war dabei:

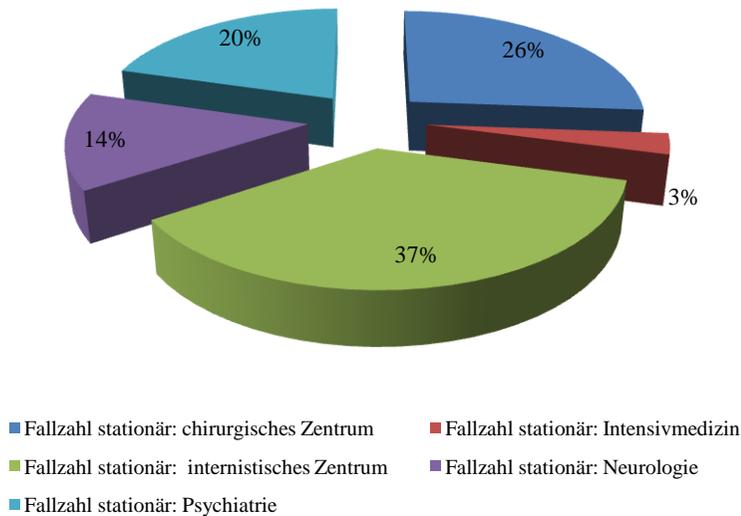
- Notfallpraxen für Erwachsene und Kinder ambulante Notfälle betrieben durch die Niedergelassenen im Klinikum Ingolstadt in einem abgestimmten Schichtsystem inhaltlich kommunikativ vernetzt;
- Notfallzentrum für stationäre Patienten;
- einheitlicher Gemeinsamer Aufnahmebereich technisch und logistisch vernetzt;
- Polytrauma- und Schockzentrum;
- Rettungszentrum;
- ambulante und stationäre Notfallversorgung psychisch Kranker (Erwachsene und Kinder);
- Stationierung sämtlicher Rettungsdienste incl. der Notärzte in dieser Klinik und in diesem Team

²⁸⁰ Siehe auch z.B.: Bey, T.A.; Hahn, S. A., Moecke, H., *The current state of hospital-based emergency medicine in Germany*, in: Int J Emerg Med, 2008, Nr.1, S. 273-277 und Hogan, Barbara; Fleischmann, Thomas, *Interdisziplinäre Notaufnahme – Konzeption und personelle Besetzung*, in: Krankenhaus Umschau, 2008, Nr. 2, S. 30- 32.

- einheitliches und abgestimmtes Screeningverfahren;
- abgestimmte Prozessabläufe;
- eigener Personalkörper mit den relevanten Facharztgruppen und hochspezialisierten Pflegekräften.

Die eigenständige völlig selbstständige Klinik mit chefärztlicher und pflegerischer Leitung wird Schwerpunktmäßig die relevanten Fachärzte in einem 24-Stunden Schichtsystem beschäftigen. Überdies sollen ausgewählte Notärzte auch die Rettungsfahrzeuge besetzen und die Patienten vor Ort versorgen, in die Klinik transportieren und dort zunächst die Übergabe, Weiterversorgung und Sicherstellung der Datenübergabe gewährleisten. Flache hierarchische Organisationsstruktur mit Schicht-Blockmodellen und dem Auftrag der echten Notfallversorgung (Sicherung der Vitalfunktion, Prozess beschleunigend etc.) zur Weiterversorgung in den Fachkliniken.

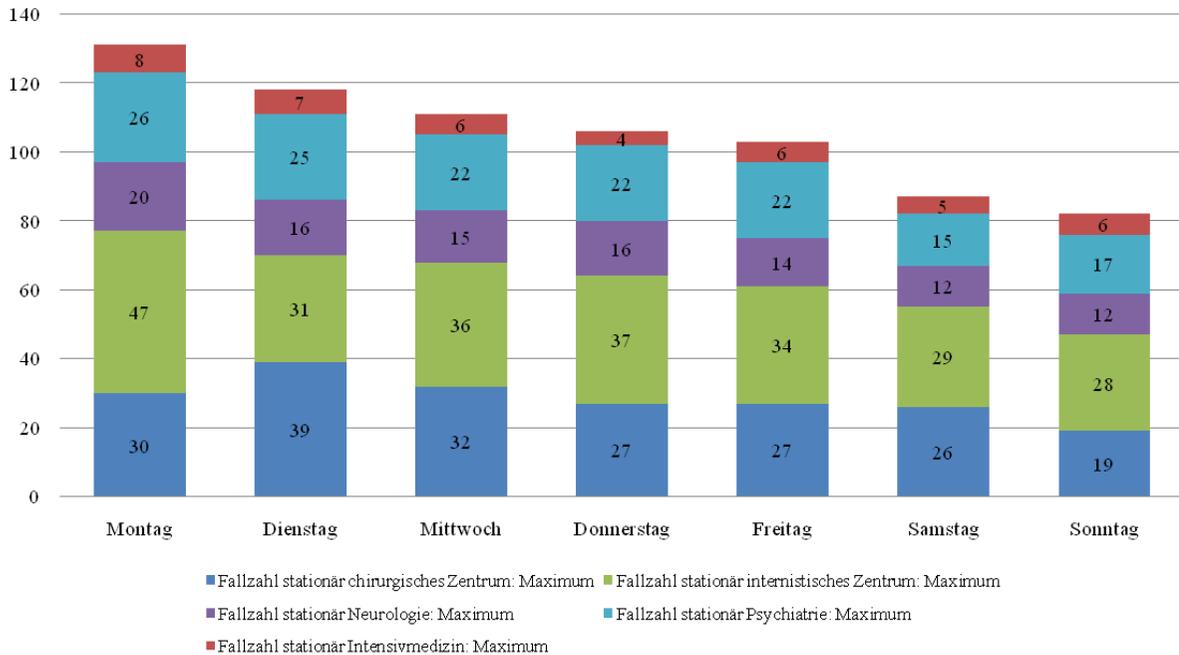
Notfallaufkommen je Schwerpunkt (%)



Graphik 4: Notfallaufkommen je Schwerpunkt (%) in 2009

Quelle: eigene Berechnungen auf Basis der Daten des Klinikums Ingolstadt.

Notfallaufkommen: Maximum



Graphik 5: Notfallaufkommen: Maximum (2009)

Quelle: eigene Berechnungen auf Basis der Daten des Klinikums Ingolstadt.

Dies führt zu einer besseren Versorgung der Patienten und mehr Zufriedenheit bei den Mitarbeitern da Sie inhaltlich, organisatorisch und prozessual in der Patientenkrise stark standardisiert arbeiten und handeln können.

3. Prozess- und Qualitätserwartung

Zeit ist Qualität - ist Leben und Gesundheit! In dieser Klinik muss im **Triagesystem** eine klare Vorgabe bestehen wie mit Patienten um zu gehen ist. Innerhalb klarer Vorgaben muss der Arzt Patientenkontakt in einem entsprechenden Zeitfenster stattfinden. Der Patient ist und wird im Prozess permanent begleitet und über den Sachstand seiner Behandlung informiert. Erhobene Daten dienen in einer Eskalationsstrategie zunächst der Erkennung der Krankheit (Screening) und dann der Vorbereitung der Weiterbehandlung in den Organzentren. Die Fallsteuerung erfolgt durch den Arzt und alle notwendigen diagnostischen Bereiche sind in dieses Verfahren integriert – Weisungsrechte in alle Bereiche macht der Weg schneller. Vorhandene Daten aus Vorbehandlungen (stationär, ambulant) stehen genauso zur Verfügung wie Daten aus der akuten Anlieferung im NAW. Der Patient einmal im System aufgenommen ist permanent in Begleitung und Betreuung bis er entweder an die Fachabteilung abgegeben wird oder wieder entlassen wird. Polytraumen, Infarkte und Geburten haben in diesem System nochmals eine andere und eigene Wertigkeit und werden verkürzt und direkt an die Fachabteilungen übergeben.

Die Etablierung einer eigenständigen Notfallklinik hat klare Qualitätsziele, die im Folgenden Bereichen liegen:

- Qualität der Berufsgruppen (Qualifikationsmix bedarfsadaptiert, z.B. Facharztstandard, Fachpfleger);
- Zeit, Inhalt und Ablauf der Behandlung;
- Team- und Arbeitsstrukturen, Teamstruktur Notfallversorgung;
- Arbeitszeitstrukturen;
- Professionalisierung des Screeningverfahrens (Notfälle, Alter, Infektionen u.a.);

- SOPs abgestimmt mit den nach- und weiterbehandelnden Organzentren.
- klare und abgesprochene Fallsteuerung zwischen dem ambulanten und stationären Bereich mit beschleunigter Übergabe aus den Sektoren und unter Nutzung der bereits erhobenen Daten.
In einem **eigenständigen Rettungszentrum** werden alle Notfälle Hand in Hand mit den ambulant tätigen niedergelassenen Ärzten, mit den Rettungsärzten aus den NAW und aus dem Rettungshubschraubern in einem Zentrum in örtlicher und räumlicher Nähe versorgt. Alle Datensysteme sind ebenfalls miteinander vernetzt und innerhalb dieses Notfallcampus ist der Patient in einer dauerhaften und organisatorisch abgestimmten Begleitung und Betreuung. In diesem Zentrum soll es ausschließlich um die Erstversorgung, um die Vitalfunktionen gehen und es soll jede Art von notwendiger Weiter- und Nachbehandlung vorbereitet werden auf der Grundlage zwischen allen Beteiligten abgestimmter SOP mit der notwendigen und richtigen Diagnostik. Der Erfolg der Behandlung ist zu evaluieren (Zeitliche Abläufe, Synchronisation, Arbeitsweise der Mitarbeiter nach SOPs). Ein weiteres Tätigkeitsfeld der Notfallklinik wird die sich aus der Behandlung heraus ergebende „**Kurzliegerstation**“ sein. Solange der Notfallpatient als solcher nicht abgeklärt ist und solange nicht klar ist ob er wirklich stationär aufgenommen werden muss, bleibt der Patient in der Notfallklinik, jedoch maximal bis zu 2 Tagen. Damit werden die Kernkliniken von häufigen, manchmal unnötigen Aufnahmen befreit und entlastet. Im Klinikum Ingolstadt sind dies jährlich rund 3000 Patienten. Dazu wird die Notfallklinik neben der Holdingarea eine über eine eigene Bettenstation mit 17 Betten verfügen, die in den Betriebsablauf und in die Routinen zu integrieren ist.

4. Schlussfolgerungen

Das Klinikum Ingolstadt versucht mit der Einrichtung und Etablierung einer eigenständigen, chefärztlich geleiteten Prä- und Notfallklinik ein anerkanntes Rettungszentrum zu schaffen. Ziel dieser Klinik ist ausschließlich die Erstbehandlung und die Sicherung der Vitalfunktionen. Damit verlässt das Klinikum Ingolstadt den Weg den man in Deutschland über Jahrzehnte hinweg ging und selbst in der Notaufnahme mit der Spezialisierung der Medizin begann ohne zu wissen ob diese in dieser Art richtig und notwendig ist. Andere Länder gehen diesen Weg seit längerer Zeit und haben zwischenzeitlich im ärztlichen Bereich die Notfallmedizin zu einem ebenfalls eigenständigen „Facharztbereich“ gemacht. Diese Entwicklung wird sich wohl auch in naher Zukunft abbilden. Solange dies aber nicht der Fall ist, wird man in unserem Hause entsprechend der Falldichte und –schwere immer die Disziplinen vorhalten müssen die vermutlich am häufigsten oder am ehesten gebraucht werden. Die Vernetzung der Sektoren ambulant und stationär, die Vernetzung der Notfälle im Hause über die Fachabteilungen hinweg, das einheitliche und abgestimmte Triagesystem wird in kürzester Zeit erfolgreich sein und auch ökonomisch wirken. Standards geben Sicherheit, helfen Prozesse zu beschleunigen und lassen sich gut planen. Standards in der Notfallversorgung und standardisierte Notversorgung geben den Akteuren vor Ort die Zeit die wirklich schwierigen und komplexen Fälle dann auch außerhalb der Standards mit der emotionalen Intelligenz anzugehen wie es im Bedarfsfalle auch erforderlich ist.

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RESEARCH REGARDING THE ROLE OF CONTINUOUS FORMATION OF THE EMPLOYEES IN ORDER TO INCREASE THE COMPETITIVENESS OF ORGANISATIONS IN SUCEAVA COUNTY

Manolescu Aurel

Academy of Economic Studies, Faculty of Management

Morosan-Danila Lucia

University „Stefan cel Mare” Suceava, Faculty of Economics and Public Administration

Boghean Florin

University „Stefan cel Mare” Suceava, Faculty of Economics and Public Administration

Boghean Carmen

University „Stefan cel Mare” Suceava, Faculty of Economics and Public Administration

Defence mechanism, competitiveness is seen as a means of ensuring the survival of organizations. Are companies and even countries that speak of competitiveness in order to survive to the onslaught of globalization, new entrants and low profit margins. The studies are showing that all organisation are recognising the role and importance of human resources in ensuring its competitiveness. The present paper will try to analyse the role of employees' formation and to establish their importance in increasing the competitiveness, based on information offered by the companies from Suceava County.

Keywords: human resources, continuous formation, training programs, competitiveness

JEL Classification: M12

1. General framework of research implementation

In order to establish the context of the research we will make a small analysis of the North-East Region with accent on Suceava County.

Regional economy. The North-East Region is the less developed region of Romania and EU in general (in 2009, GDP per capita represented 26% of EU average). Especially the west part of the region, which was the subject of a forced industrialization in the period 1960-1970 (furniture, chemicals, construction materials, machine building, textiles), in the last 10 years it entered into a process of deindustrialization, which worsened the economic situation.

The attractiveness index is the lowest in this region - 19.7.²⁸¹ Low attractiveness manifests itself in the small volume of foreign direct investment: 672 million Euros in 2007, representing 1.6% of total foreign direct investments made in Romania.

Also, the North-East Region has the lowest number of SMEs per 1,000 inhabitants, only 15.08%, the total number of SMEs being of 56.199, representing 87.26% of total micro SMEs.

Education. Considering the eight development regions, NE Region has the largest share of population and of students (17.2% and 17.7%), the number of units for the educational process is small and represents only 10.19 % of schools

²⁸¹ *Strategia de dezvoltare economică și socială a județului Suceava 2008 – 2013*, <http://www.cjsuceava.ro>

throughout the country. Three counties Bacau (23.6%), Iasi (16.3%) and Suceava (14.4%) have about 60% of the total number of existing schools at the regional level, having the largest school population, compared with other three counties in the region. They are at the same time university centres.

In Suceava County operates a total of 237 educational institutions, according to data provided by the National Statistics Institute (INS).

Following the creation of the legal and institutional framework for continuous formation, in January 2004 began the process of approving the providers for adults training. The legal framework for approval of training programs in Romania is regulated by O.G. no. 129/2000 on adult training, as amended. The methodology is implemented by the National Council for Adult Professional Formation (CNFPA) coordinated by the Ministry of Labour, Family and Social Protection and Ministry of Education.

According to data provided by the CNFPA (www.cnfpa.ro), in Suceava County in 2004-2009 were authorized to organize training programs more than 75 training providers (Table 1).

Table 1. Programs authorised by CNFPA in Suceava County, 2004-2009

Type of the program	2004	2005	2006	2007	2008	2009	Expired authorisations	Retired authorisations	Total, from which:
Total, from which:	25	25	17	21	15	21	25	0	124
Qualification	19	16	13	12	12	10	19	0	82
Qualification – requalification	0	0	0	0	0	0	0	0	0
Initiation	2	0	2	4	0	4	2	0	12
Improvement	0	0	0	2	0	2	0	0	4
Requalification	0	0	0	0	0	0	0	0	0
Specialisation	4	9	2	3	3	5	4	0	26

Source: According to data offered by CNFPA, www.cnfpa.ro

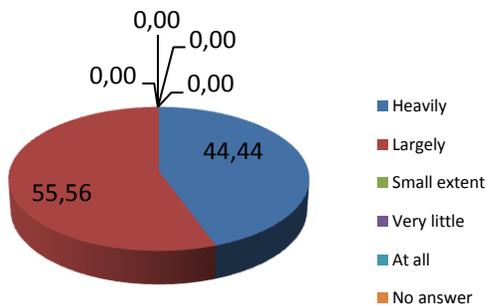
2. Results of the research “Role of continuous formation of the employees in order to increase the competitiveness of organisations in Suceava County”

The purpose of the research is to create scientific premises for improvement of the relation between the organisation and its employees in order to increase their competitiveness through formation. In this respect has been applied a questionnaire on all types of organisations operating in Suceava County, from public institutions to private companies. Have been collected a number of 294 valid questionnaires. Following will be presented the questions and the responses of the research.

P1. How important are the employees in your organization?

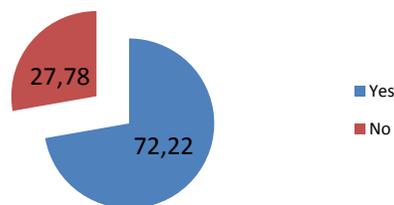
Regarding the importance of employees within the organization, all responses were positive, more exactly 55.56% of respondents said “largely” and 44.44% “heavily”. We found those answers in the sense that human resources are

considered significant resources to achieve the objectives of the organization and to increase the profitability.



Graph 1. How important are the employees in your organization?

Graph 2. There is a strategy for employees training in your organization?



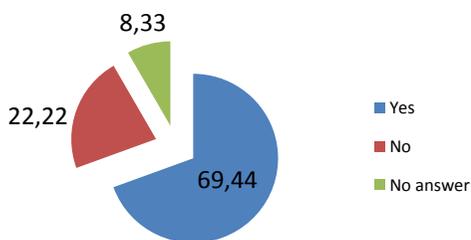
P2. There is a strategy for employees training in your organization?

Although most respondent organizations were companies with a small number of employees, however 72.22% of them said they have a strategy for training of the employees within the organization. This response could be given because of obligation imposed by the labour code of human resources formation.

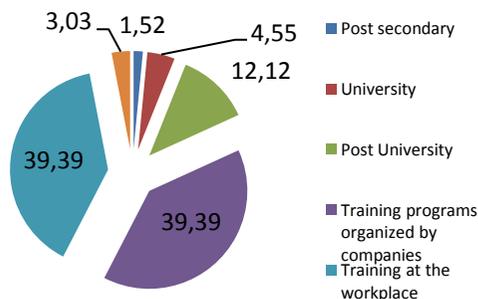
P3. Your organization has internal procedures regarding continuous formation?

This question is related to the previous one, although responses differ, meaning that 69.44% of respondent organizations have internal procedures regarding continuous formation. Percentage of 8.33% for option “No answer” makes us think that organizations have such procedures, but does not apply them, either because of lack of interest or lack of funds.

Graph 3. Your organization has internal procedures regarding continuous formation?



Graph 4. At what type of courses / formation programs participate the employees of your organization?



P4. At what type of courses / formation programs participate the employees of your organization?

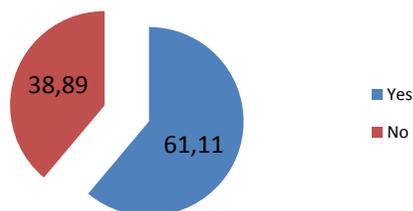
Only a percentage of 3.03% responded that their employees do not participate at formation programs, percentage that we consider is low in the current economic situation. Extremely high percentage of “training at the workplace” (39.39%), although equal with “training programs organized by companies”, probably is due

to managers distrust in the current training system and prefer to deal themselves with the formation of the employees, fact which also involves much lower costs. University and post university training degrees have very small percentage (4.55% and 12.12%). Usually these types of programs are followed by managerial staff and those wishing to climb the ladder.

Graph 5. What types of courses / formation programs prefer the employees from your organization?



Graph 6. Do you use the services of external providers?



P5. What types of courses / formation programs prefer the employees from your organization?

In the top of preferences for formation programs are those of improvement with 41.67% and those of specialisation with 37.50%. We can say that is focused on updating the knowledge and skills to current market requirements. Qualification and requalification programs have lower rates (qualifications - 12.5% and requalification - 8.33%), which shows that few organizations are interested in hiring unqualified people hired costs for their training.

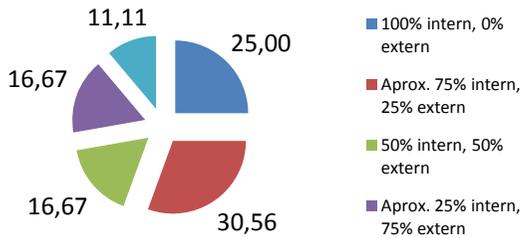
P6. Do you use the services of external providers (eg. Universities, NGOs, private entities, independent trainers, research institutes etc.)?

61.11% of respondent organizations turn to outside service providers, probably due to the lack of trainers within the organization and timeliness of knowledge and information provided by outside suppliers specializing in the field.

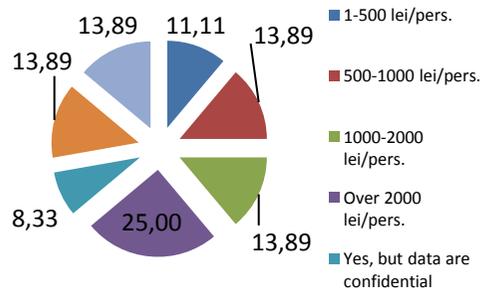
P7. What is the ratio of formation programs completed internal and those by contracting external suppliers?

Although at the question before the majority answered that they use external trainers, still only 25% realise 100% training programs by contracting external suppliers. However, the answers are not discouraging; they show that organisations combine internal with external formation. In some organizations are applied the procedure by which employees who have participated in various training programs organized by specialist companies, form and transfer their knowledge to other employees of the organization.

Graph 7. What is the ratio of formation programs completed internal and those by contracting external suppliers?



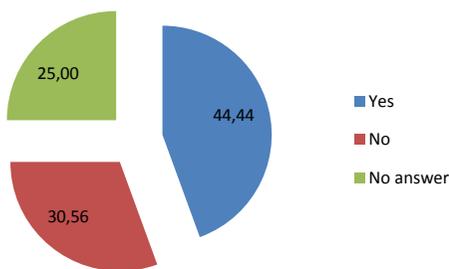
Graph 8. What is the effort made by your organization for training?



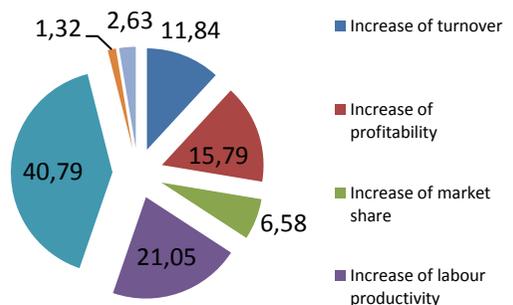
P8. What is the effort made by your organization (expressed in average number of persons and lei per person) for training?

13.89% of respondents did not know how to answer to this question, because the position within the organization and lack of access to information. 13.89% answered that they were not conducted training costs over the past two years and current year. 8.33% of the organizations participating in the research record costs related to training for employees, but details are confidential, and are not possible to communicate them. The remaining 63.89% of respondents give us the costs of training, namely: 11.11% recorded cost under 500 lei / pers., 13.89% between 500 and 1000 lei / pers., 13.89% from 1000 to 2000 lei / pers. and 25% over 2000 lei / pers.

Graph 9. Exist within your organization a budget for training?



Graph 10. What is the impact / outcome of employee training on your organization?



P9. Exist within your organization a budget for training?

44.44% of the organizations participating in the research have a budget for employee training, 25% answered that they do not know this information; this answer depends on what position had the person who has completed the questionnaire.

P10. What is the impact / outcome of employee training on your organization?

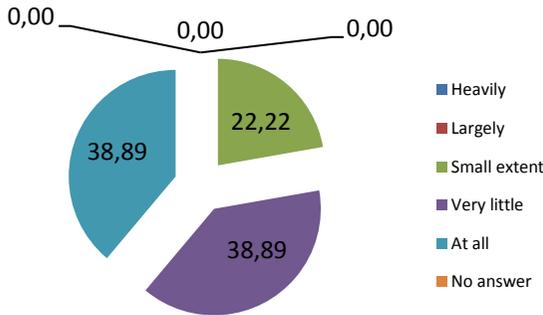
Should be noted that most respondents completed the question favourable (only 2.63% of respondents believe that training does not cause any change in the organization), considering that training has positive effects on the organization, the highest percentage being for “Increase of quality of the organization services, products”- 40.79%, followed by “Increase of labour productivity” with 21.05%.

P11. In your opinion, is there a need for training the employees within the organization?

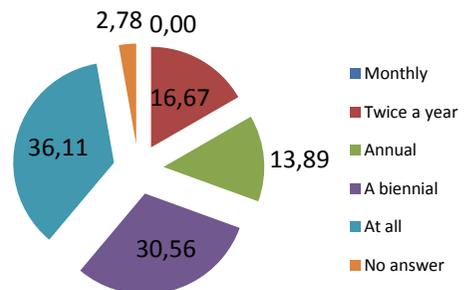
Although up to this question most aspects of employee training were positive, now it appears that the respondents see no need for staff training. We believe that these responses are because

employees who had participated in research organizations are already trained and have the necessary knowledge and skills to the position they hold within the organization.

Graph 11. In your opinion, is there a need for training the employees within the organization?



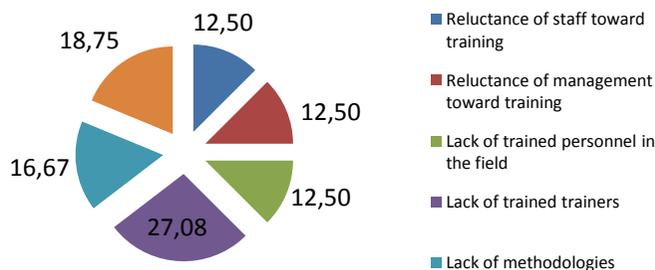
Graph 12. How often do you think that employees should receive training?



P12. How often do you think that employees should receive training?

This question is linked to the previous one, which is why over 35% of respondents believe that employees should not attend training, but still a percent of more than 60% believe that employees should update their knowledge (16.67% - twice per year, 13.89% - annual, 30.56% - once every two years).

Graph 13. What are the main problems encountered related to the completion of training in your organization?



P13. What are the main problems encountered related to the completion of training in your organization?

Here we meet the heterogeneous responses; the distribution between them is somewhat equal, namely: “reluctance to staff toward training”, “reluctance of management toward training” and “lack of trained personnel in the field” have equally 12.5% of responses; “lack of trained trainers” has a rate of 27.08% and “lack of methodologies” 16.67%. All these answers makes us think of apprehension and mistrust of management of the organization and employees to the whole process of training and trainers, and related to the entire education system as a whole. All those who chose “other” stated costs of training, specifically their lack. According to the results from the conducted research can be said that organizations recognize the importance of employees for their development.

Is considered that the offer of the existing formation programs reflect only partly the training needs of employment. Thus, the most effective way to link training content to labour market needs is achieved when training takes place at the request of traders, and the practice activity is conducted under real working conditions or when training providers cooperate closely with

operators from some sectors of activity. Training at workplace is the most common way of training, being on the one hand, affordable, and, secondly, unavoidable, required by the development of the activity itself.

Approximately 90% from all formation programs from industrial field conducted at workplace. Formation at workplace is conducted within the establishment and in the context of the job. Often, is informal when an employee with experience shows to a trainee how to perform the job requirements. The trainer can monitor the trainee in order to provide guidance during practice or teaching.

We noticed within the research that employers prefer to recruit staff that is already trained. Therefore, people who invested in their training are in a better position than school graduates, inexperienced workers and those who returns in the labour market after a period of unemployment. Training is seen as a cost that needs to be minimized, and not as an investment. Investments of employers in human resources development are small and costs related to training are covered in particular by individuals.

Conclusions

Most firms in the EU offer to their employees training programs, which, as statistics suggest, are crucial for economic performance. There is evidence that employer who provides training, improves the product and process innovation, and stimulates economic growth and productivity. Based on available evidence, we might consider that, at company level, increasing the proportion of trained employees by one percentage point increases the productivity by about 0.8%. However, 40% of EU firms - mainly SMSs - still not offer training to their staff. Modernization of enterprises by providing VET is therefore crucial for the economic performance of EU enterprises. Development of policies means ensuring that both, employees and companies, will share the benefits of training, in order to avoid this they should bypass suboptimal use of acquired knowledge. The importance of education and training could also suggest strengthening the public funds for education and training to complete the investments of forming firms, when they are insufficient. Similarly, given the challenge to keep pace with larger firms, public order should provide to small business consulting, implementation and management support for the provision of training. Greater transparency of the benefits of further training for businesses and information on the moment when these effects occur could also be an incentive for small firms to invest more in continuing training.

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MAIN DESTINATIONS AND TOURIST FLOWS ON THE YOUTH TRAVEL MARKET

Moisă Claudia Olimpia

“1 Decembrie 1918” University, Alba Iulia, Faculty of Science

Global tourism has seen an explosion since the '60s due to the post-war global economic growth and over the past two decades it recorded a significant increase, youth travel being the main component of this growth. According to experts, this type of tourism is in full evolution, young tourists representing an increasingly important segment of the global tourism market.

Many experts in the tourism industry think youth travel is the fastest growing market segment, and the previsions of the World Tourism Organization estimate that in the near future youth travel will tote up 25% of the worldwide tourism market. On one hand, this phenomenon can be explain through the cultural motivation of the young people in practicing tourism, and on the other, through the relatively low or acceptable costs of transportation, especially for the youth in well developed countries.

Keywords: youth travel, tourist flows, tourist destinations.

JEL codes: L83

More and more young people travel abroad for their vacation, to visit their friends or relatives, to study, for business or for other reasons. For many of them these travels represent their first incursion in foreign countries and are a real adventure. This movement of young people from their residence country towards various tourist destinations generate at global level a multitude of tourist flows that represent the most substantive expression of the tourism activity. Firstly, tourist flows imply a temporary movement of young people in accordance with the size of the demand, the tourist potential of that region, the distance to the chosen destination, the accessibility and prestige of the reception region.

It is difficult to identify the main countries that constitute a travel destination. While statistics for international arrivals are very well documented by the W.T.O. (World Tourism Organization) and by the majority of national tourism organizations, there are very few data about the age of the travelers. The favorite destinations of the youth must be defined by taking into account the worldwide trends in youth travel and the strategy that each country has for its tourism.

According to the W.T.O., Europe and America are the most sought after destinations by the worldwide youth, but despinde this, destinations like Asia, Africa and the Middle East have a growing market share.

According to the 2003 International Student Travel Confederation (I.S.T.C) and Association for Tourism and Leisure Education's (A.T.L.A.S.) study regarding youth travel „*Today's Youth Travellers: Tomorrow's Global Nomads. New Horizons in Independent Youth and Student Travel*” in their „tourist career” youth and students visited many regions all over the world, more than half visited Northern and Southern Europe and over 40% traveled through North America and Eastern Europe.²⁸² This general situation changed slightly in the last 5 years, so in 2007, when a study²⁸³ on the youth travel market was conducted by the World Tourism Organisation in collaboration with the World Youth Student & Educational Travel Confederation –WSYE TC, a modest decrease in the importance of the visited European destinations was recorded, this was

²⁸² Richards, G., Wilson, J., *Today's Youth Travellers: Tomorrow's Global Nomads. New Horizons in Independent Youth and Student Travel*, International Student Travel Confederation, Amsterdam, 2003.

²⁸³ World Tourism Organisation, *Youth travel matters – Understanding the Global Phenomenon of Youth Travel*, Madrid, 2008.

largely due to the extension of the surveyed respondents at world-wide level (see figure no. 1). The regions that recorded a significant growth in the number of tourists, such as Southeast Asia and Australia, probably benefited from a larger global distribution of the respondents in the year when the study was conducted.

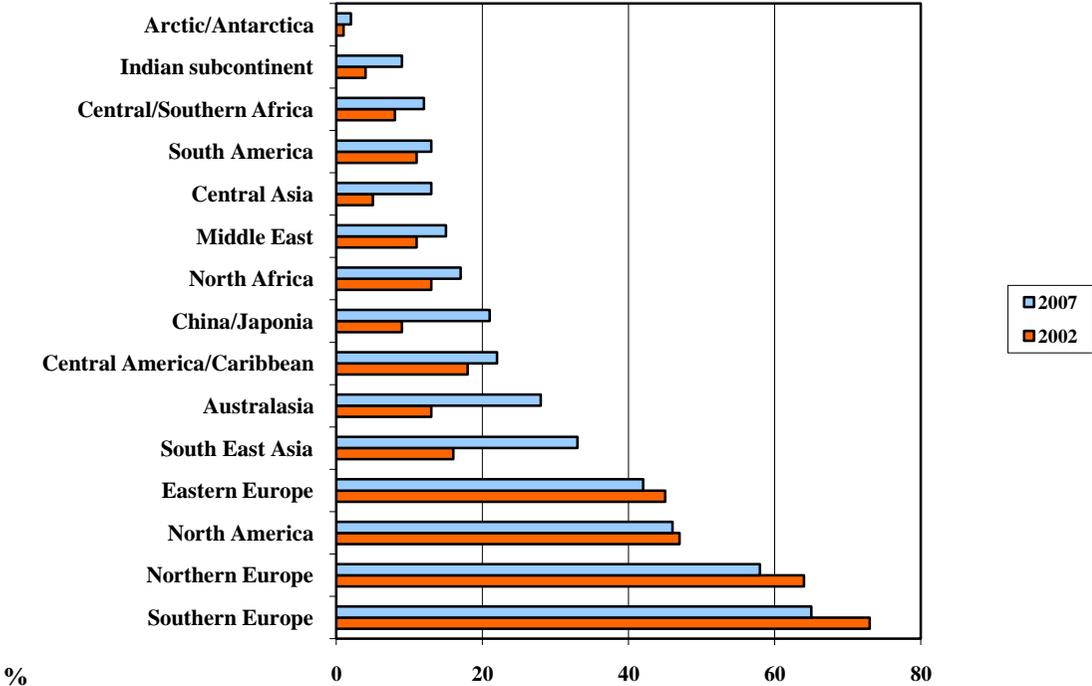


Fig. no. 1 Visited destinations during the “tourist career” in 2007 compared to 2002

Source: World Tourism Organisation, *Youth travel matters – Understanding the Global Phenomenon of Youth Travel*, Madrid, 2008.

The regions preferred by young people as main destinations in the last major trip taken in 2002 were Northern Europe (30%), South Europe (16%), North America (16%) and Western Europe (8%), followed by Southeast Asia and Australasia (see figure no. 2).

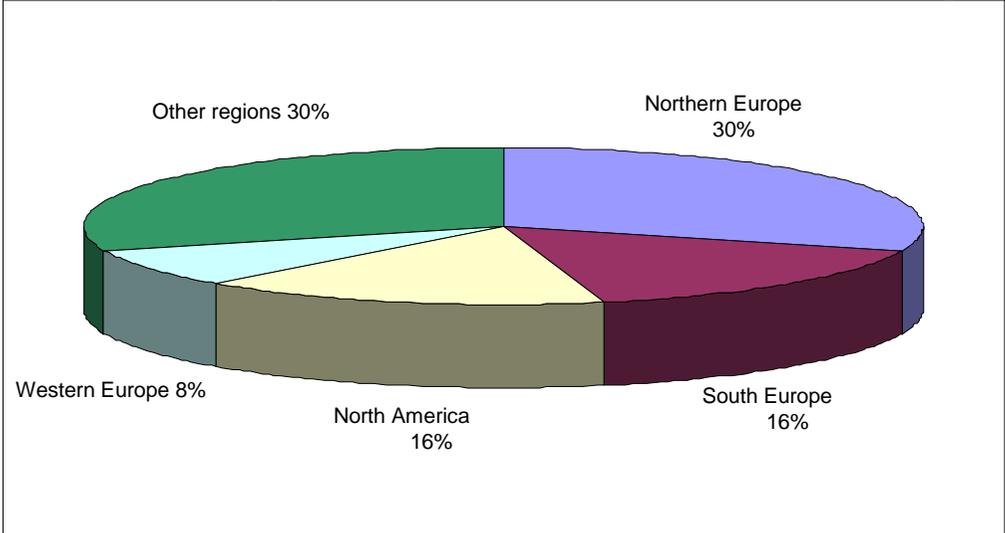


Fig. no. 2 Main tourist destinations preferred by young people in the last major trip taken

in 2002

Source: Richards, G., Wilson, J., *Today's Youth Travellers: Tomorrow's Global Nomads. New Horizons in Independent Youth and Student Travel*, International Student Travel Confederation, Amsterdam, 2003.

Youth usually go back to certain tourist destination, in North America the number of tourists who visit this continent for the first time is lower than the number of tourists who return, and over 70% European regions are visited several times. The other tourist regions have a high number of tourists who come for the first time in these countries, especially in the Indian sub-continent (60% come for the first time), South America, South-Eastern Asia and Australasia (approximately 50% of the young travelers come here for the first time). These are destinations that must be seen at least "once in a life time".

The regions that are visited by a larger number of tourists with ages over 26 are South and Central Africa (44%), South and Central America (25%), the Middle East (21%) and South-Eastern Asia (20%)(see figure no. 3). These regions are considered "difficult", and this explains why experienced travelers prefer these destinations, while most young people prefer Europe and North America.

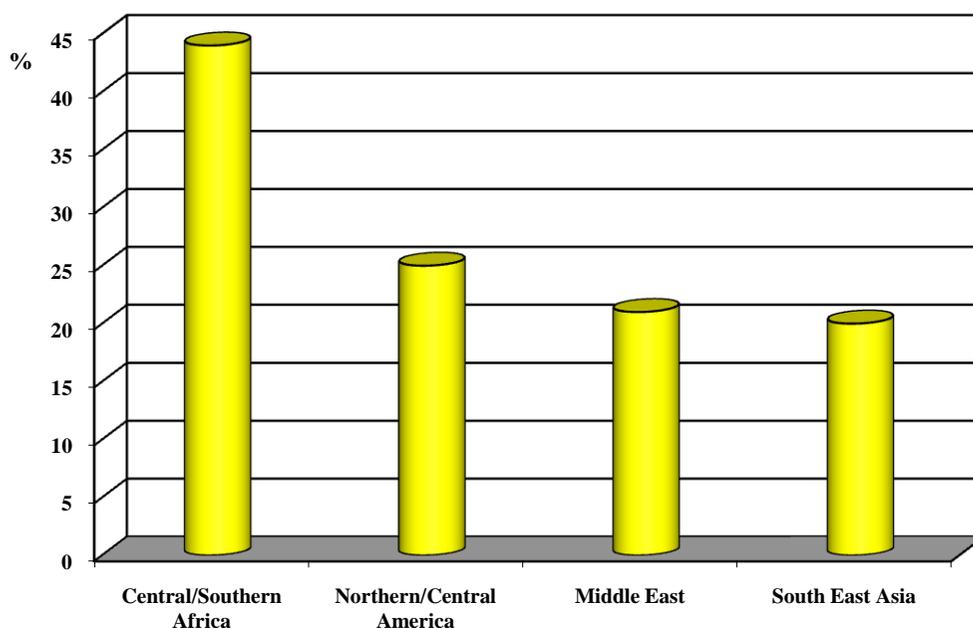


Figure no. 3 Regions frequented by young people over 26 years old

Source: Richards, G., Wilson, J., *Today's Youth Travellers: Tomorrow's Global Nomads. New Horizons in Independent Youth and Student Travel*, International Student Travel Confederation, Amsterdam, 2003.

The desire for more travel is among the most important benefits obtained by young people who visit regions with more "difficult" and more "exotic" tourist destinations, such as Southeast Asia, the Indian sub-continent, Central and South America and Central and South Africa, and *discovering other cultures* represents the least important gain of those who visit Europe and Northern America, which is due to the fact the culture of these regions is among the most globalized and familiar in the world.

Countries considered the most popular destinations on the youth travel market are Australia, United States of America and France, all being visited by over 10% of tourists, followed by Spain, Italy, Germany, Great Britain and Thailand, each with approximately 6% of the youth travel demand. These figures are correlated with statistics regarding international tourist arrivals issued by the World Tourism Organisation, which mentioned France as the main destination of

2006, USA being third.

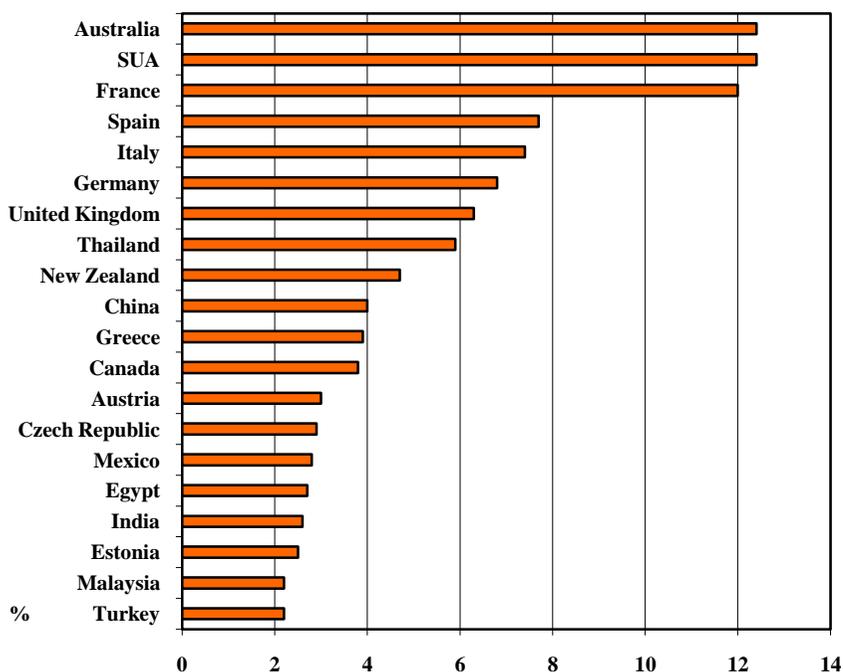


Figure no. 4 The main 20 destinations visited in the last major trip

Note: one trip can cover more than one tourist destination.

Source: Richards, G., *New Horizons II – The Young Independent Traveller 2007*, WYSE Travel Confederation, Amsterdam, 2007.

As mentioned in the paper „*Today’s Youth Travellers: Tomorrow’s Global Nomads. New Horizons in Independent Youth and Student Travel*”²⁸⁴, some tourist destinations tend to attract certain types of tourists more than others (there are three segments of tourists established on the youth travel market: backpackers, travellers and tourists). Destinations like Southeast Asia, Australasia and South America are dominated by backpackers, while in North America and in Canada the number of travellers is higher than the number of backpackers, which could be determined by the fact these hikers are integrated in a particular group during their travel.

Among the most popular tourist destinations in 2007, Thailand, New Zealand and Australia are the main destinations for backpackers, who generally chose the ones with well developed infrastructure for youth travel. In contrast, classic tourist destinations from South Europe, such as Turkey, Spain and Greece, tend to attract more young tourists and fewer backpackers. An interesting European destination is Estonia, but because this country recently joined the European Union, it can still be perceived as an adventurous destination for some.

There seems to be a close connection between the development stage of tourism and the travelling style. Relatively “mature” destinations from Northern America and Europe record a lower number of backpackers, while new destinations have a larger number of backpackers. This could be an indicator of the “pioneer” function of young travellers, who are trail blazers for other travellers and young tourists. Backpackers also tend to visit as many countries as possible during their trip, more than any other type of traveller. In the last major trip, a backpacker visited an average of 2.4 countries, compared to 1.8 for hikers and 1.7 for tourists *At an intra-regional level*, youth visit more different countries, thus: South-Eastern Asia (with 2.4 visited countries),

²⁸⁴ Richards, G., Wilson, J., *Today’s Youth Travellers: Tomorrow’s Global Nomads. New Horizons in Independent Youth and Student Travel*, International Student Travel Confederation, Amsterdam, 2003.

Northern Europe and South America (both with 2.3 visited countries) occupy the first places in youth tourism.

As the tourist's experience grows, people tend to travel more. Therefore, those who visit Northern Europe have previously made only five major trips compared to the eight made by those who visit Australia, China, Japan, South and Central Africa, and the over ten trips made by those who visit India and South America. This sustains the idea of a „tourist career”, Europeans usually travel first inside Europe, and then to Australasia which is considered their first inter-regional journey and then continue with less known destinations from Asia, Africa and Latin America. Young people build a “tourist career” by starting from “easy” destinations, with the most developed infrastructures for individual tourism, then go to more “adventurous” destinations. In 2007, among the destinations that attracted more experienced tourists were countries like Vietnam, Morocco, South Africa, India and Argentina, while less experienced travellers chose destinations in Europe. Although it is easier to travel to destinations to which there are flight connections or other types of transport, most young people want to avoid “the beaten track” and travel to non-tourist areas. Backpackers tend to travel especially to less visited regions, and travellers try to separate themselves from tourists though their activities at the destination.

The unsafe climate of the last years in certain regions favored some changes in the tourism industry in general and implicitly in youth travel, favoring the *development of new destinations*. For example, in 2008, overall, all the regions recorded positive results, with the exception of Europe, which saw a stagnation in the number of international arrivals. The best results belonged to Middle East (+11%), Africa (+5%) and the two Americas (+4%)²⁸⁵. The evolution of the “number of arrivals” indicator was negative in the last six months of 2008 both in Europe (-3%) and Asia (-3%). The two Americas (+1%), Africa (+4%) and Middle East (+5%) recorded positive results even in the second half on 2008, although the increase was much slower compared to the January-July period. The negative trend in international tourism, which manifested in the second half of 2008, grew in 2009 under the impact of the global economic crisis combined with the effects of the A(H1N1) epidemic that started in the spring of 2009. Based on the preliminary statistics collected from 140 countries of destination, compared to the same period of last year, it is estimated that world-wide international arrivals dropped by 7% in the January-July 2009 period²⁸⁶. In absolute terms, the global number of international arrivals reached 500 million in the first seven months of 2009, dropping from 540 million in the same period of 2008, placing this indicator at the level recorded in 2007 and 2006.

Solitary young travelers chose non-traditional destinations and are known as pioneers in this field, while youth groups tend to be more conservative when choosing a destination. They go to traditional regions, especially for their international travels, and are attracted to new destinations only though an organized event. Since estimating that these young travellers represents up to 25% of the total travelling population, the growing interest regarding new tourist regions partially reflects the spreading of the models determined by young tourists.

The tourism market is also confronting with growing competition on the global youth travel market in the sense that if established western European markets like Spain, France, Germany, Great Britain, etc., have always been preferred by young people, in the 1990-2000 period, new destinations appeared, such as Australia and Thailand, as leaders in the preferences of young travellers around the world. After 2000, new destinations, like Brazil and England, launched aggressive promotional campaigns directed at young people, which have impressive results.

²⁸⁵ UNWTO, *International Tourism Challenged by Deteriorating World Economy*, Tourism Directory 05/10/2009, <http://www.directorytourism.com>. (last accessed in 13.01.2010)

²⁸⁶ UNWTO, *UNWTO World Tourism Barometer*, Volume 7, No. 1, January 2009, Madrid.

A recent study of the Quebec University identified five countries as the main destinations in youth travel: Australia, France, New Zealand, Thailand and England²⁸⁷. All these countries identified young travelers as being an essential market segment, one that brings an important income. *Australia*, one of the leaders in youth travel, organized aggressive integrated marketing campaigns combined with other initiatives, like introducing a unique visa for the “work & travel” programs which led to attracting young people to Australasia. *New Zealand* and *England* also attract a large number of solitary young travelers with the help of promotional campaigns like: adventure tourism, cultural tourism, rest and relaxation tourism, offering accommodation services at a reasonable price and flexible work/study/travel programs. *France* successfully promoted cultural experiences and youth hostels, especially through-out young people in Europe. *Thailand* makes efforts to promote itself as a safe destination for solitary travelers, stimulating organized groups to discover the Thailand’s culture. Experts consider Germany, U.S.A and Canada as important destinations for youth travel, but none of these countries have launched marketing campaigns for the youth travel market.

The fastest growing segment on the youth travel market is represented by the young people who combine traveling with working. The majority of these young tourists take advantage of governmental programs and/or of flexible visas that allow them to work in the countries they visit, with the purpose of covering some of the expenses. United States of America are the favorite destination of most students that work and travel, followed by Australia, England and Canada.

Tourist destinations are influenced by the tourist’s country of origin, because it is clear that people usually travel first in their own country. Europe is visited by 50% of the Europeans, North America by almost 50% and the other regions by less than 20%.

As to the geographical distribution of the international youth travel, there is a concentration in the northern countries that are well developed. There are significant differences in the tourist flows, thus:

- *Canadians* visit Northern Europe and Northern America, representing also the largest number of tourist who visits Central America;
- the main destinations for young people from *South Africa* are almost exclusively North America and South Europe, with the exception of a small part who visits the Indian sub-continent and their region of residence;
- *English* people usually travel inside Northern and Southern Europe, but also to North America; they are among the youth that visits Central and South Africa, China and Japan;
- *Swedish* people visit in a high number destinations from Northern Europe, Southern Europe and North America, but they also visit the south-east part of Asia and Western Europe;
- the young people from *Hong Kong* more and more tend to visit Northern Europe, but also China and Japan; they also record a high number of visits to Australasia because of the geographical proximity of these two regions.

The youth travel market is still dominated by the industrialized countries in Europe, North America and the Southeast Asia, and countries like India, China or the ones in South America have a great potential to develop this form of tourism, although the development of these markets seems to be rather slow.

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ICT ADOPTION – A NECESSITY FOR ROMANIAN SMES

Negruşa Adina Letiţia
Babes-Bolyai University Cluj-Napoca
Faculty of Business

Gică Oana Adriana
Babes-Bolyai University Cluj-Napoca
Faculty of Business

In today's global economy the use of ICTs technologies is key for achieving growth and competitiveness. Business can use ICT in their relationship with suppliers or customers, to process accounts, to manage the internal processes or to file taxes. Our paper is concerned with studying the use of ICT in Romanian companies in general and especially in Transylvanian SMEs. We conducted a survey among the Transylvanian SMEs with regard to their level of endowment with computers, the number of staff working full-time in IT, the activities that imply computers, the ability to process information, to plan and solve problems using computers.

Keywords: ICT, SMEs, Romania, Transylvania

JEL Classification: M15

1. Introduction

Information and communication technologies (ICT) are changing the whole perception of development, pushing forward the frontiers of communications, medicine, agriculture, energy and sources of growth which altogether are enhancing productivity and competitiveness of nations and helping them achieve higher living standards for their people. The use of ICT and technology has affected every aspect of business, transforming not only the way that business is conducted but also creating new business sectors and jobs.

There is a large consensus among scholars and policymakers that the adequate use of information and communication technology increases the competitiveness of employees and strengthens the position of companies in the global economy [8]. Due to advances in computer technology, the declining cost of systems and improved software and technological sophistication of the workforce, no longer are adaptations reserved for the technologically elite, which results in opportunities for innovation in the small firm. Also, the more flexible managerial capabilities of SMEs dictate the extent of success of IT adoption and the resulting positive effects on financial performance [5]. For this reason, smaller firms should be able to more effectively utilize IT to exploit newer technologies than their larger, less agile competitors [13].

2. ICT adoption in EU and Romanian businesses

The number of EU enterprises (with 10 or more full-time employees) that accessed the Internet using a broadband connection registered a significant growth of 37% up to 83% from 2004 to 2009. In Romania the percentage of enterprises using broadband connection to Internet was at 50% of the EU average with a 41 % in 2009. 73% of Romanian enterprises had access to the Internet in 2009 when compared to European Union countries where the percentage was 94%. The highest percentage growth of firms that had access to the Internet between 2004 and 2009 was recorded in the range of small businesses from 45% to 69%. However this percentage is below the EU average by 25%.

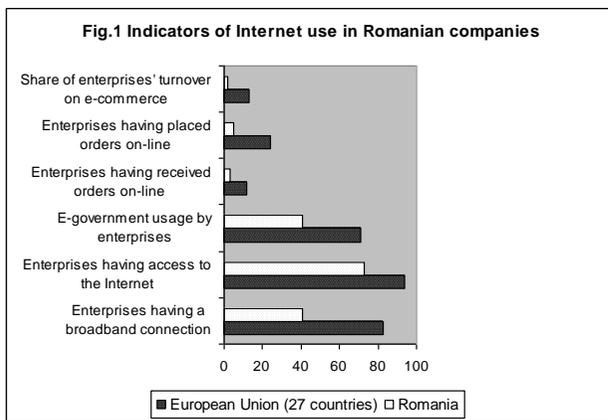
Around three quarters (71%) of EU enterprises used e-government services: the majority to obtain information and to download forms (65 % and 64 % respectively), while 55 % of

enterprises returned filled-in forms using e-government services. In 2009, in Romania, 41 % of the enterprises used e-government services mainly to obtain information (40%).

Between 2007 and 2009, in the EU, the percentage of enterprises that received orders online, decreased from 15% to 12%. In Romania this indicator maintained it's value at 3% well below the European average during this three year period. The proportion of enterprises that used the Internet to place orders to purchase goods or services decreased registered a 5% decrease to 24% between 2007 and 2009. Across the Member States, the general pattern shows a considerably higher proportion of enterprises have made purchases online, when compared to those that have received orders online (probably reflecting the greater complexity of setting up an online selling system as compared with making purchases). Romania is an exception from this pattern, the proportion of companies that have purchase goods via Internet being only with 2% higher than the percentage of enterprises that have received order online.

In 2009, in the EU, the proportion of total turnover accounted for by e-commerce via the Internet equated to 13 %. The percentage of enterprises' total turnover from E-commerce via Internet, in Romania was only 2.

The total value of the ICT market in Europe was EUR 785.7 billion in 2007, representing 6% of total GDP. The IT market (hardware, software and services) amounted to EUR 355.3 billion, while the telecommunications market represented a total value of EUR 435.6 billion.



According to a study made yearly by the Swiss organization, World Economic Forum, which evaluates how well prepared a country is to participate in the network economy by benefiting from the ICT advantages, Romania ranks for 2009-2010 at 59th position in the world, among a total of 133 countries. The Network Readiness Index is formed by points awarded for market environment, telecommunication infrastructure, law and regulations, availability and usage of Information technologies by individual

users, companies and government and public institutions.

The main motives for this low level of Romanian's Index are effectiveness and efficiency of legal framework, availability of latest technologies, companies spending on R&D and insufficiently developed infrastructure.

If we take into account that 99% from the total firms are SMEs results from this report that they are not competitive mainly due to IT infrastructure. It is obvious that Romanian SMEs are ignoring the advantages offer by new technologies or do not investing in this direction. Also the impact of the new technologies on sales still represents an insignificant percentage [23].

Some Romanian researchers identified that the most SMEs apply to small extent IT infrastructure to run business, being also a problem of mentality at managerial level and behavior culture at human resources [7]. The most purchased computer software products and applications by SMEs are those for accounting, financial and remuneration activities, those related to sales, purchasing, etc. are less implemented. Even in situations when SMEs buy IT systems for the entire departments or activities, share applications of integrated Enterprise resource Planning (ERP) is very low.

3. Research method and results

3.1. Research method

Our paper is concerned with studying the use of ICT in Romanian companies in general and especially Transylvanian SMEs. In order to describe the use of ICT by Romanian companies when compared to the countries of European Union we used secondary data from Eurostat.

For a better understanding of the Transylvania SME's attitude regarding the use of ICT we developed a quantitative study and utilized a survey research design. A structured questionnaire was developed to obtain information about SMEs ICT usage between November-December 2008. Data were collected by way of a self-administered questionnaire with the study sample comprising a number of 350 SMEs from Transylvania Region, which has been chosen using the lists of the Chamber of Commerce and Industry. The firms chosen varied by size, field of activity and number of employees. A total number of 257 completed and usable questionnaires were obtained, indicating 73.43% rate of response.

3.2. Sample characteristics

The descriptive analysis of the demographic characteristics of the SMEs is presented in Tabel 1. By size almost 14% from the firms are micro enterprises and an equal number come in the other two categories small and medium enterprises with 43 ponder.

A percent of 49.8 of the SME's are production enterprises, 25.68 % are service companies and 24.52 % are commerce enterprises.

Table 1 The structure of enterprises based on activity and number of employees

Number of employees	Main field of activity		
	<i>Production</i>	<i>Services</i>	<i>Commerce</i>
1-9	1.6%	30.3%	20.6%
10-49	39.1%	31.8%	63.5%
50-250	59.4%	37.9%	15.9%

The vast majority of the investigated SME's were founded in 1992-1996 regardless they were micro, small or medium enterprises.

3.3. Results

We start analyze with investigation about usage behavior of ICT in different aspects of their routine business activity. The results of the study show that SMEs did not developed internal technological systems for communication, 60% of the enterprises do not have Intranet network, due to their small number of employees which give the opportunity of face-to-face communication. The ICT infrastructure is well developed if we take into account the average number of work places equipped with computers of 7.33

An average of 34 % of the internal and external correspondence is conducted via E-mail.

Table 2 Mode of conducting the correspondence

	Minim	Maxim	Mean	Std. Dev.
Percentage of internal and external correspondence is done traditionally	0	100	70.723	28.97
Percentage of internal and external correspondence is done by E-mail	0	100	34.192	29.60

Investigated companies use most information technology in domains such as: accounting and financing (32%), administration (16%) and sales (14%). The less application of IT is surprisingly in R&D. This may be an explanation for the low development of this kind of activities for the SMEs. Also the number of R&D employees working full-time in IT is very small (Mean=0.81). One-way ANOVA was conducted to examine whether average number of employees in IT field differ significantly by main field of SMEs activity.

The ANOVA Test showed that there was no significant difference between the average number of employees in the IT field based on business ($F=1.033$, $p=0.357 > 0.05$).

Knowing that ICT field has a rapid rate of development and obsolete we questioned the companies whether they can keep up with the most advanced technical/technological trends regarding the application of information technology. More than 60% of the SMEs declared they use an average level technology and only 9% use advanced IT technologies. While services SMEs are the ones that use advanced IT technologies the less advanced technologies are used in production sector.

The results show a statistically significant link (Chi Square = 47.648, $df=6$, $p=0.000 < 0.1$) about average intensity (Contingency Coefficient = 0.395, $p=0.000 < 0.01$) between the main field of

activity and the level of IT technologies adopted by the enterprises. That means SMEs from service field are more orientated toward ICT novelty comparing with those activated in production. We also investigate the correlation between firm size and development level of IT technology used. Small enterprises are the ones that use more leader technologies while the micro companies use a low level IT technology (Chi Square = 12.405, $p=0.015 < 0.05$) but was not identified a correlation (either positive or negative) between the two variables (Spearman $\rho = -0.108$, $p=0.131 > 0.05$).

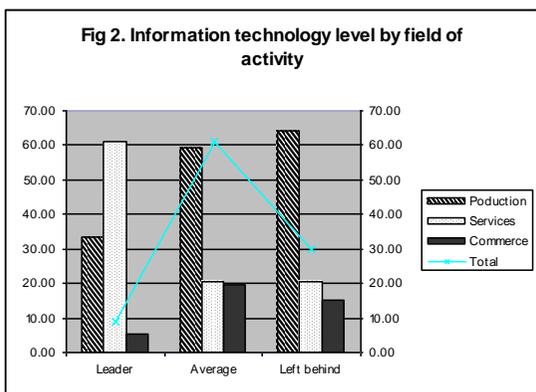


Table 3. Information technology level by company's dimension

	Leader (%)	Medium (%)	Left Behind (%)
Number of employees			
1-9	4.17	41.67	54.17
10-49	13.79	57.47	28.74
50-249	5.75	70.11	24.14

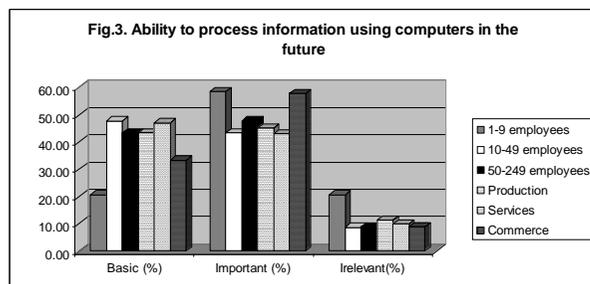
Regardless the SMEs capacity to meet the modern and actual need to process information with the help of computers resulted for more that 58% at satisfactory level. This result gives us the idea of an IT infrastructure that enables employees to be more productive and accomplish easier their work tasks due to computer using technology in data gathering and analyzing. We tested the correlations between level of this capacity of SMEs and field of their activity and size. It was not finding any significant links between, but results a higher ponders of unsatisfactory level for micro enterprises.

Another important advantage for SMEs related to computer using is the ability to plan and solve strategic aspects in their business activity coordination. Regarding to this ability the ponder of satisfactory level it is of 51%, that means only half of the firms consider that their IT technology infrastructure is appropriate for planning their business activities.

Table 4 Ability to plan and solve problems using the computer

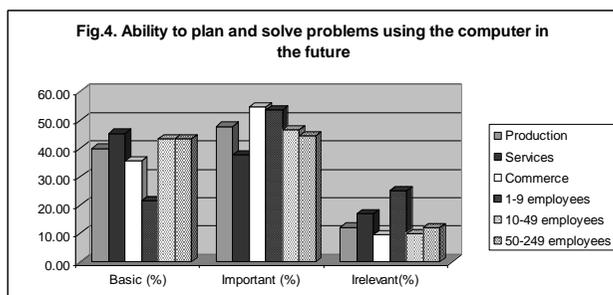
Number of employees	Satisfactory (%)	Partial (%)	Unsatisfactory (%)
1-9	37.50	25.00	37.50
10-49	52.27	32.95	14.77
50-249	54.65	33.72	11.63

However it was identified a link between company's ability to plan and solve problems using the computer and it's size (Chi Square=9.511, $p=0.049 < 0.05$) without being able to establish a correlation between the two variables.



Both micro enterprises and medium firms consider the ability to analyze information using computer important from the perspective of the future. Small firms consider this skill as a basic one. Most companies that consider these skills important for the future of the company are those in trade, while this ability is considered a basic one by most services

firms. Most companies that consider it irrelevant are acting in the field of production.



The ability to plan and solve problems using computer is considered a basic one by the companies in the field of services and by the small and medium enterprises and an important one by commerce firms and by the most of micro-enterprises. The most companies that indicated this ability to be irrelevant are services companies and micro firms.

The analysis of collected data revealed the existence of a very strong direct correlation between the ability to use computers in planning and solving problems level of modernity and the importance given to these skills in the company's future prospects (Spearman Correlation =0.543 > 0.5 , approx sig = 0.0 < 0.05). Also a direct correlation of the average intensity has been identified between the ability to process information with the help of computers level of modernity and the importance given to this skill in the future company's perspectives (Spearman Correlation =0.493, approx sig = 0.0 < 0.05). This implies unfortunately that the companies that consider these abilities level of modernity unsatisfactory also consider them to be irrelevant in the future.

4 Conclusion

ICT adoption is likely to stimulate the extensive and intensive development of both production and services companies. Regarding the extensive development, ICT offers an opportunity for Romanian companies to access new markets, regionally and globally, and to promote and sell products and domestic services electronically. Intensive development consists in lower production, administration and sales costs, due to the use of ICT, which can result in a significant increase of productivity of the factors used. The use of ICT affects firm performance primarily when accompanied by other changes and investments and without these, the economic impact of ICT

may be limited, so complementary investments in skills, organisational change and innovation are key to making ICT work,

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L'AUGMENTATION DE LA RESPONSABILITÉ SOCIALE DES ENTREPRISES DE TOURISME DANS LE CONTEXTE DE LA CRISE ECONOMIQUE MONDIALE

Nicula Virgil

Faculté de Sciences Economiques

L'Université "Lucian Blaga" Sibiu, Romania

Corporate Social Responsibility has become a key concept in modern corporate culture. This paper presents the results of an exclusive consumer survey on the willingness to pay for CSR, as well as best practices from other industries and precise suggestions for the implementation and monitoring of CSR in the travel industry. The concept of CSR was introduced in Germany in the mid-1990s. Since then, the idea has prolifically developed in all directions and enjoyed a rapid rise in popularity. Measures to improve the situation at the holiday destination were also strongly supported. As regards the services on offer, guests turned their attention mainly to security in hotels, information for guests about travel safety as well as monitoring the security situation in the country of travel.

Mots clé: responsabilité sociale des entreprises, responsabilité sociale du secteur touristique, la crise économique

JEL Classification: L83, M14, L21

1. Introduction

La responsabilité sociale des entreprises, a maintenant atteint le tourisme. La responsabilité sociale des entreprises est devenu le concept-clé d'une nouvelle culture de l'entreprise. La responsabilité sociale des entreprises, tel est le plus petit consensus commun pour le terme anglophone complexe que les économistes ont forgé aux Etats- Unis il y a plus de 50 ans pour décrire les concepts du comportement responsable des chefs d'entreprise. Mais ce n'est que dans les années 90 que le terme RSE a également été introduit en Allemagne. Depuis, „il prolifère dans toutes les directions" (comme l'a publié l'hebdomadaire allemand Die Zeit) et a rapidement fait carrière. Il y a deux ans encore, une recherche sur Google ne livrait «que» 1,3 million résultats pour «Corporate Social Responsibility», actuellement il y en a 20,5 millions.

Dans son livre vert de 2001, la Commission Européenne donne la définition suivante: „La RSE est l'intégration volontaire par les entreprises de préoccupations sociales et environnementales à leurs activités et leurs relations avec leurs parties prenantes (stakeholder)". La Commission Européenne souligne non seulement la nature volontaire mais aussi la focalisation sur les activités principales d'une entreprise. De plus, c'est un consensus, à quelques détails près, que la RSE ne doit ni remplacer les dispositions légales et les conventions collectives de travail, ni libérer l'entreprise de son obligation de respecter les normes internationales, comme les Droits de l'homme ou les normes de travail de l'Organisation Internationale du Travail.

2. La responsabilité sociale des entreprises et la crise mondiale

La vague RSE a été mise en branle et a entraîné la création de réseaux d'entreprises, comme ecosense et le Forum du développement durable de l'économie allemande. L'Association fédérale des organisations patronales allemandes et l'Union fédérale de l'industrie allemande ont fondé le portail Internet csr-germany.com. Les rankings et les classements mesurent l'engagement des entreprises en matière de RSE. Mais ce ne sont pas seulement les entreprises qui participaient aux débats concernant la RSE, mais aussi les acteurs de l'Etat, des syndicats, de la science et de la

société. Le ministère fédéral du Travail a par exemple constitué récemment un forum avec 40 représentants des groupes socialement importants, dans l'objectif de conseiller le gouvernement fédéral pour toutes questions concernant le développement d'une stratégie RSE nationale. Par ailleurs, des organismes s'engagent dans le réseau CorA (Corporate Accountability) pour qu'il y ait des régularisations étatiques obligatoires.

De nombreuses entreprises ont un chargé RSE et publient des rapports de durabilité ou relatifs à la RSE. L'éventail de l'engagement va du sponsoring d'événements culturels et sportifs jusqu'aux projets pour les enfants de la rue en passant par la plantation d'arbres pour la protection du climat, par les dons et les galas de bienfaisance. Les critiques considèrent que de telles activités reflètent certes l'engagement en matière de citoyenneté d'entreprise (corporate citizenship) mais ne touchent souvent pas les activités principales. Si l'engagement RSE devait être plus qu'un simple instrument de marketing astucieux et ne pas seulement servir à améliorer l'image et la réputation d'une entreprise, alors une politique RSE crédible – selon le ministère fédéral allemand de l'Environnement, de la Protection de la nature et de la Sécurité des réacteurs – devrait englober les champs d'action suivants: „la protection de l'environnement au sein de l'entreprise, la prise en considération des intérêts des salariés, le respect de la protection de l'environnement et des conditions de travail conformes à la dignité humaine dans la chaîne de sous-traitance, une politique de produits intégrée et la protection des consommateurs". La RSE repose sur la combinaison de la compétence technologique et de la compétence sociale. Grâce à des véhicules attractifs qui consomment peu d'énergie, nous contribuons à la mobilité durable". Le dialogue avec les parties prenantes (stakeholder) fait également partie de la stratégie RSE. Outre des questions sur la définition et la stratégie, on se pose aujourd'hui des questions sur la responsabilité sociale des entreprises. Et certaines entreprises sont confrontées avec l'opinion publique parce qu'elles négligent leur responsabilité sociale (corruption, changements climatiques, travail des enfants). Les gouvernements, les médias et les organisations de citoyens font pression sur ces entreprises qui subissent des baisses douloureuses de leur chiffre d'affaires et la dégradation de leur réputation.

A cause de ces expériences et vu la crise financière actuelle qui a énormément troublé la confiance des citoyens portée aux entreprises et aux élites économiques, ce sont „outre des motifs philanthropiques et communicatifs, de plus en plus des questions stratégiques de la minimalisation des risques sociaux résultant des propres activités qui sont au premier plan" pour la gestion pratique RSE au sein des entreprises (étude des agences de conseil Pleon et IFOK). La RSE est logiquement aussi une gestion du risque, parce que celui qui pratique la prévention des risques doit développer une politique stratégique RSE, il doit construire un 'système de radar' pour repérer les futurs risques écologiques, sociaux et politiques.

Qu'en est-il maintenant de la responsabilité sociale du secteur touristique? Suite à la discussion sur les changements climatiques d'un côté et le commerce équitable de l'autre, de plus en plus d'entreprises proposent des „voyages durables" et promettent d'agir „socialement" et „écologiquement" avec responsabilité. A qui les clients peuvent-ils faire vraiment crédit? Comment peuvent-ils reconnaître les offres véritablement durables? Comparé à d'autres secteurs, le thème RSE, telle est l'estimation de tous les experts, est à quelques détails près encore terra incognita dans le secteur du tourisme. Jusqu'à présent, les stratégies de la RSE sont plutôt exceptionnelles, les rapports RSE probants sont une denrée rare, et ce sont plutôt des actions ad hoc isolées qui sont vendues comme des bonnes actions, et des projets sociaux et écologiques comme des mesures RSE. Mais la RSE dans le tourisme devrait signifier que les activités principales des entreprises touristiques soient socialement et écologiquement responsables et qu'elles soient transparentes pour que l'on sache comment et à quelles conditions le produit „voyage", qui est un assemblage de nombreux éléments d'une chaîne de valeur complexe, est réalisé. Il ne s'agit pas seulement de savoir si une entreprise réalise des bénéfices, mais surtout à quelles conditions ces bénéfices ont été gagnés.

La RSE joue un rôle décisif dans le développement durable pour une stratégie d'entreprise axée sur le rendement qui tient compte des exigences écologiques et sociales. Cela signifie, qu'outre la motivation et la promotion du personnel ainsi que le dialogue continu avec les parties prenantes, qu'il faut utiliser en personne responsable les ressources naturelles et l'environnement de nos sites et des destinations touristiques, développer et améliorer sans cesse des systèmes de gestion écologique, intégrer la qualité écologique et la qualité du produit. Dans les grands groupes industriels, ce sont les départements du marketing qui rédigent les rapports de la RSE. Le grand désavantage est qu'il n'est pas possible de comparer les rapports relatifs à la durabilité et qu'il n'existe pas une autorité externe pour en contrôler les contenus.

Le Forum Anders Reisen et tous les membres de FAR se sont certes engagés à respecter le tourisme durable avec un catalogue détaillé de critères. Par conséquent, aucun voyageur n'est en mesure de respecter tous les critères dans la pratique. C'est surtout pour le „critère vol" qu'il y a toujours des écarts (par exemple, pas de vol de plus de 2 000 kilomètres pour un séjour de moins de 14 jours). Les conséquences: des conflits au sein de l'association, pression venant de l'extérieur, diminution de la crédibilité. Pour le Forum Anders Reisen, il n'y a qu'une seule solution pour sortir de ce dilemme: doit livrer la preuve du travail de durabilité par des critères mesurables et vérifiables. Tout d'abord, les entreprises membres relèvent elles-mêmes des données relatives à toute leur chaîne de prestations, ces données sont ensuite représentées et notées dans dix indicateurs principaux; ces indicateurs-clés sont par exemple les émissions de CO₂ par hôte/jour, le taux de la chaîne de valeur locale, l'index de satisfaction des coopérateurs ainsi que l'index de durabilité des hébergements et des agences partenaires. Un expert externe indépendant examine le rapport RSE qui contient un programme d'amélioration constitutive (mesures pour améliorer les performances de durabilité). Si le résultat est positif, le voyageur obtient le certificat de qualité „CRS certified tourism" décerné pour la responsabilité de l'entreprise. Les premiers certificats RSE seront décernés pendant l'ITB Berlin 2010 à 20 membres du Forum Anders Reisen. La certification externe n'est pas seulement un instrument de marketing et un gain pour l'image de l'entreprise, mais surtout une caractéristique positive pour se distinguer des autres organisateurs qui simulent leur durabilité.

Le Forum Anders Reisen a décidé que le rapport RSE sera obligatoire avant l'année prochaine pour tous les membres. Ensuite, il y aura assez de valeurs empiriques pour effectuer une analyse comparative RSE (benchmarking) ce qui permettra de comparer les entreprises avec les indicateurs Benchmark spécifiques au secteur. En ce qui concerne la responsabilité sociale dans le tourisme, les organisateurs de voyages déjà certifiés ont beaucoup d'avance sur les autres entreprises du secteur. Mais on ne peut actuellement pas prévoir si la preuve de la durabilité apportera l'avantage compétitif espéré et des avantages sur le marché.

Le rapport RSE standard pour les organisateurs de voyages est le premier standard de ce genre dans le tourisme. En ce qui concerne les structures et les indices, l'équipe de spécialistes a misé sur les standards des systèmes de gestion internationaux EMAS et ISO, en ce qui concerne les rendements de comptes RSE elle a misé sur la Global Reporting Initiative. Mais quelles sont les chances pour que les grandes entreprises acceptent ce procédé? La conseillère de la RSE met en évidence que le rapport RSE n'est pas seulement limité aux petites et moyennes entreprises. Les grands consortiums comme TUI, Thomas Cook et REWE Touristik pourraient eux aussi y être soumis, car ces voyageurs avec leurs grandes équipes qui ont déjà la certification EMAS ou une gestion de la qualité, possèdent pour cela les capacités en personnel et financières.

Naturellement, la RSE dans le tourisme a également une dimension internationale, par exemple dans la protection des enfants. Dans le monde entier, 800 entreprises touristiques (voyageurs, chaînes hôtelières, agences réceptives) ont jusqu'à présent signé le code de comportement visant à protéger les enfants de l'exploitation sexuelle dans le tourisme. Cependant, il est difficile de faire une évaluation régulière et sérieuse des rapports annuels des entreprises participantes. La protection des enfants soit intégrée comme critère dans les deux plus importants livres de normes

internationaux de la responsabilité sociale: dans les préceptes de l'OCDE pour les entreprises multinationales et dans le Pacte Mondial (Global Compact) des Nations Unies.

Et les consommateurs? On dit dans le secteur touristique que les vacanciers s'intéressent de plus en plus aux impacts de leurs voyages sur l'environnement et sur la société. Mais est-ce que c'est vrai? Quelle importance a la responsabilité sociale des organisateurs de voyages ainsi que l'écocompatibilité et la compatibilité sociale des offres touristiques pour les vacanciers?

L'application des standards sociaux et écologiques par les organisateurs de voyages, par les compagnies aériennes et par les hôtels est un critère de qualité important pour les consommateurs.

Les vacanciers considèrent qu'un maniement précautionneux de l'environnement, la sécurité à l'arrivée et pendant le séjour, ainsi que la préservation des Droits de l'homme dans la destination, sont très importants.

Les mesures pour améliorer la situation dans les destinations ont également été très préconisées. Les mesures de protection de la nature et les actions contre l'exploitation et la prostitution des enfants dans les destinations, mais aussi le respect des standards de sécurité pour les employés des hôtels sont particulièrement importantes pour la grande majorité des vacanciers. Dans le secteur des prestations proposées, les touristes accordent beaucoup d'importance à la sécurité dans les hôtels, à l'information des voyageurs sur la sécurité des voyages ainsi qu'au contrôle de la sécurité des destinations. Aucun consommateur ne va réserver un voyage en raison des aspects de la RSE. Cependant, les mesures dans le secteur de la RSE peuvent tout à fait aider à faire son choix parmi les différentes alternatives et à se décider pour ou contre une destination ou un organisateur de voyages.

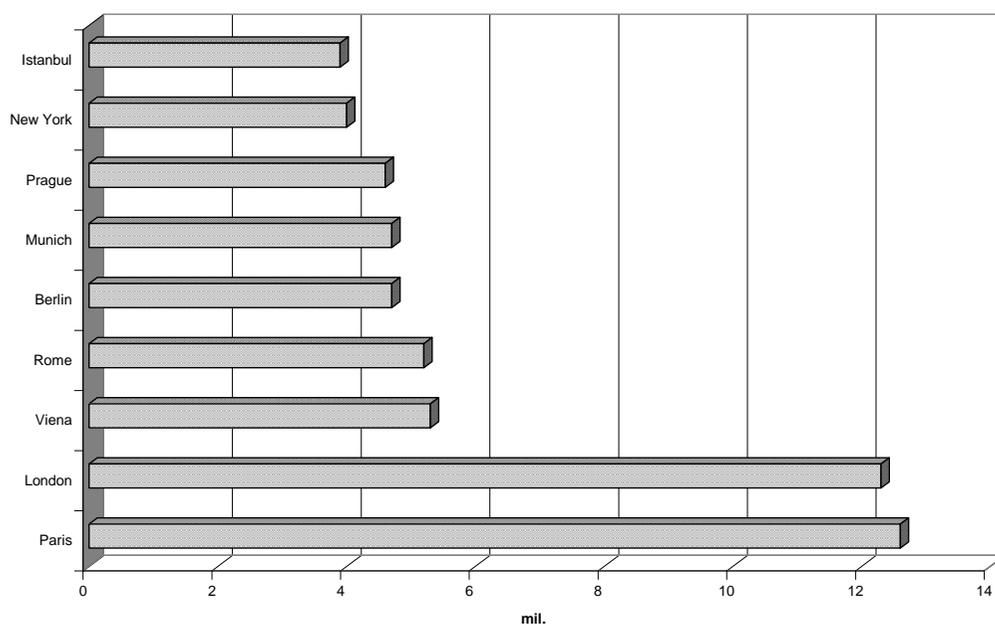


Figure 1. Les destinations favorites des européens (2009)

Source: IPK International, 2010

On parlera de la responsabilité sociale concernant les voyages d'affaires et d'agrément, elles sont devenues habituelles pour un bon nombre d'entre nous. Mais allons-nous encore avoir les moyens de nous payer des vacances demain?

Quels moyens de transport seront les plus touchés? Les touristes s'orienteront-ils ailleurs? Doit-on s'attendre à ce qu'ils renoncent à prendre l'avion? Où éviteront-ils seulement de faire des longs

trajets? Allons-nous bientôt connaître une nouvelle popularité du train et de l'autocar? Va-t-il y avoir une tendance vers l'automobile comme moyen de transport et des vacances dans des destinations proches? Les voyages en voiture vont-ils être l'ancienne/la nouvelle option de l'année 2010? Faut-il être pessimiste? Doit-on craindre que la mobilité sera sacrifiée et que la demande des produits touristiques s'effondre?

Telles sont les questions que se posent et des experts du secteur touristique discutent sur les conséquences qu'ont les prix volatiles du pétrole pour la mobilité.

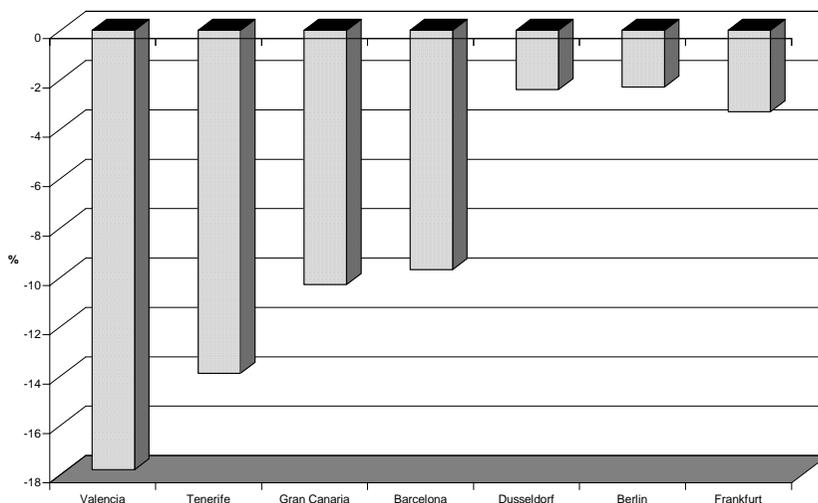


Figure 2. Quelques aéroports affectée par la crise mondiale

Source: IPK International, 2010

Actuellement, le monde traverse la plus grande récession depuis la seconde guerre mondiale et il ne veut pas risquer d'établir plus qu'une estimation prudente sur la fin possible de cette récession. Il est d'avis que les prévisions pour l'économie mondiale resteront sombres au moins jusqu'en 2010. 36 heures en septembre 2008 ont modifié le monde. Avec l'effondrement de l'Investment Bank Lehman Brothers, la raréfaction des crédits est devenue une crise financière mondiale. Cette situation est nouvelle pour tout le monde. Les modèles mis en place par les instituts financiers concernés ne garantissent cependant pas qu'ils seront rentables à moyen et à long terme. Il n'y a pas eu d'autres alternatives. Il a fallu agir tout de suite pour préserver la stabilité du système. Voilà la chronologie des faits comme suit: la crise financière a commencé avec la bulle de l'immobilier américaine; elle a éclaté et a entraîné l'industrie du bâtiment dans l'abîme. Puis la crise a englobé d'autres secteurs économiques, entre autres le secteur automobile et le secteur électronique. Entre-temps, les sous-traitants sont également touchés. Il n'y s'agit ici d'un phénomène passager et éphémère, au contraire nous sommes confrontés à un problème qui va durer. La récession va durer jusqu'en 2010. Le déficit de la demande mondiale est une conséquence de la crise du crédit. Là où la bulle du secteur immobilier a éclaté, cela va durer quelques années avant que les capacités actuellement excédentaires soient réduites. Il compte sur une période d'au moins trois ans pour les Etats-Unis. En Grande-Bretagne il faut compter plutôt sur cinq ans. Il faudra avoir encore plus de patience au Portugal et en Espagne à cause de la stagnation de la population.

Le Président américain Obama suivra une politique économique très keynésienne, et cependant l'économie américaine profitera de la nouvelle politique avec du retard. Le pays devra donc faire face on 2010 à une nouvelle année de récession catastrophique.

En Grande-Bretagne, les consommateurs ont tendance à être très prudents. C'est pour cette raison que le fisc ne devrait rembourser de l'argent que si cet argent est reversé dans le circuit

économique. En raison de la „situation keynésienne", c'est-à-dire vu le gros déficit de la demande, les Etats de l'Union européenne auraient dû prendre des mesures semblables. Ils peuvent le faire encore. L'économie japonaise représente un des grands problèmes. Le Japon traverse „une dépression". Comme le besoin des consommateurs japonais est saturé et qu'il n'est pas nécessaire d'améliorer l'infrastructure déjà très développée, il ne reste, comme moyen politique anticyclique, qu'à investir des deniers publics dans les pays en développement et les nouveaux pays industrialisés limitrophes pour que ceux-ci achètent des biens au Japon. Les jours de la globalisation et de l'économie de marché soient comptés.

Pour vraiment réactiver la globalisation, il faut rétablir la confiance et la paix entre les nations et les religions. Les consommateurs se doutent déjà de ce qui les attend dans la crise mondiale. Ils ont peur pour leur place de travail et leurs épargnes. Leur confiance dans l'économie est en train de faiblir. Jusqu'à présent, ce ne sont que les revenus supérieurs et moyens qui ressentent la tendance.

Dans de nombreux pays, le salaire n'est pas très élevé jouissent par contre de la protection de l'Etat. Dans certains cas, ils reçoivent même une aide disproportionnée du gouvernement. Ces personnes vont d'abord se demander, quand le chômage sera de plus en plus élevé, si elles peuvent vraiment se payer des vacances. Tandis que les Allemands sont prudents et mettent de côté environ dix pour cent de leur revenu, en Angleterre on aime bien vivre „à crédit".

Les dernières estimations pour 2010 renvoient à des taux de croissance réduits dans le secteur des voyages en avion. Certains marchés déclarent déjà qu'ils enregistrent des baisses dans ce secteur. L'année dernière certains vacanciers ont préféré prendre le train ou leur automobile au lieu de prendre l'avion ne signifie pas que nous avons à faire à un décalage modal. Il est plus probable que la tendance reflète seulement une baisse passagère des voyages. On doit garder d'interpréter les décalages temporaires comme tendances réelles. La même chose est valable pour le développement des différents segments touristiques. Les bons résultats obtenus pendant la saison hiver 2008/2009, suite aux excellentes conditions dues à la neige dans de nombreuses stations de ski européennes, ne sont pas une garantie que les affaires hivernales resteront robustes à long terme.

3. Conclusion

Le prix du pétrole aussi restera un facteur-clé pour la performance du secteur touristique en 2010. Les baisses radicales du prix du pétrole, depuis les valeurs de pointe de l'été 2008, ont tout d'abord permis aux compagnies aériennes à bas prix de mieux respirer. Tant que les prix n'augmenteront pas, ils seront ceux qui en profiteront – au moins à court terme. Les consommateurs vont sinon économiser en ne partant pas les week-ends et peut-être décider à long terme de ne pas prendre l'avion comme moyen de transport.

Il y a aussi trop de bureaucratie étatique et de protectionnisme national dans l'élargissement des réseaux ferroviaires. On ne peut donc pas supposer que les affaires avec les chemins de fer seront vraiment, à l'avenir, un facteur important. Dans la concurrence des compagnies aériennes, ce sera plutôt l'automobile qui gagnera face à l'avion. Surtout si de nouveaux règlements, comme l'acquisition obligatoire des certificats d'émission, entravent la croissance du trafic aérien.

En général, les Européens préféreront à court et à moyen terme réserver des voyages bon marché vers des destinations proches. A la fin de 2010, peut-être que le camping sera de nouveau populaire, ou les appartements de vacances et les auberges de jeunesse. Et pourquoi pas les voyages à bicyclette? Cette récession sera draconienne, elle va durer au moins jusqu'à la fin de l'année 2010.

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USING LEAN SIX SIGMA AS A MOTIVATIONAL TOOL FOR PROCESSES IMPROVEMENT

Petcu Andreea Jenica

*Academy of Economic Studies Bucharest
Business Administration*

Drăghici Mihai

*Academy of Economic Studies Bucharest
Business Administration*

Anagnoste Sorin

*Academy of Economic Studies Bucharest
Business Administration*

The purpose of this paper is to demonstrate how business environment and performance can be improved in an organization that used and implement Lean Six Sigma methodology and who create an organizational framework auspicious for theirs employees. Lean Six Sigma can be a management approach of an organization focused on quality and continuous improvement, based on the participation of all it's employees which aims to ensure long term success. It's very important for a organization to believe in the capacity of work and intellect of their employees, to invest in them, so in this way they will feel useful and will became more self confident and will help the company to move one step ahead in this very competitive market we are facing today.

Keywords: Lean, Six Sigma, knowledge management, business transformation, organisational creativity, innovation

The article's JEL code: M16

1. Introduction

"Create, improve continuously and bring innovative elements or die." This has become a crucial and critical element which is required of managers and the organizations they manage, to survive in a changing market. In a dynamic world of global competition, organizations must continuously innovate and create new products and services and adopt new technologies to the marketplace and to cope with fierce competition. Now we are not only in a new millennium but in a new era, the era of knowledge. Long-term competitive advantage depends on the construction and operation of basic skills. Resource-based orientation of an organization defines a strategic asset as one valuable and nonsubstituibil. Knowledge is seen as a strategic asset that has the potential to be a source of competitive advantage for the organization.

2. Knowledge management in business enviroment

Typically, the ability to understand human creativity, employee's creativity, to combine ideas in a unique way or to make combinations and associations between them to generate innovative field to bring more organization it is defined as creativity. Therefore, organizations must create a climate to encourage and foster positive and creative thinking of theirs employees. In other words, they must seek to eliminate organizational barriers at work that could complicate and hinder creativity. Creative potential could be triggered when the employee organization shall be provided adequate resources to guide them in their work when their work is a challenge to the intellect, when presenting a high level of autonomy and control over his work (Politis, J.D. 2004). Large organizations are increasingly turning their attention on the importance and role of knowledge on the efficiency and competitiveness. The main reason for this is concern over the

knowledge management an idea that both knowledge and application of knowledge management systems are ways in which creativity and innovation can be promoted and the knowledges extracted so to increase performance organization overall, whether it is about public, private or nonprofit sector.

Economic theories treat knowledge as a crucial economic factor. It appears, at present the tendency to achieve a new synthesis between the various approaches to economic knowledge in the form of theories of organizations based on knowledge and knowledge-based society. According to these theories, knowledge is the main source of economic organizations and, therefore, knowledge management shows a paramount importance.

Today, acquisition of an organization's success is to exchange information quickly and efficiently. Long-term competitive advantage is not rooted in physical assets and financial capital but in effective channel of intellectual capital.

The characteristic of the knowledge society is not in that it has vast amounts of information, but that in it should always know more. And ability to get to know more calls on the subject knowledge to human beings. Thus information is something external, which is available to us. Knowledge instead, is an internal development, an advance made ourselves, a practical enrichment of our existence, a potency of our operational capacity.

Competitive advantages which it holds economic organization on market no longer can be maintained only by the parameters characterizing the products or services and any investment in new technology. Excellence that provides competitive nature depends mainly on how to tap talent, professional skills and knowledge labor organization by nurturing a new culture in that economic organization.

Fierce competition in international markets causes companies to want to be one step ahead of its competitors, in other words, be smarter ensuring that properly use all available resources, make the most value relevant or, apparently, minor competitive advantage.

3. Lean Six Sigma tool

The continuously changing and diversification of products and services during the last century, due mainly to constant increase of client requirements, as well as to industrial progress and competition intensification, led not only to relatively frequent modification of the quality concept definition, but also to a consistent development of concerns of different organizations supplying products and services of the quality of their production.

To obtain that competitive advantage for organizations, Lean Six Sigma may assist them by creating, improving continuously it's processes, but also by implementing new organizational structures and processes which bring that added the organization has need to differentiate from its competitors on market.

To create a common improvement methodology you must create an integrated system for managing projects rather than separate systems for Lean or Six Sigma projects. As Juran (1989) admonished us, "improvement happens project-by-project and in no other way" (Snee, R.D. 2010). The Juran quality management philosophy focuses on three components: planning, control, and improvement. These are known as the Juran Trilogy (Montgomery, D.C. 2010).

Management must play an active role in the selection of projects for the newly trained Six Sigma teams to focus on, and also ensure that all required resources are made available (Raisinghani, 2005).

Table 1: Lean Thinking

The Fundamental Objective provide perfect value to the customer through a perfect value creation process with zero waste in:	The Fundamental Insight
- <i>Design</i> (concept to customer) - <i>Build</i> (order to delivery) - <i>Service</i> (order to cash)	-Focus on each product and its value stream rather than organizations, assets, process technologies, and career paths -Ask which activities are waste and which truly create value -Enhance the value & eliminate the waste to optimize the whole

Lean Six Sigma management type refers, primarily, to a structured approach in which the heart is invariably "customer voice", considering that in any economic context, not necessarily a crisis, understanding customer requirements is vital for a company.

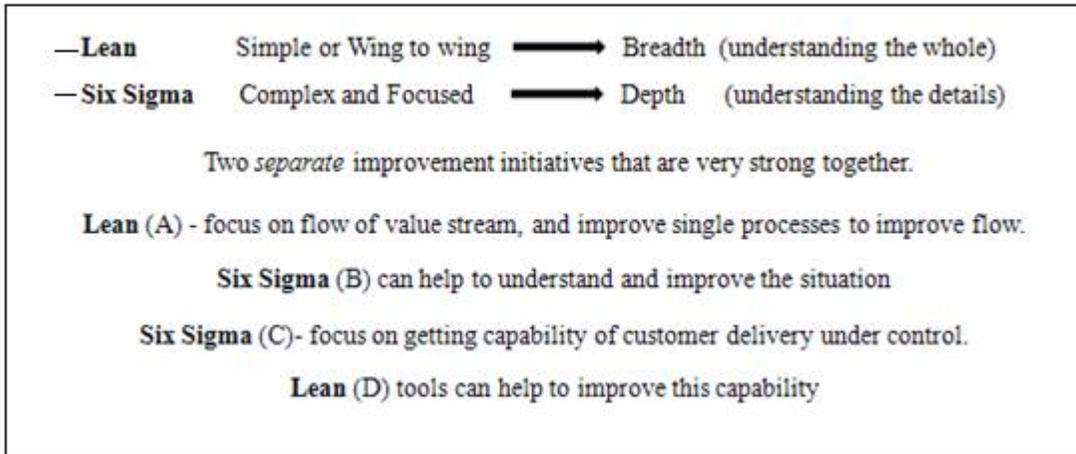


Figure 1: Lean Six Sigma interconnections

*Lean*²⁸⁸ (A) - Helps identify steps that **don't add value** and provides tools to eliminate them.

Lean (D) - Lean can help to improve the capability (improve phase).

*Six Sigma*²⁸⁹ (C) - Improves the capability of steps that do add value.

Six Sigma/Lean (B) - Lean identifies problems in **flow**. Improving the capability with Six Sigma can eliminate additional steps.

Lean Six Sigma is a methodology which is applicable both in manufacturing activity, as well as in services, and provide tools for solving a wide range of issues, whether we are talking about the speed processes, improve process's output or about cost reductions.

Although Lean and Six Sigma evolved independently, there are a number of encouraging articles discussing the use of an amalgamated approach. However, in order to drive a unified

²⁸⁸ Lean manufacturing extends the scope of the Toyota production philosophy by providing an enterprise-wide term that draws together the five elements of "the product development process, the supplier management process, the customer management process, and the policy focusing process for the whole enterprise".

²⁸⁹ The term "Six Sigma" refers to a statistical measure of defect rate within a system. Underpinned by statistical techniques, it presents a structured and systematic approach to process improvement, aiming for a reduced defect rate of 3.4 defects for every million opportunities, or Six Sigma.

methodology forward, a closer integration of the two approaches must be achieved, with significant scientific underpinning to provide a sound theoretical foundation (Pepper, 2007 cited in Pepper, M.P.J., Spedding, T.A. 2010).

4. Conclusion

The goal of any organization is to increase its customer's satisfaction by adapting services and products to new standards which are according with what clients want to receive. For that to come true they need both, Lean and Six Sigma working together in all its areas.

For a organization to adopt Lean Six Sigma is required quality improvement processes by integrating Lean principles with Six Sigma methodology as a holistic approach to continuous improvement for all the domains in which the organization operates.

To move forward to further visions such as agility and total supply chain integration, organizations will need to act as Lean as possible, providing transparency for the implementation of Six Sigma methods and techniques.

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THE INFLUENCE OF THE NUMBER OF ACTIVE ENTERPRISES IN SERVICES ON EXPORTS. THE CASE OF 25 EU COUNTRIES IN 2007*

Petrescu Raluca Mariana

*The Bucharest Academy of Economic Studies
Faculty of Commerce*

Balalia Alina Elena

*The Bucharest Academy of Economic Studies
Faculty of Commerce*

Zgură Ion-Daniel

The Bucharest Academy of Economic Studies

Services are the most important contributor to the GDP and also the most important job generator. Countries development, usually, is based on the services sector.

The present paper is aiming to highlight the influence of the number of active enterprises in services on exports. The paper is based on a model generated using data provided by Eurostat, for 25 EU countries and for 4 services categories. Generated in Eviews 4.1, the model is correctly specified, with a R-squared value of 0.65, and revealed a validated influence of the number of enterprises active in Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods and in Real estate, renting and business activities on exports.

Keywords: enterprise, services, exports, European Union.

JEL Classification: C30, C40, L81, L85, L91, M19

Introduction

The term of service is reflected in different forms, depending on the context: from intangible services associated to abstract elements, such as information or knowledge, to services that involve individual action, such as health or education²⁹⁰. Services are defined as a human activity, with a specialized content, resulting in useful, immaterial and intangible outcome allocated to satisfy a social need²⁹¹. Services are characterized by: immateriality, intangibility, storage impossibility, simultaneous production and consumption of services, non-sustainability, inseparability from the provider and user, variability and heterogeneous. Moreover, Edvardsson, Gustafsson and Roos consider the characterization of services as inseparable, heterogeneous, intangible and perishable too simplistic and state that the difference between services and products is not always so well defined²⁹². In economics, services met an evolutionary path, from infrastructure services to their approach as an experience, having as intermediate stages the support services, recreational and leisure services, educational services and services that allow

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²⁹⁰ Wild, P.W., 2010. Longing for service: Bringing the UCL Conception towards services research. *Interacting with computers*, 22(1), pp. 28-42.

²⁹¹ Ionciă, M., Minciu, R. & Stănculescu G., 1999. *Economia serviciilor*. Ediția a II-a revizuită și adăugită, București: Editura Uranus.

²⁹² Edvardsson, B., Gustafsson, A. & Roos, I., 2005. Service Portraits in Service Research: A Critical Review. *International Journal of Service Industry Management*, 16(1), pp. 107-121.

spare time saving²⁹³. These particularities are the one that confer a certain degree of uniqueness and they support the services improvement process²⁹⁴. Because, products from primary and secondary sectors are associated with services, it is very difficult to demarcate each spectrum, highlighting the fact that services exceed the tertiary sector area, containing also intangible activities of the other two sectors (primary and secondary sectors). Lindberg and Nordin argue that the difference between goods and services is no longer clearly defined, precisely because both are given together, resulting on the one hand, products servicing, and on the other one, the services materialization²⁹⁵. At European Community level, the free movement of services involve the removal of barriers that hinder the free movement of people who develop independent activities, of employees, or of their families.

Methodology

Based on data provided by Eurostat, the model consisted of a multiple regression and it was generated using Eviews 4.1 program. The main purpose of the model is to emphasize a potential relation between the number of active enterprises in services and the value of exports of goods and services, for 25 EU countries. From the range of existing services, only the “Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods”, “Hotels and restaurants”, “Transport, storage and communication” and “Real estate, renting and business activities” categories were chosen for the model, as data only for these were identified. The analysis consisted only of 25 EU countries, namely Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden and United Kingdom. Malta and Ireland, as European Union members, weren’t taken into consideration, as no data were provided for them. The list of variables used for the model was composed of:

- dependent variable: exports of goods and services (expressed in current prices in millions of euros – notation Exporturi);
- independent variables: enterprises active in Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods (expressed in number of enterprises - notation COM), enterprises active in Hotels and restaurants (expressed in number of enterprises - notation HOT), enterprises active in Transport, storage and communication (expressed in number of enterprises - notation TRANSP) and enterprises active in Real estate, renting and business activities (expressed in number of enterprises - notation IMOB).

Descriptive analysis of series of data

The series of data were used exactly as they were provided by Eurostat; any processing did not occur on them. The paper is based on data from the 2007 year, with the authors’ intention of expanding the research on other future years.

In what concerns the value of exports of the analyzed EU countries, its mean is 192374.6 and its median is 82318 corresponding to Finland. The series is relatively heterogeneous, taking into consideration the standard deviation that registers a quite high value (257050.2), in comparison with the mean’s value of 192374.6. According to Jarque-Bera, residual values are normally distributed, because the probability registers a value lower than 0.05. The asymmetry coefficient

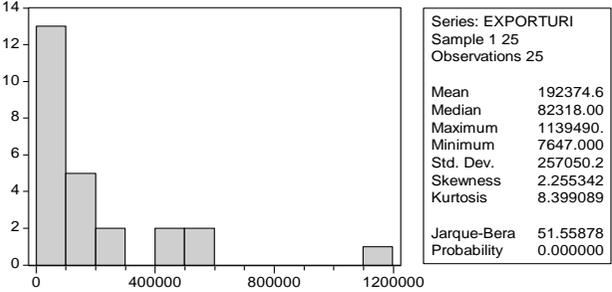
²⁹³ Heineke, J. & Davis, M.M., 2007. The emergence of service operations management as an academic discipline. *Journal of Operations Management*, 25(2), p. 366.

²⁹⁴ Nijssen, E. J., Hillebrand, B., Vermeulen, P.A.M. & Kemp, R.G.M., 2006. Exploring product and service innovation similarities and difference. *International Journal of Research in Marketing*, 23, pp. 241-251.

²⁹⁵ Lindberg, N. & Nordin, F., 2008. From products to services and back again: Towards a new service procurement logic. *Industrial Marketing Management*, 37(3), pp. 292-300.

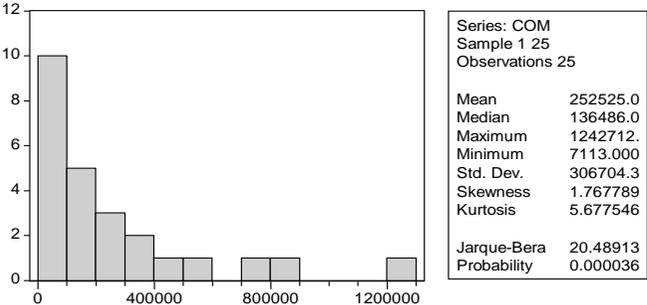
registers a value of 2.25 that suggests an asymmetric series oriented towards positive values. The flattening coefficient registers a value of 8.39 suggesting a leptokurtosis series oriented towards positive values. (Figure no. 1)

Figure no. 1: Description of Exports series of data



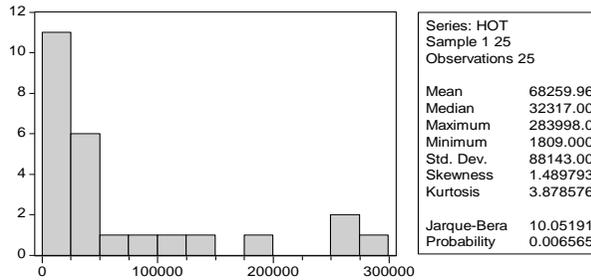
Taking into consideration the number of enterprises active in Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods from the analyzed EU countries, it can be appreciated that, its mean is 252525 and its median is 136486 corresponding to Belgium. The series is relatively heterogeneous, taking into consideration the standard deviation that registers a quite high value (306704.3), in comparison with the mean's value of 252525. According to Jarque-Bera, residual values are normally distributed for all the analyzed services categories, because the probability registers a value lower than 0.05. The asymmetry coefficient registers a value of 1.76 that suggests an asymmetric series oriented towards positive values. The flattening coefficient registers a value of 5.67 suggesting a leptokurtosis series oriented towards positive values. (Figure no. 2)

Figure no. 2: Description of Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods series of data



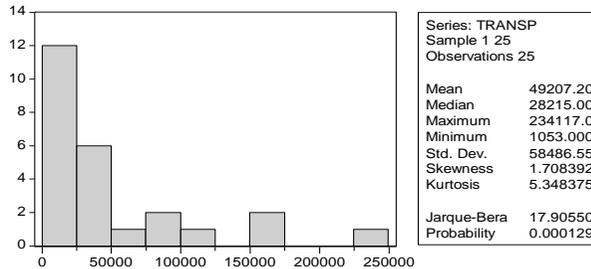
Considering the number of enterprises active in Hotels and restaurants from the analyzed EU countries, it can be appreciated that, its mean is 68259.96 and its median is 32317 corresponding to Hungary. The series is relatively heterogeneous, taking into consideration the standard deviation that registers a quite high value (88143), in comparison with the mean's value of 68259.96. The asymmetry coefficient registers a value of 1.48 that suggests an asymmetric series oriented towards positive values. The flattening coefficient registers a value of 3.87 suggesting a leptokurtosis series oriented towards positive values. (Figure no. 3)

Figure no. 3: Description of Hotels and restaurants series of data



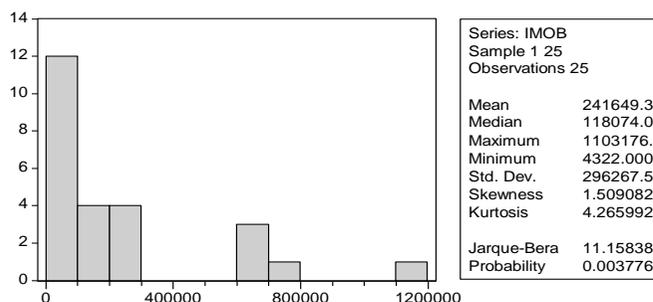
Referring to the number of enterprises active in Transport, storage and communication from the analyzed EU countries, it can be appreciated that, its mean is 49207.2 and its median is 28215 corresponding to Holland. The series is relatively heterogeneous, taking into consideration the standard deviation that registers a quite high value (58486.55), in comparison with the mean's value of 49207.2. The asymmetry coefficient registers a value of 1.70 that suggests an asymmetric series oriented towards positive values. The flattening coefficient registers a value of 5.34 suggesting a leptokurtosis series oriented towards positive values. (Figure no. 4)

Figure no. 4: Description of Transport, storage and communication series of data



Taking into consideration the number of enterprises active in Real estate, renting and business activities from the analyzed EU countries, it can be appreciated that, its mean is 241649.3 and its median is 118074 corresponding to Belgium. The series is relatively homogeneous, taking into consideration the standard deviation that registers a value (296267.5) quite close to the one of the mean (241649.3). The asymmetry coefficient registers a value of 1.50 that suggests an asymmetric series oriented towards positive values. The flattening coefficient registers a value of 4.26 suggesting a leptokurtosis series oriented towards positive values. (Figure no. 5)

Figure no. 5: Description of Real estate, renting and business activities series of data



Possible connections between active enterprises in services and exports

The model was generated using the OLS method and it was based on the following equation: $Exporturi = a + b*COM + c*HOT + d*TRANSP + e*IMOB + \epsilon$; all the variables being explained in the methodology part of the paper. Considering the results generated by the model and by substituting the obtained coefficients, the model's equation can be rewrite as follows:

$$Exporturi = 58109.75 - 1.027686*COM + 0.879749*HOT + 0.450289*TRANSP + 1.289356*IMOB$$

The results generated by the model are illustrated in table no. 1.

Table no. 1: Model's results

Dependent Variable: EXPORTURI				
Method: Least Squares				
Sample: 1 25				
Included observations: 25				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	58109.75	44866.17	1.295180	0.2100
COM	-1.027686	0.400772	-2.564268	0.0185
TRANSP	0.450289	1.370242	0.328620	0.7459
HOT	0.879749	1.277558	0.688617	0.4990
IMOB	1.289356	0.391242	3.295548	0.0036
R-squared	0.650292	Mean dependent var		192374.6
Adjusted R-squared	0.580351	S.D. dependent var		257050.2
S.E. of regression	166518.0	Akaike info criterion		27.06045
Sum squared resid	5.55E+11	Schwarz criterion		27.30423
Log likelihood	-333.2556	F-statistic		9.297660
Durbin-Watson stat	2.004593	Prob(F-statistic)		0.000205

The model has been based on two hypotheses for each coefficient, namely the null hypothesis (H_0 : the coefficient = 0) and the alternative one (H_1 : the coefficient differs significantly from 0). In order to verify the estimators' significance, the t Student test has been applied.

For the free coefficient, the estimated value is 58109.75, with a standard error of 44866.17 and a t Statistic value of 1.295180. The marginal level of significance (p-value) registers a value higher than 0.05, namely 0.21 suggesting a confirmation of the null hypothesis, implicit of the fact that the free coefficient is null.

For the coefficient associated to the COM variable, the estimated value is -1.027686, with a standard error of 0.400772 and a t Statistic value of -2.564268. The marginal level of significance (p-value) registers a value lower than 0.05, namely 0.0185 suggesting a rejection of the null hypothesis according to which the coefficient is null. Therefore, it can be considered that the

coefficient associated to the COM variable differs significantly from 0 and it has an influence of -1.027 on the dependent variable.

For the coefficient associated to the TRANSP variable, the estimated value is 0.450289, with a standard error of 1.370242 and a t Statistic value of 0.328620. The marginal level of significance (p-value) registers a value higher than 0.05, namely 0.7459 suggesting a confirmation of the null hypothesis, implicit of the fact that the coefficient is null.

For the coefficient associated to the HOT variable, the estimated value is 0.879749, with a standard error of 1.277558 and a t Statistic value of 0.688617. The marginal level of significance (p-value) registers a value higher than 0.05, namely 0.4990 suggesting a confirmation of the null hypothesis, implicit of the fact that the coefficient is null.

For the coefficient associated to the IMOB variable, the estimated value is 1.289356, with a standard error of 0.391242 and a t Statistic value of 3.295548. The marginal level of significance (p-value) registers a value lower than 0.05, namely 0.0036 suggesting a rejection of the null hypothesis according to which the coefficient is null. Therefore, it can be considered that the coefficient associated to the IMOB variable differs significantly from 0 and it has an influence of 1.289 on the dependent variable.

Therefore, as a short conclusion of the estimators' analysis, it can be stated that, from the entire model, only two independent variables have a noticeable influence on the dependent variable. In the presented model, the value of exports of goods and services is influenced only by the number of enterprises active in Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods and in Real estate, renting and business activities.

Also, table no. 1 illustrates the value of the Fisher test. It can be observed that the value of F Statistic is 9.297660, with a marginal level of significance of 0.000205, suggesting a correctly specified model.

A qualitative indicator of the regression model is the determined coefficient (R-squared). A value close to 1, for this coefficient, illustrates the fact that the variable Exporturi variations are mainly explained, in this model, by the variations of the variables COM and IMOB. For this model, the R-squared value is 0.650292 outlining the fact that the model adjusts correctly the data from the panel. Therefore, it can be considered that this model has been correctly specified. Durbin Watson registers a value of 2.004593 (very close to 2) highlighting an uncorrelated model's errors.

Conclusions

Services are one of the most important means of a country development because of their influence in every sector and activity of a country. Exports are not an exception to the mention situation. The model generated using data provided by Eurostat, for 25 EU countries and for 4 services categories, generated in Eviews 4.1, revealed a noticeable influence of the number of enterprises active in Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods and in Real estate, renting and business activities on exports, while the number of enterprises active in Hotels and restaurants and in Transport, storage and communication had no valid p-value in order to be accepted as having an influence on exports. In order to bring more arguments and improve the presented model further data and tests are necessary.

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SOME ASPECTS REGARDING THE PERFORMANCE INDICATORS USED IN THE MANAGEMENT OF A COMPANY

Popa-Lala Ion

West University, Faculty of Economics and Business Administration

Aniș Cecilia – Nicoleta

West University, Faculty of Economics and Business Administration

To assess the economic performance of an enterprise four indicators are commonly used: return on investment, residual income, economic value added and profitability of sales.

The performance analysis is a constituent of any managerial control system. Strategic planning and control decisions require information on how different subunits of the enterprise worked. To be efficient, performance indicators and remuneration have to motivate the managers and the employees from all enterprise levels and to make sustained efforts to implement strategies and to attain business objectives.

Key words: performance, profitability, economic value added, investments

JEL classification: M, M2, M21.

1. Introduction

Although it is a frequently used term, the concept of performance is seldom defined clearly, its meaning being considered as implicitly known .

A definition, translated from English, explains the term "performance" as, among other things, "the proportion/extent to which an investment is profitable²⁹⁶."

Extending this definition, one can consider that firm management is efficient if it is able to generate profits or it is advantageous, useful, noting that profit does not necessarily mean a financial plus, but meaning a gain, a benefit, or the converted form of capital gains, that is to say that it can be of various kinds: financial, social, human, environmental, etc. Therefore, performance can be interpreted as the gained profit, namely the result of the action and performance evaluation as the realized gain assessment.

The information about the performance of an institution is needed in order to assess potential changes of the economic resources which the entity will be able to control in the future, to anticipate the ability to generate cash flows with the present resources, to formulate judgments about how efficiently it can engage and use new resources.

In practice, financial performance information is provided primarily by "the profit and loss account", respectively by the budget execution account, but things are not as simple as to reduce them to the synthetic data in a particular periodic reporting form because it would be a pity to ignore the information in real time the account book provides. Performance is more important than money. Money reflects a possession, performance expresses the ability to capitalize the possession.

2. Performance measurement from financial perspective

Performance measurement is part of any managerial control system. Strategic planning and control decisions require information on how different subunits of the company worked. To be efficient, performance indicators and remunerations should motivate the managers and the

²⁹⁶ Judy Pearsall, *The Concise Oxford Dictionary*, Tenth Edition, Oxford University Press, New York, 1999, p.1060.

employees at all business levels and make a sustained effort to implement the strategies and to achieve the business objectives.

A variety of performance indicators are based on internal financial information. Businesses supplement more and more the internal financial indicators with indicators based on:

- external financial information (eg. the stock);
- internal non-financial information (eg. Product fabrication time, the number of new patents, the rate of flaws);
- external non-financial information (market share, customer satisfaction).

These indicators are often compared to those registered in other subunits of the same companies or other businesses.

In some companies financial and non-financial performance indicators registered by their subunits are presented in a single report called balanced scorecard. In the balanced scorecard²⁹⁷ the enterprises record various elements, but most scorecards include:

- indicators of profitability;
- customer satisfaction indicators,
- internal indicators of efficiency, quality and time;
- innovative indicators.

Some performance indicators, such as the number of patents, have a long-term time horizon. Others, such as efficiency deviations of direct raw material, have a reduced time horizon. In this article we will refer to the most commonly used performance indicators, covering a medium to long-term time horizon They are internal financial indicators based on accounting data of an enterprise.

To assess the economic performances of an enterprise four indicators are commonly used.

Some companies record high levels of the profit made from operating, but the question is whether they are the most advanced.

The main weakness of making comparisons on the sole basis of profits from operating is that this way one ignores the differences between the volumes of investment in each firm. Investments refer to resources or assets deployed to achieve profits. There is no question of how much is the profit made from operating, but how much is the operating profit compared to investments made to obtain it.

Three of approaches regarding performance measurement include also an indicator of investment: return on investment, residual income and economic value added.

The fourth approach, the profitability of sales, does not include an investments measure indicator.

2.1. Return on investment

Return on investment (ROI) is a book value of profit divided by a book value of investments:

Return on investment (ROI) = Profit/ Investments

Return on investment is one of the most common ways to measure performance, and this for two reasons:

- combines all the elements of profitability - revenue, costs and investment - into a single indicator;
- can be compared with the rate of return opportunities from other parts.

ROI is also called accounting rate of return or cumulative accounting rate of return. Managers usually use the term "ROI" when assessing the performance of a subunit and the term "cumulative accounting rate of return" when an ROI indicator is used to evaluate a project.

²⁹⁷ C.T. Horngren, S.M. Datar, G. Foster, *Contabilitatea costurilor, o abordare managerială*, Ediția a 11-a, Ed. Arc, 2006, p.858.

Some companies prefer to use operating profit in the denominator, others prefer to focus only on assets financed by a long-term debt, using total assets minus current liabilities.

Businesses may increase ROI through increasing revenue or through lowering costs, through reducing investments. ROI can clearly define the performance issues when it is determined by its components:

$\text{Profit/investments} = \text{Profit/income} * \text{Income/investments}$

or

$\text{ROI} = \text{Return on investment} \times \text{number of investment rotation}$

This approach is known as DuPont method of profitability analysis. This method identifies the two basic ingredients in making a profit: increasing the proportion of profit from each leu income and mobilizing assets to generate higher revenues. Improvements in a component without changing the other component will generate an increase in ROI.

ROI sets out clearly the benefits the managers can obtain by reducing assets investment or fixed assets investments. Some entrepreneurs are aware of the need to increase revenue or reduce costs, but pay little attention to reduce the investment base. Reduction of the investment base means good credit management, reducing the amount of idle cash, setting appropriate levels for stocks and the mobilization with high attention to the long-term assets.

2.2. Residual income

Residual profit (RP) is an accounting measure of profit minus a value expressed in lei of the required return on investment.

$\text{Residual profit (RP)} = \text{Profit} - (\text{Required rate of investment} \times \text{Investment})$

By multiplying the required rate of return on investment to investment value is obtained imputed cost of investment. The imputed costs are costs identified in certain situations which usually are not reflected in financial accounting systems.

Some companies prefer RP, because managers will focus on maximizing the absolute value, such as RP expressed in RON and not on a percentage, as the ROI. The objective of maximizing the RP means that, while a subunit records a return that exceeds the required rate of return on investment, that subunit activity should be extended.

The objective of maximizing the ROI might determine the very profitable subunit managers to reject the projects which, in company's view as a whole, should be accepted.

Matching goals (ensuring that division managers are working towards achieving company goals) is more easily achieved using PR and not ROI as an indicator of the division manager performance.

2.3. Economic value added

Attaining the major objective of the company, maximizing the overall value can not be achieved, but by creating value within firms. The overall performance is defined according to the company's ability to create value to its holders of interests, eg. shareholders, creditors, employees, suppliers, local community etc. Of course, company shareholders prevail, who are in fact the owners. Managers appointed by these must constantly seek to achieve this objective by permanently creating value.

Performance indicator most commonly used for assessing the growth in value of the enterprise is the economic value added.

Normally, a company should not reinvest the net profit, but if its future investment projects are capable of generating a higher return rate than the rate of fructification of capital market for comparable risk projects.

Otherwise, the net profit should be distributed as dividends to shareholders or redemption of own shares. Investors will be able to capitalize the amounts received at the obtained market return from the financial assets of similar risk.

As the main problem of any performance indicator of a title based on the issuer profit, beyond a possible "creative" handling, is not taking into account the cost of capital used by the firm in the analyzed period, a more accurate measure could - be considered to take account of this element, comparing it with the return obtained.

The concept in this way is called Value Based Management (VBM). Accepting the assumption that business value is directly dependent on the future financial flows generated by the firm, conceptual VBM, becoming in time a real philosophy of doing business, acknowledges that a company generates value in excess in time only if its capital investments will have a higher return than the cost of capital.

VBM is used by many leaders of companies as a way of managing them and through which to generate an additional value for shareholders

VBM appeared initially and experienced a tremendous development in the United States, giving rise to a managerial philosophy which enforces the managers for un the companies so that the shareholder wealth (whose first constituent is the amount of shares) to increase over time. So it is put emphasis on the interests of business owners unlike some earlier approaches, common in many European countries, according to which the interests of employees, customers, suppliers and the public ones were considered at least as important. The harsh reality of capital markets globalization, evidenced by international corporations access to formerly protected markets, the more increasing competition in high technology and resource control, the major acquisitions, takeovers and mergers between leaders of economic sectors have led to rapid spread of this philosophy in Europe too, it being understood, accepted and required in Western Europe economies. Based on this philosophy running a company it have been developed various concepts and methods to allow detection of capital gains made in past times and to provide valid criteria for selecting investment projects for horizontal or vertical development.

The best known alternative concept, based on the central idea that there is no real income if one does not exceed the cost of capital used, is that one launched by U.S. firm Stern Stewart: Economic Value Added, in short EVA.

“EVA” - *Economic Value Added* or economic value added is the most famous and one time, the most publicized performance indicator in the speciality press.

The economic value added has become in the decade 1990 - 2000 a quality standard of company's total, a performance indicator of the management team, a reference in foundation and assessing the efficiency of decisions.

The reasoning underlying this indicator is simple and logical: equity, like borrowed capital, has a specific cost. Unlike the cost of borrowed capital, which appears explicitly in the profit and loss account, the cost of capital, expressed by compensation set to investors, has a different accounting treatment.

To create value, the company must earn enough to cover both the cost of financial debt and the opportunity cost of capital. Also, bear in mind that pay equity must be at attractive rates, in any case higher than that the investor could obtain in case of a risk-free investment. Economic value created by an enterprise during a period should take into account not only the amount recorded in the accounts, but also the opportunity cost of capital.

Cost of capital is a concept useful for management company helping it in the selection of alternative investment projects and allowing the development of strategies to optimize the financial structure of the company, respectively the optimal proportion between the medium and long-term, the capital consisting of preference shares and ordinary share capital formed. Optimization goal is to minimize the cost of capital of the business used on the market and to perceive profitability of the capital providers and company specific risk and, ultimately, the firm's accessibility to different forms of financing. Minimizing the cost of capital used by the firm has a direct impact on maximizing business value through minimizing input regarding the financing operations carried out.

Economic value added is a specific model calculation of residual profits which lately gained considerable importance. Economic value added (EVA) is equal to operating profit after tax minus the weighted average cost(after tax) of capital multiplied by total assets minus current liabilities.

Economic value added = Operating Profit after tax - [weighted average cost of capital x (Total Assets - Current Liabilities)]

Economic value added substitute the following figures in residual income calculations:

- profit is equal to operating profit after tax;
- required rate of return equals the weighted average cost of capital after tax;
- investment equals total assets minus current liabilities.

Total assets less current liabilities may also be calculated as:

Total Assets - Current Liabilities = Fixed assets + Current assets - Current liabilities = Current assets + Working capital

Where:

Working Capital = Current Assets - Current Liabilities

Economic value added, and residual profit, are costs associated with investments in long-term assets and working capital. The value is created only if the operating profit after tax exceeds the cost of capital investments. To improve the EVA, managers should:

- record operating profit after tax higher with the same capital;
- to raise less capital to achieve the same operating profit after tax;
- the capital to be invested in projects with high profitability.

Managers of firms use the estimated impact on EVA to take certain decisions. The division managers consider EVA useful because it allows them to use the cost of capital to take decisions at the division. The comparison between the actual and estimated EVA is useful for performance evaluation and for obtaining feedback on performance managers.

2.4. Return on sales

The relationship between profit and income (or sales), also called return on sales (RS) is a financial indicator of performance. RS is a component of the ROI in DuPont profitability analysis method.

Some companies record high levels of RS, but their performances are considered to be lower than other companies performances using indicators such as return on investment, residual income and economic added value.

3. Conclusions

The role of financial management consists in the task it has to use various instruments which ensure an adequate protection against risks At the same time, financial management aims at maximising the company value, not only with reference to its own capitals, but also to the future investment and projects which the company's equity will be engaged in.

The wealth accumulated by a company at a given moment is only one of the elements that allow for the appreciation of its value. We must also take into account the results expected in the future, as a result of using the accumulated equity.

Consequently, the company value is a value anticipated in that it takes into account the current value, which is correlated with the forecast future revenues obtained from the company's activities. For this reason, the company value cannot be separated from the quality of the projects its equity is engaged in.

Mastering all the means and tools in achieving the major objective of financial management, namely to maximise the company value, based on its performance, emphasises the important role played by financial management at company level.

To assess the overall performance, return on investment indicators, residual income and economic value added are more suitable than the profitability of sales because these take into account both the profits made and the investments.

ROI identifies the investment with the highest profitability. The EVA and RP indicators help solve problems of matching the goals generated by the ROI. Some managers prefer EVA, because it takes into account tax issues, while RP before tax does not include these considerations.

Other managers prefer RP before tax, because it is easier to calculate and because, in most cases, leads to the same conclusions as EVA.

Taking into account the practices of companies, it is noted that companies use multiple financial indicators to evaluate performances.

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A FRAMEWORK FOR THE TREATMENT OF FINANCIAL CONTAGION EFFECTS IN THE CONTEXT OF THE ACTUAL EUROPEAN TURBULENCES

Prelipcean Gabriela²⁹⁸

University “Stefan cel Mare” of Suceava, Romania

Boscoianu Mircea²⁹⁹

University “Stefan cel Mare” of Suceava, Romania

Abstract

There is still a debate regarding a possible restoring of the confidence in European financial markets because there are still underlying problems from the super-sized finance that actually worsened. Anti crisis strategy efficiency and future costs of real reform make analysts more prudent in forecasts. In addition, a possible reduction risk appetite and the loss of confidence will fuel a negative perspective regarding the recovery of emerging economies, extreme fragile to regional or global contagion effects.

In modern financial crises, the events spiral out of control, panic and contagion come very fast. Greek debt crisis is the most serious extreme financial event in the Eurozone, with severe contagion features. An analysis of Eurocontagion effects in the context of Greece crisis by using a dynamic version of the Hawkes jump-diffusion model is suggested.

Keywords: *financial crisis, contagion, Greek debt crisis (GDC), Economic and Monetary Union (EMU), Stability and Growth Pact (SGP)*

JEL Classification: G01, G21, C59

1. Introduction

Despite of the signs of recovery after the global crisis Romanian economy is not capable to sustain the recovery and the public debt and deficit problems raised concerns about the risks of debt sustainability. The actual environment in Europe is characterized by disparities in the process of recovery and countries like Greece, Portugal and Spain could trigger a new debt crisis in the entire Euro zone, with severe contagion features.

The incomplete and questionable database and the lack of transparency could affect negatively the investors, and the possible downgrading of the international rating agencies will raised the prime risk with negative consequences that could not be anticipated.

In modern financial crises, the events spiral out of control and panic comes very fast. Some analysts observed that the development of the problems in some European countries (Greek debt crisis is only one example) could build dangerous spiral of bad events, with a quick contagion on all European financial systems.

An analysis of possible European contagion effects in the context of Greece crisis is very important and very actual.

²⁹⁸ Gabriela PRELIPCEAN, Professor PhD at the Ștefan cel Mare University of Suceava, 13, Universității Street, 720229 Suceava, Romania, Tel: +40 230216147 ext. 302, e-mail: gabrielap@seap.usv.ro.

²⁹⁹ Mircea BOȘCOIANU Professor PhD at the Ștefan cel Mare University of Suceava, 13, Universității Street, 720229 Suceava, Romania, Tel: +40 230216147 ext. 322, e-mail: mircea_boscoianu@yahoo.co.uk.

A dynamic version of the Hawkes jump-diffusion model for the analysis of the contagion effects in Romanian financial markets is proposed. Mutually exciting jump processes added to a continuous Brownian component with possibly stochastic volatility as well as a drift, represents a Hawkes jump-diffusion processes capable to generate observed time-varying correlations and maximal correlations around crisis times, due to the systematic jumps.

It is important to understand that Eurozone countries have to meet and maintain the macro economic convergence criteria (Maastricht): an inflation rate no more than 1.5% higher than the average of the three lowest inflation rates in the previous year; long-term interest rates must not exceed by more than 2% the lowest inflation rates; is required to join the exchange-rate mechanism (ERM II) for two years; a budget deficit not over 3% of GDP; a gross debt to GDP ratio not over 60%. But things that began out of rules could explode.

To understand why the problems is so critical we should mention that in 2001, Greece public debt to GDP was already high (101.5%) and the management to lower it to the 60% limit was questionable. The monetary policy was based on a low level of interest rates, capable to manage the public debt financing under convenient conditions and to encourage the expenditure, capable to fuel an economic growth at an average of 4%. Since the GDP was high, the ratio of public debt regarding to national revenue was acceptable and this prevented the visibility of the structural weakness of the financial equilibrium. In this case is obvious that the existence of strong financial policies for the good functioning is essential and the monitoring based on the Stability and Growth Pact (SGP), a framework with rules for coordinating national financial policies within the EMU, is so critical.

The strategy to prevent excessive budget deficit is based on a preventive (with two policy instruments: early warning and policy advice/ recommendations) and a dissuasive (related to the excessive deficit procedure (EDP) with actions and sanctions) approach.

The EU-IMF negotiations with the Greek government have induced a real yield bubble on Greek debt (in this pyramid of speculation the two-year bonds soared towards 20% at the time of negotiations). The contagion spread out to Portugal where the borrowing costs jumped, to Spain where debt was downgraded, and Italy came worryingly close to a failed debt auction. All European financial markets have slumped and the euro falls to its lowest level in the last four years against the dollar and this trend will continue.

In the aftermath of the EU-IMF Greek aid package, other successive downgrades of Greece, Portugal, and Spain's debt exacerbated the fears of Euro-contagion. Indeed, the analysts and some researchers demonstrate that investors do not believe in the capacity of the country to implement the austerity plan negotiated with the EU and IMF. At the same time, all three major credit rating agencies have downgraded Greece's credit rating, between January and April, 2010.

2. Some critical aspects in the treatment of financial contagion effects

In the modern literature (Calvo, Mendoza, 2000; Chang, Velasco, 2001; Caramazza, 2004; Dornbusch, 2000; Dungey, Gonzalez-Hermosillo, 2005; Dungey, Martin, 2007; Fry, 2009; Rigobon, 2003; Glick, Rose, 1999; Kaminsky, Reinhart, 1998; Kaminsky, Reinhart, 2000; Nikitin, Smith, 2008; Pavlova, Rigobon, 2008; Rijckeghem, Weder, 2001), is demonstrated that the traditional theory of crises (Krugman, 1979; Gerlach, Smets, 1995; Eichengreen, 1996; Obstfeld, 1996), triggered by Brownian statistics is not capable to analyze quantitatively the short time dynamics of multiple markets and the contagion between regions/ segments of markets. There is a lively debate in the literature regarding the meaning to give to the term "financial contagion," whether it should be distinguished from spillovers (Forbes, Rigobon, 2000). In a broad sense, financial contagion is a complex process with both the cross-region transmission of shocks and the increase in the likelihood of successive shocks over time in the affected regions/ markets following an initial shock. While contagion in this definition can take place both during

normal periods as well as during crisis periods, the contagion phenomenon is more prevalent during crisis times.

A first possibility is to study the impact of time varying correlations and jumps on portfolio choice in a framework without mutual excitation (Ang, Bekaert, 2002). In this case it is considered a regime-switching model, with a first regime with low correlations and low volatilities and a second one with higher correlations and volatilities but lower conditional means. In this case, the existence of a higher volatility bear market regime does not nullify the benefits of international diversification, as long as the investor dynamically rebalances the portfolio. Das, Uppal (2004) demonstrate that the loss reduction in diversification due to transmission across markets is not substantial. Ang, Sahalia (2009) derive a closed-form solution to the portfolio choice problem with standard systematic, not mutually exciting, jumps across asset returns.

3. A framework for the analysis of contagion effects by using Merton-Hawkes model

It is possible a simple, but very intuitive treatment of the contagion in crisis periods, by using a dynamic version of the Hawkes jump-diffusion model, equipped with a drift component, a volatility component and mutually exciting jumps. Hawkes processes were originally proposed as mathematical models to represent the transmission of contagious diseases in epidemiology. They have also found applications in neurophysiology and in the modeling of earthquake occurrences (Brillinger, 1988; Ogata, Akaike, 1982). In market microstructure, Bowsher (2007) employs them to jointly model transaction times and price changes at high frequency. Self-exciting models are now also being employed to model joint defaults in portfolios of credit derivatives (Azizpour, Giesecke, 2008). Hawkes processes have also been proposed in the literature on social interactions to model the viral propagation of some phenomena (Crane, Sornette, 2008).

In the literature, mutually exciting processes are special cases of path-dependent point processes (Hawkes, 1971; Hawkes, Oakes, 1974; Oakes, 1975). The intensities of mutually exciting process depend on the paths of the point process and the jump intensities are stochastic processes; the couple jump process-intensity is a Markov process. In the Merton-Hawkes model, the jumps are mutually exciting and this permits a good capture of the contagion phenomenon: a jump raises the likelihood of getting a jump in another place/ segment in the near future.

In crisis periods, intra-day fluctuations are extremely pronounced with an extended range of intraday returns. In this case, from the point of view of the time series, the properties of observed returns should be defined not only by the initial jump, but using the amplification that takes place subsequently and effects on other markets.

A jump in one region/ segment of the market increases the intensity of jumps in the same region (self-excitation) or in other regions/ segments (cross-excitation). Jump processes can be used to analyze the large movements in markets, typical for crisis periods but the interplay between the various jump terms (across markets and over time) is not trivial, and standard specifications are unable to replicate the patterns. Adverse shocks increase the probability of successive adverse shocks in the market and also in other markets.

One of the most important aspects of jumps is related to the fact that they are clustered in time and tend to contaminate (cross-sectional) other regions/ markets. Jump clustering in time is a strong effect in the data.

The actual time series models for financial crises could not generate together the dynamic and the cross-sectional features. The modeling of this propagation of jumps over time and across markets is possible by using a class of Levy jumps, dedicated to driving processes. Levy processes, have independent increments and do not allow for any type of serial dependence, and is necessary a model for asset return dynamics that captures the cross-sectional and serial dependence observed across global markets.

Basically, in a Hawkes process, a jump somewhere raises the probability of future jumps both in the same region and elsewhere. Jumps in asset returns therefore "self-excite" both in space and in

time. In order for the asset returns process to be stationary, we then make the degrees of excitation of the various jumps, or jump intensities, mean revert until the next jump.

The jumps are equipped with a self- and cross-excitation and this introduces a feedback characteristic. The interest is to model the feedback and the amplification process: jumps lead to larger jump intensities, which then produce further jumps; after finishing the excitation, jump intensities revert to the steady state.

In this framework, let m point processes $N_{i,t}, i=1, \dots, m$, and a jump process $N_{i,t}$ for each region.

Hawkes process is defined by its intensity $\lambda_{i,t}$ which describes the F_t – conditional mean jump rate per unit of time:

$$\begin{cases} \mathbb{P}[N_{i,t+\Delta} - N_{i,t} = 0 | Ft] = 1 - \lambda_{i,t}\Delta + o(\Delta) \\ \mathbb{P}[N_{i,t+\Delta} - N_{i,t} = 1 | Ft] = \lambda_{i,t}\Delta + o(\Delta) \\ \mathbb{P}[N_{i,t+\Delta} - N_{i,t} > 1 | Ft] = o(\Delta) \end{cases} \quad (1)$$

with dynamic jump intensities:

$$\lambda_{i,t} = \lambda_{i,\infty} + \sum_{j=1}^m \int_{-\infty}^t g_{i,j}(t-s) dN_{j,s}, \quad i=1, \dots, m. \quad (2)$$

with (N, λ) , a Markov process; the distribution of the jump $N_{j,s}$ is determined by that of the intensities $\lambda_{j,s}$. Equation (2) could be rewritten:

$$\lambda_i = \lambda_{i,\infty} + \sum_{j=1}^m \lambda_j \int_{-\infty}^t g_{i,j}(t-s) ds = \lambda_{i,\infty} + \sum_{j=1}^m \left(\int_0^\infty g_{i,j}(u) du \right) \lambda_j \quad (3)$$

or in vector form: $\Lambda = \Lambda_\infty + \Gamma \cdot \Lambda$; it results $\Lambda = (I - \Gamma)^{-1} \Lambda_\infty$

In the mutually exciting jump process let assume that asset log-returns follow the semimartingale dynamics:

$$dX_{i,t} = \mu_i dt + \sigma_i dW_{i,t} + Z_{i,t} dN_{i,t}, \quad i=1, \dots, m, \quad (4)$$

which consists of a drift term, a volatility term, and mutually exciting jumps.

In an extended model we allow for stochastic volatility:

$$dX_{i,t} = \mu dt + \sqrt{V_{i,t}} dW_{i,t}^x + Z_{i,t} dN_{i,t}, \quad (5)$$

with the instantaneous variance expressed by:

$$dV_{i,t} = k_i (\theta_i - V_{i,t}) dt + \eta_i \sqrt{V_{i,t}} dW_{i,t}^V \quad (6)$$

In this case the model allows for correlations between the individual Brownian motions and is capable to capture the leverage effect, typical in contagion effects analysis.

In the case of an exponential decay:

$$g_{i,j}(t-s) = \beta_{i,j} e^{-\alpha_i(t-s)}, \quad s < t, \quad i, j=1, \dots, m, \quad (7)$$

a jump in asset prices causes the intensities to jump up, and then the intensity decays exponentially back: $\lambda_{i,t}$ jumps by $\beta_{i,j}$ whenever a shock in sector j occurs, and then decays back towards a level

$\lambda_{i,\infty}$ at speed α_i .

In this prescription, the T matrix is given by

$$\Gamma = \begin{pmatrix} \frac{\beta_{11}}{\alpha_1} & \dots & \frac{\beta_{1m}}{\alpha_1} \\ \frac{\beta_{m1}}{\alpha_m} & \dots & \frac{\beta_{mm}}{\alpha_m} \end{pmatrix} \quad (8)$$

and each jump intensity has the following dynamics

$$d\lambda_{i,t} = \alpha_i (\lambda_{i,\infty} - \lambda_{i,t}) dt + \sum_{j=1}^m \beta_{i,j} dN_{j,t}. \quad (9)$$

The setting of this model is based on dedicated specifications that could be proposed and it is possible to obtain the covariance density matrix and spectral density; the intensity may depend not only on the time for reaction but also on the size of past jump events.

4. Conclusions

The Greek debt crisis is a critical event in the entire Euro zone and could spread negative sentiments toward all countries in EMU, but also in the new admitted countries in the EU. In Romania it is a long run public sector debt with high budget deficit. In addition it is an excessive external debt and a massive current account deficit.

The problem of recovery after the global crisis is a difficult task because the severity of these turbulences was extreme and for Romania and other emerging economies it is necessary a different stimulating framework that should taking into account a lot of particularities. The actual crisis was totally different from the previous ones both as trigger mechanisms, but also the impact on institutions and financial intermediaries. The recovery after crisis should be considered from depending on the countries, because EU contains several categories of countries and the mechanisms to support the recovery of economies should be adapted to specific conditions in each European country.

Europe will face a long and difficult period of convalescence. Even in the absence of the speculative attack extension toward the weak elements of Euro zone, Greece, Spain, and Portugal, the future financial arrangement of 750 billions euro, signals, in fact, a long period of austerity on the continent. Convalescence of Europe is likely to initiate a deflationary shock. And European Central Bank will not hesitate to flood money markets with massive amounts of euros, took over from the Federal Reserve the mantra of exceptionally low interest rates for an extended period of time in a time when other central banks are preparing to retire quantitative monetary relaxation stake. In this context, the Euro currency will remain extreme vulnerable in the fight with other major currencies.

A new concept of the way that contagion effects could be analyzed is presented. Indeed, the modern literature demonstrates that the traditional theory of crises it is not capable to analyze quantitatively the short time dynamics of multiple markets and the contagion between regions/ segments of markets. There is a lively debate in the literature regarding the meaning to give to the term "financial contagion," whether it should be distinguished from spillovers.

In a broad sense, financial contagion is a complex process with both the cross-region transmission of shocks and the increase in the likelihood of successive shocks over time in the affected regions/ markets following an initial shock. The contagion phenomenon is more prevalent during crisis times.

A simple, but very intuitive way to analyze the contagion effects in crisis periods was presented. The proposal is linked to a dynamic version of the Hawkes jump-diffusion model, equipped with a drift component, a volatility component and mutually exciting jumps. In the literature, the applications of Hawkes processes have used them as pure point processes and the paths of the variables of interest are piecewise constant. In the applications regarding contagion effects in crisis periods the focus is on the return dynamics.

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THE IMPORTANCE OF TOURISM FOR SUSTAINABLE DEVELOPMENT IN ROMANIA

Săseanu Andreea Simona

*The Bucharest Academy of Economic Studies
Faculty of Commerce*

Drăgușin Mariana

*The Bucharest Academy of Economic Studies
Faculty of Commerce*

Petrescu Raluca Mariana

*The Bucharest Academy of Economic Studies
Faculty of Commerce*

The tourism and travel industry represents, worldwide, the most dynamic sector of activity and, at the same time, the most important job generator, as well as a source of recovering the national economies. Tourism is a complex activity because it generates the circulation of massive sums of money, thus contributing to the development of various economic activities which are favourable to the environment protection and to the globalization process emphasis. Tourism itself cannot be considered as a “positive” or “negative” action, but its very diverse consequences can be evaluated in this manner. In the process of sustainable development of tourism, it is necessary that an increased attention be paid to the quality of the touristic products, which should simultaneously offer “the taste of perfection” and “the perfection of taste”.

Keywords: touristic destination, sustainable development, touristic potential.

JEL Classification: L83, M19, Q01

Introduction

According to the unanimous acceptance, the tourism economic potential is impressive and the benefits which can be generated by a sustainable development cannot miss from any elementary calculation of a marketing planning which can minimize them, considering that tourism, a very strong instrument of development, possesses a natural synergy with the sustainable development concept.

Any research related to the tourism from a certain territory has to take into consideration the phenomenon of the markets' interdependencies. This phenomenon presupposes that no touristic market can be judged independently, without establishing connections with the other markets. The touristic research is under a permanent pressure, on the one hand because of the competition, on the other because of some circumstantial factors, with an economical character, but also extra-economical (inflation phenomena, of economic, political and geostrategic circumstance).

The economical, social, political context from Romania after 1990 has not contributed to the development of the Romanian touristic sector. Moreover, according to the conclusions of the specialists, the effects of the transition to the market economy have determined a decline in tourism, together with other sectors of the economy. Thus, the international tourism demand has registered a decreasing trend because of multiple causes, such as: the low-quality level of the offered touristic services, the lack of diversity in the touristic programs, the reduced possibilities of recreation, etc.

Analysis of the touristic destinations

Presently, the Romanian tourism is in a period of analysis and profound changes, which is motivated by the preoccupation of being competitive on the unique European market.

With the intention of increasing the quality of the tourism activity, the policies as well as the strategic objectives which will be adopted have to aim at the following:

- the continuous achievement of a touristic product of superior quality, which corresponds to the modern tourism objectives;
- the improvement in the activity of the tourism personnel and in the quality of the touristic services;
- the diversification of the leisure offer;
- encouraging the Romanian and foreign investments in the tourism activity;
- elaborating more aggressive marketing policies which would aim at creating a positive image of the country outside the borders of Romania;
- promoting a competitive Romanian tourism, comparative with the countries which have a developed tourism (Spain, France, Switzerland, etc.).

Romania occupied the 76th position out of 124, in the first world classification of tourism and travels, with a mark of 3.91 from a total of 7, between Azerbaijan and El Salvador, according to a classification made by World Economic Forum (published in March 2007), which measures the tourism development potential in various countries.

The touristic potential of Romania is composed of a variety of forms of relief, springs with mineral and thermal water, lakes used for recreation, swimming and sport fishing, a valuable hunting fund amassed in coniferous and broadleaf forests, diverse landscapes from the mountain peaks of over 2000 metres to the plains, to the seaside and the Danube Delta. The grouping of elements with touristic potential, the infrastructure and the development on the Romanian territory is the result of the connections established between man and nature along time, as a consequence of the historic and natural evolution, which has led to the separation of touristic provinces (regions, areas, centres, localities, etc.) each one reflecting a certain degree of complexity, as a touristic potential, infrastructure, as well as a way of performing the tourism activities. Consequently, the contour of touristic axes that go across various provinces, areas, centres, localities and objectives has been produced.

In this sense, there has been an individualization of the following regions: Maramures, Bucovina, Brasov, Banat, Apuseni, Buzău-Vrancea in The Carpathians and Curvature Subcarpathians, Argeş-Prahova, North Oltenia etc. within which there are areas, centres, and secondary touristic axes comprised in a certain touristic system.

Romania possesses a great variety of natural resources which form a large part of the “basic” touristic product. These include the Black Sea beaches, the Danube and the rivers, the Carpathians and other mountain chains and the Danube Delta Biosphere Reservation. There are 16 national parks and 13 natural reservations which cover 7% of the country’s surface. In Romania there is a vast biodiversity with many species of flora and fauna which are unique in Europe. Romania possesses the richest variety of large mammal species in Europe and it is a major passageway for the migration of birds. Their total surface is of 1,652,403 hectares. The tourist attractions can vary from hunting and trekking in the mountains to recreational walks and winter sports.

The Romanian structures of tourism aim at the following:

- seaside tourism;
- the Danube Delta;
- mountain resorts;
- spa resorts;
- the capital and the county capital cities.

The structures of tourism from the seaside benefit from the shortest season, open, in average per year, for less than three months. The touristic season in the Danube Delta also functions for less

than six months a year. As a tourist destination, Romania's strong points aim at the following structures: geography and environment, culture and cultural heritage, infrastructure, transport and communication.

The geography and the environment are the strong points in the natural tourism potential through: the Danube Delta biodiversity (the Biosphere reservation which belongs to the UNESCO world heritage); the diversity of the national parks and of the protected natural areas (7% of the surface of the country) with forests, lakes and unpolluted rivers; the seaside and beaches of the Black Sea; the Carpathian Mountains; the Danube River; a large number of caves; the flora and fauna diversity (large number of unique species or with the highest density in Europe, especially large carnivores); 35% of the mineral water springs in Europe and of mofettes which offer a wide array of spa treatments; temperate-continental climate; good natural conditions for tourism activities (ski, mountain trekking, equitation, cycling, water sports, etc.).

The assets in culture and cultural heritage are represented by: the diversity of the heritage objectives—convents, archaeological sites, fortified constructions, including seven objectives/areas which are included in the UNESCO world heritage; medieval citadels; rural settlements where the traditional lifestyle can be experimented; museums with various themes; impressive artistic programmes—classical as well as modern; a wide variety of festivals, traditions, folklore; legends—Dracula, etc.

From the perspective of the tourism potential in the mountains, the most imposing areas are the following: Bucegi-Postăvaru, Piatra Mare, Parâng, Cindrelul, Șureanu, Retezat – Țarcu –Muntele Mic, Semenic-Aninei, Bihor-Vlădeasa-Muntele Mare, Rodna, etc., the touristic resorts and complexes that offer great possibilities of valorisation for the winter sports, mountain trekking, cave tourism, mountain-climbing, hunting, and sport fishing, spa treatment, religious, cultural tourism, ecotourism, etc.

The spa-tourism potential is famous on the international market because of the natural treatment factors, such as: mineral waters, mud and therapeutic gases, saline bioclimate, ionised-air bioclimate, phytotherapy (herbalism), partially exploited in the national spa resorts (approx. 24) and the regional and local (or localities) spa resorts which are not certificated (approx. 36). In addition to these favouring elements, we mention the professionalism of the medics, as well as the variety of traditional Romanian spa treatments and medicines.

The touristic potential of the Black sea littoral constituted of the famous tourist resorts includes a wide array of elements, such as: the mineral waters from Mangalia, Venus, Neptun, Eforie; the sapropelic mud from Techirghiol and the peat mud from Mangalia; the chlorine-sodium filled water of Techirghiol lake; the marine bioclimate and other natural and cultural-historical tourist attractions, dissipated on approx. 70 kilometres between Capul Midia and Vama Veche.

The Danube Delta tourism potential is represented by its ecologic value, by the landscapes, fauna (ornithological and piscicultural), cruises and expeditions organised in special surroundings with cultural and economical traditions specific to the local Russian, Ukrainian and Romanian communities.

The tourism potential of the Danube River and the adjacent region impresses because of the attraction area preferred for tourism: the Danube gorge and the Iron Gates, Danube's lakes, etc.

Romania's fauna and flora potential, rich in scientifically interesting species, but also for hunting, with ecosystems unique in Europe, represents important premises for the development of the Romanian tourism.

The Romanian tourism industry is distinguishable for its speleological, hiking and climbing potential as well as for the extreme sports possibilities offered mostly by the mountainous area.

The modernization, revival and development of the Romanian tourism are influenced by the climate of Romania which favours tourism during the entire year because of the comforting thermal regime, the snowfall which allows the development of winter sports, the therapeutic value of the bioclimate being a mountain incentive.

Romania's touristic offer and programme are also favoured by the cultural-historical heritage, very representative for our county, because of the multi-millenary history of the Romanian people, crystallized due to the following:

- The existence of more than 680 values of cultural heritage of national interest, such as 197 churches and monastery ensembles, 36 monuments and architecture ensembles. 11 castles, mansions and palaces, 70 urban architectural ensembles (civil buildings), 20 historic centres and archaeological sites, etc. A large part of the historic and art monuments are values of the UNESCO World Cultural Heritage (fortified churches, churches with exterior frescos, Dacian citadels, Sighisoara citadel, etc.).
- The Romanian ethnographic and folkloric treasure of a great originality is represented by the popular architecture, specific to the Romanian villages (from Maramures, Bucovina, Oltenia, Dobrogea, Transilvania, etc.).
- The craft industry, woodwork, the art of decorating, fairs and the traditional cultural-religious manifestations also represent the offer of a touristic product with a decisive role in choosing destinations.

The revival and development directions of tourism aim also at the technical-economical potential of Romania, objectified through engineering works of art, bridges, dams, old stacks, salt mines and mines, old factories and railway station buildings, vineyards and studs, etc.

Its geo-touristic position offers Romania several advantages due to the following:

- the presence of three natural components characteristic for the landscape and the social-economical structure of the country, components of great value and entirely European: the Carpathian Mountains, the Danube River and the Black Sea;
- the touristic transit function, because Romania ensures the connexion between the countries of Central, Nordic and Eastern Europe with the ones from the southern part of the continent and from the Near and Middle East;
- the European roads network with the seven road arteries and European corridors North-South (IX) and East-West (IV), between the railroad route and the Danube River (corridor VII), that establish the connections between the countries of the continent and the Black Sea basin.

In comparison with other tourist destinations, Romania has a weaker performance especially caused by the infrastructure regarding the road transport, but also as a consequence of some precarious aspects concerning the human resources and the public perception about the importance and value of tourism.

In the analysis of the market segments and the visitors' profile it has been found that, presently, there is no data to allow the analysis of the market segmentation concerning the foreign visitors. The only source is represented by a series of ad-hoc studies, as well as the official statistic data related to the nights spent which are included in "statistic data regarding the Romanian tourism", various editions of the National Statistics Institute, only the 2002 and 2008 editions being analyzed. (Table no. 1)

Table no. 1 Tourists arrivals and nights spent by the foreign tourists, according to the location

Location	Tourists arrivals (number of tourists)			Nights spent (number of overnights)		
	2001	2007	% of the total for 2007	2001	2007	% of the total for 2007
Littoral	44469	58191	3.75	373106	346765	9.67
Spa resorts	26383	36252	2.34	149349	157594	4.39
Mountain resorts	87903	118706	7.65	212525	286323	7.98
Danube Delta	5552	20445	1.32	13543	33610	0.94
Bucharest and other	686078	1143916	73.76	1474670	2412456	67.27

county capital cities						
Other localities and tourism itineraries	64124	173447	11.18	167338	349691	9.75
TOTAL	914509	1550957	100	2390531	3586439	100

Source: National Institute of Statistics. *Romania's Tourism*, 2002 and 2008 editions

According to the analysis, a considerable increase in all the locations in the number of tourists arrivals, from 2001 to 2007, has registered; the most spectacular being registered in “Bucharest and other county capital cities”, namely 457838 tourists. In what concerns the number of overnights, it can be observed that, in general, it registered an increase in almost all the analyzed locations, exception to this situation being the littoral location. Here, the number of overnights decreased from 2001 to 2007 by 26341 units. Regarding the other locations, the most spectacular increase of the number of overnights has been registered in “Bucharest and other county capital cities”, namely 937786 units. An interesting variation in the visitation structures of the seaside resorts and of the mountain resorts, with a larger period of the stay registered at the Black Sea than in the mountain resorts, namely, almost 10 nights compared with almost 8 nights, for 2007, which suggests that foreigners who visit the seaside do it as part of their destination, while numerous visits to the mountain resorts belong to the circuit, along with other locations.

The “Bucharest and other county capital cities” and “Other localities and tourism itineraries” categories include not only the business or official visitors, but also the ones who get an accommodation on their way to other destinations and the foreign visitors who make short shopping trips, the ones who participate to events or who visit tourist attractions.

The qualitative research performed on the ANT staff (National Tourism Authority), on the Romanian hotel staff and on the travel organisers indicates the following main market segments for the holidays in Romania:

- *pretentious—elitist*: hunting, holidays with friends on Prahova Valley, Breaza – “Davos of Romania” and the golfing capital; Danube Delta biosphere reservation; wine tasting (Transilvania, Moldova, Crişana, Maramureş);

- *cultural tourism combined with ecotourism—young professionals*: Transilvania; Maramureş; Bucovina; Litoralul Mării Negre; Delta Dunării;

- *middle-class families*: Prahova Valley; Black Sea littoral; visits in the surrounding areas in order to spend time in nature, for example with the occasion of celebrating the 1st of May;

- *visits to see the parents* for Christmas and Easter;

- *the social category called “working class”*: Black Sea littoral; countryside vacation—either at relatives, or in guesthouses; visits in the surrounding areas in order to spend time in nature; visits to see the parents for Christmas and Easter;

- *older couples*: visits to see their children, to the city; social programmes (i.e.: “a week of recovery—a week at the Black Sea littoral”); visiting the monasteries (i.e.: Bucovina monastery); museums, castles;

- *young people—in groups*: the Black Sea littoral, especially Costinesti resort and Vama Veche resort; active tourism in the Carpathian Mountains; Danube Delta; camps (Eforie Nord, Năvodari, Cetăţile din Transilvania, Rânca –în Munţii Parâng, Bucovina).

There are major variations of the types of amusement trips, between rich people and poor people. The spa resorts clients is almost entirely internal, especially elders with low income, who go to these resorts with the help of treatment tickets offered by the social system.

The low-income clients have the tendency not to choose a hotel accommodation, because they cannot afford the costs. They rent apartments, guesthouses or camps.

The collection and arrangement of the data concerning the accommodations and the degree of occupation of the lodging spaces, classified on areas and accommodation type have to be improved. We consider that a new system of data collection regarding the visitors has to be

introduced consequently to Romania's accession into the European Union, considering that the traditional opportunity of counting the visitors at the border is no longer up to date. The optimal methodology to collect these data will be complex and will have to set standards of information in certain functional directions on the entire territory, and, at the same time, supporting the improvement of these systems at the level of areas and localities.

The tourist destinations have to offer a better evaluation of the general economical impact of tourism and to allow the comparison, from the perspective of performance, with other tourist destinations.

Conclusions

Considering that the following decades will bring about significant changes in the world demographic structure (average age, percentage of the ethnic and religious groups), the trends of the international tourism demand of tourism products/ travel arrangements will develop in all the meridians of the world. The population of the world will double in the next 50 years, the life expectancy and, implicitly, the average age of the population will grow, and the seniors (retired) will have more time and resources to travel. Therefore, the tourism products demand will be elastic and the increase in the interest for touristic programs/ holidays with possibilities of knowing the culture and history of the nations of the world will present a greater interest. Even if the interest is in novel experiences, the majority of potential tourists will want to be able to continue the healthy lifestyle when travelling and the quality of the tourism offer will influence the choice of a touristic destination.

Subsequent to this analysis, in the future it is compulsory to aim at achieving a more uniform distribution of the available accommodation capacity, at the level of the country and the regions, with the purpose of ensuring a better tourism activity.

The need of effort-coordination at a regional, as well as national level in order to accomplish grand projects in the domain of the infrastructure, especially of the transport and communication, which has to be correlated with the development process of the territory, which presupposes the coordination of all the projects with the spatial implications and solving the possible conflicts occurred in this context of profound transformations of the society. In this sense, an assessment, classification and identification model of the most appropriate and efficient ways of valuing the tourism heritage has to be established, using for this purpose a multi-criterion analysis of delimitating the touristic regions, together with a crystallization of the priority actions for each particular case. In conjunction with the touristic areas delimitation, the development of the territory and the appropriate policies in tourism, we have to find solutions regarding the protection of the environment from the tourism activities with a direct impact on the environment.

The starting point in establishing the strategy for improving the position of the destination competition is constituted by the determining elements of competition, which are mainly given by the resources (natural, cultural, of capital, of infrastructure, human), by the quality and structure of bidders, by the behaviour conditions of the demand and by the adaptation of the offer. However, all these have to be correlated with the provisions of the Declaration of Rio and with the enactment of Agenda 21, according to which the sustainable development of tourism represents the global strategic option for this century. The management and the sustainable development of tourism are applicable to all the forms of tourism, in any type of destination, including mass tourism, as well as other varied segments of tourism.

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QUALITY OF PUBLIC TRANSPORT SERVICES IN URBAN AREA OF ORADEA

Silaghi Simona
Universitatea din Oradea
Facultatea de Științe Economice

Intensification of public transport in urban areas due to increased mobility at regional and national levels, discrepancies among urban areas with same population and lack of statistical data related to performance and quality of public transport services are the main determinants of this paper. A separation line must be drawn between quality of services and performance indicators of public transport system. Service quality is a multi subjective outcome of an array of intangible variables. Service quality can be approached from four directions: consumer point of view, vehicle performance (including the human operator), specialized company in passenger transport, and the Government (local Councils). Availability, comfort and convenience are the two main indicators that must be evaluated by citizens as being with high grades for a good quality of urban transport services. The instrument used to gather data is the preference survey.

Keywords: service quality, performance indicators, availability, comfort, subjective outcome

L80, P46, R40

Introduction

Due to the intangible characteristics of services, defining service quality becomes an essential issue for some European countries. Quality appears as an abstract dimension, it leads to quality evaluation with specific approaches and instruments. The preference survey and the SERVQUAL method are used to gather data and evaluate quality.

The differences among public transport systems in European cities, evaluated from the point of view of number of vehicle in use and system lengths, are the starting point of this research. We consider three urban areas with approximately same number of citizens: Oradea (232.000, including metropolitan part), Graz (248.000) and Debrecen (246.000).

Oradea has a tram system on five routes; total length 37,14km double way, the mean length of a route being 7,14km. Bus network is made up by 9 routes with a total length of 54,53km. The urban transportation park includes 75 trams and 64 buses.

Grazer Stadwerke Verkehrsbetriebe AG operates 25 routes for buses, with 136 vehicles, 61 trams, and since 2005 the bus network uses bio diesel.

DKV Zrt.(Debrecen Közlekedési Zrt) is the main company responsible for the urban transport and encompasses a network of 1 tram line, 5 lines for cable buses, and 51 regular bus routes. The transportation company, member of an international holding, operates³⁰⁰ 21 trams, 30 cable buses, and 168 buses, on a network of 174,6km.

Data registered by the National Statistic Office of Romania shows worrying facts regarding the number of passenger transported at national and international level, and the preference for different transportation types.

Between January and September 2009 transportation decreased in subway transportation with 13%, a raise of 11,3% electric wire buses sector, decrease of 0,8% trams and 7,4% buses are noticed.

³⁰⁰ * * * Debrecen M. J. Város Önkormányzata, *Decrecen varosi fenttarthato városi közlekedési – fejlesztési terve, Tanulmányterv, p.31-32,*

http://portal.debrecen.hu/upload/File/Egyeb/dmjvKozlekedesfejlesztésiTerve_2.pdf

Between January and September 2009 transportation decreased in subway transportation with 13%, a raise of 11,3% electric wire buses sector, decrease of 0,8% trams and 7,4% buses are noticed.

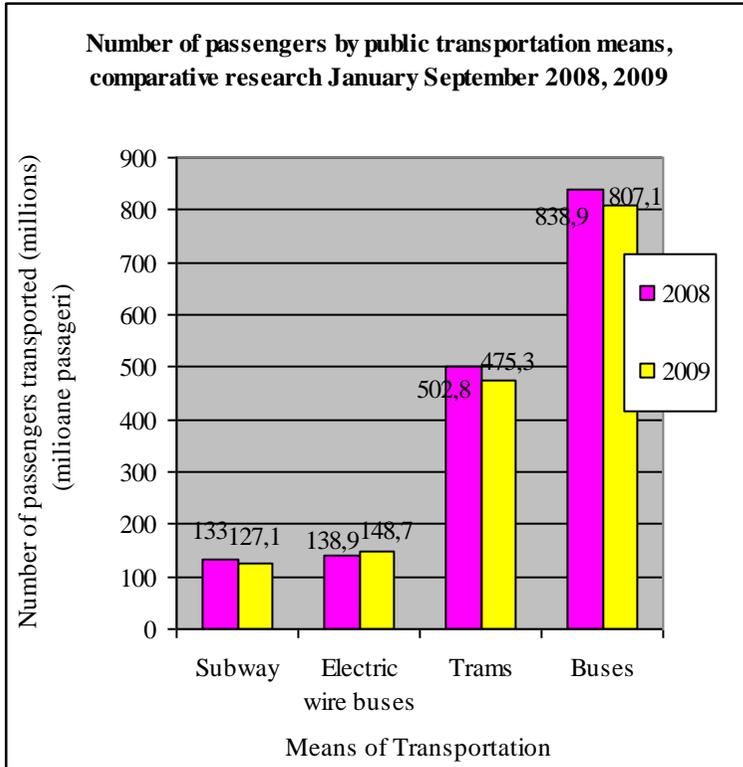


Figure 1 Number of passengers transported in public services, January-September 2008 and comparable with the same period in 2009

Since 1990, the number of passengers- intercity and international transport-decreased from 780666 thousands to 191127 thousands in 2002. 2003 and 2004 are years with stagnation somewhere between 216327 thousands and 216524 thousands passengers transported. 2005 is year of growth, 2006 an year when this number decreases, and goes up again in 2007, 2008 to reach the level of 296953 thousands passengers annually

transported³⁰¹.

Data regarding quality and performance indicators of public transportation services are vaguely determined and practically inexistent.

Theoretic approach, explanation of terms

Among services rendered to population the public transportation services are taking a very important role. The public transportation of passengers is a type of transportation operation which is realized with the help of urban transport vehicles, including subway, within the administrative and geographic area of an urban territory, without crossing its borders. In developed countries this type of transport includes the services realized by school buses.

It is absolutely necessary to correlate expectations of citizens of an urban area with perceptions regarding services. The outcome is necessary to evaluate the quality of service.

Dictionaries define quality as a characteristic, dimension, and the goal of this paper is to find a definition formula for quality of public transport services. Few questions rise: When the public transport services are acceptable qualitatively? When the public transport services determine unhappy citizens? When the public transport has a superior quality?

In the case of services, subjectivity is a variable which could be economically interpreted as utility. Thus an U.S.A. study reveals (75%-80% of respondents) the mean distance that

³⁰¹ * * *, *Romanian Statistical Yearbook*, National Institute of Statistics, Time Series 1990 – 2008, Chapter 17.13, Passenger Transport by Mode of Transport

passengers are willing to walk from the starting point of the journey to the first available public transportation pick up point (400m), corresponding to 5 minutes walking time.

A good is valuable or has utility component in different conditions than has to other people. Utility of a service encompasses abstract factors like: security, tangibles, assurance, empathy, sensibility. On the other hand, quality is the outcome of needs, former experiences, and “world of the mouth”. The two sides necessary for the definition of quality, expectations and perceptions, and the differences between them lead to a satisfied, unsatisfied or unhappy customer.

Assurance of good quality become the output of collaboration between public forces like Local Councils, Ministries, Government, and specialized public transportation companies, when they are invited to implement and improve the image of services rendered to citizens, in an urban area. The public welfare and the maximization of revenues for transport services are put in the balance. It is necessary to underline that a separation line must be drawn between different terms like: quality or service level and the evaluation of performances of a public transport system.

The performance of a public transport system can be measured qualitatively. It also can be measured in absolute values and usually refers to a particular aspect of the transport (cylindrical capacity for vehicles used). The service quality can be approached only from the consumer point of view.

Measuring service is an evaluation from the quantitative point of view of the consumer (effectiveness).

Service levels are evaluated usually with “A” to “F” (quantitative evaluation) for particular passengers’ perceptions. Quality of the public transport services reflects the performance of the same services.

Performance indicators of a public transport system could be: availability, service monitoring, influences on community, travel times, safety and security, construction and maintenance of vehicles, economic impact, transport capacity (number of passengers).

Measuring service quality is a procedure to be considered from the point of view of: public service consumers, the vehicle (and the driver), the private company which administrates public transport services, and the community.

Availability can be measured as spatial availability (for example: network coverage), temporal availability, information availability and capacity availability.

Comfort and convenience are the outcome of conjoint action of variables likes: travel time, hours of service, reliability, waiting time, safety and security, passenger load-available free spaces in the vehicle, vehicle’s cleanliness, the cost of transportation, and number of transits to reach final destination, comparative evaluation among other means of transportation.

An American study reveals (75%-80% of respondents) that the mean distance that passengers of public transportation are willing to walk from the start point of their journey to the first available public transportation picks up point is 400m, corresponding to 5 minutes walking time.

It is appreciated that 1 minute waiting time for public transport services is more important than 1 minute of time in the transportation vehicle³⁰². There are cleanliness standards in San Francisco and New York .Thus inspections are undertaken to observe the accomplishments of standards in the public transportation system. Cleanliness is evaluated on the scale ranging from 1(very clean) to 7(dirty).

Methodology

The proposed instrument to gather data are the preference survey and the method to evaluate quality is SERVQUAL.

³⁰² * * * Transit Cooperative Research Program, sponsored by The Federal Transit Administration, *Transit Capacity and Quality of Service Manual-2nd Edition*, Part 3-Quality of Service, Chapter 3 Quality of Service Factors, p.3-20, <http://onlinepubs.trb.org/onlinepubs/tcrp/tcrp100/part%203.pdf>

Before applying surveys to consumers, a brainstorming session is held to determine the most important dimension for consumers when evaluating public transportation services: availability and tangibility.

The survey consists of nineteen questions which describe the consumer of public transportation services in Oradea. Seven questions give details related to social and economical status of the consumer regarding: age, sex, occupation, studies, status, neighborhood in which lives in, and incomes. There are thirteen questions which are giving details related to: transportation type known by the consumers, the most frequently used transportation type, factors that are determinants of poor satisfaction of consumers (availability and price of tickets, delays, travel time, frequency, network coverage, hours of service, interior aspect cleanliness and odors, general appearance of the interior of the vehicle, maintenance of vehicles and stop points, technical aptitudes for vehicles and stop points, general look and behavior of personnel). Each factor reveals an abstract general quality of the service like availability or tangibility. Information regarding frequency, other means of transportation, scope of transportation, significant delays encountered and means of transportation that generated delays, availability of time schedule (as information availability) and interest for ecological type transportation methods as a sustainability matter are gathered. Respondents are invited to add their suggestions regarding improvement of actual urban transportation network.

Final data shows relations between social and economical status and urban transportation quality abstract dimensions.

The SERVQUAL method comes to complete the survey through evaluating quantitatively abstract dimensions of transport services.

This method uses 22 statements related to the five dimensions³⁰³ of any service: reliability, responsiveness, assurance, empathy, tangibility. Statements are applied to consumers before and after the service. Each statement must be evaluated on a seven point scale from “strongly agree” (grade 7) to “strongly disagree” (grade 1). A score is calculated for each pair of statements. If the score is high it means that service delivers a poor quality component. If score is low or zero, quality of service is not affected.

SERVQUAL is a comprising method which evaluates all gaps in quality of services. It appears as a subjective outcome of service delivered.

Parasuraman, Zeithaml, and Malhotra propose a third century instrument to measure data related to quality of services. Data about the service is gathered on the Internet and the instrument is called E-S-QUAL³⁰⁴.

The present research is evaluating quality of service as a resultant between expected and delivered quality of service, from the consumer point of view.

Findings

The most important component of public transportation services in Oradea appears to be safety and security during travel.

³⁰³ James A. Fitzsimmons, Mona J. Fitzsimmons, *Service Management for Competitive Advantage*, 1994, Mc Graw-Hill, p.183-185 in A.Parasuraman, V.A. Zeithaml, and L.L.Berry, *SERVQUAL: A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality*, Journal of Retailing, vol.64, no.1, spring 1988, p. 12-40

³⁰⁴ Parasuraman, A., Valarie A. Zeithaml, and Arvind Malhotra. 2005. E-S-QUAL a multiple-item scale for assessing electronic service quality. Journal of Service Research 7: 213–233 in Eriksson Lars, Friman Margareta, Norman Ann – Catrin, *Electronic Service Quality: Public Transport Information on the Internet*, <http://www.nctr.usf.edu/jpt/pdf/JPT%2010-3%20Eriksson.pdf>

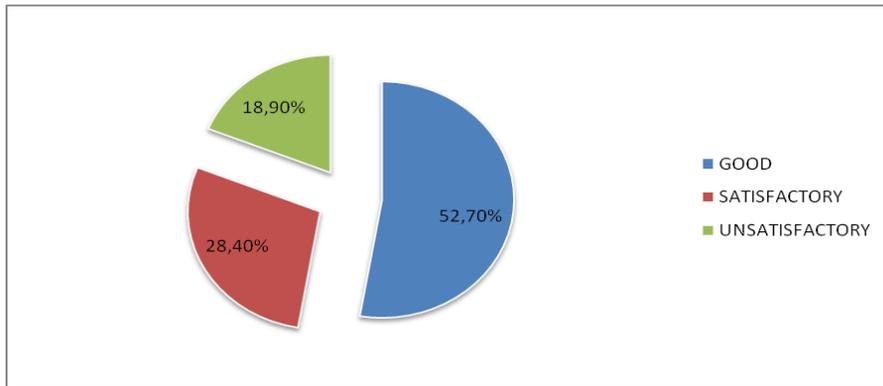


Figure 2 Resident general appreciation of the quality of public transportation in Oradea

Evaluated on a scale ranging from 1 to 5, from not important to major importance, the score of most important characteristic is 4,33. Cleanliness of stop points, convenience of time schedule seems to be equally important for respondents. Equipment and technical support, and appearance and language of employees-tangibles- received a lower score (figure 3).

Figure 3 Most important components of the public transportation service(Mean values are considered for classification)

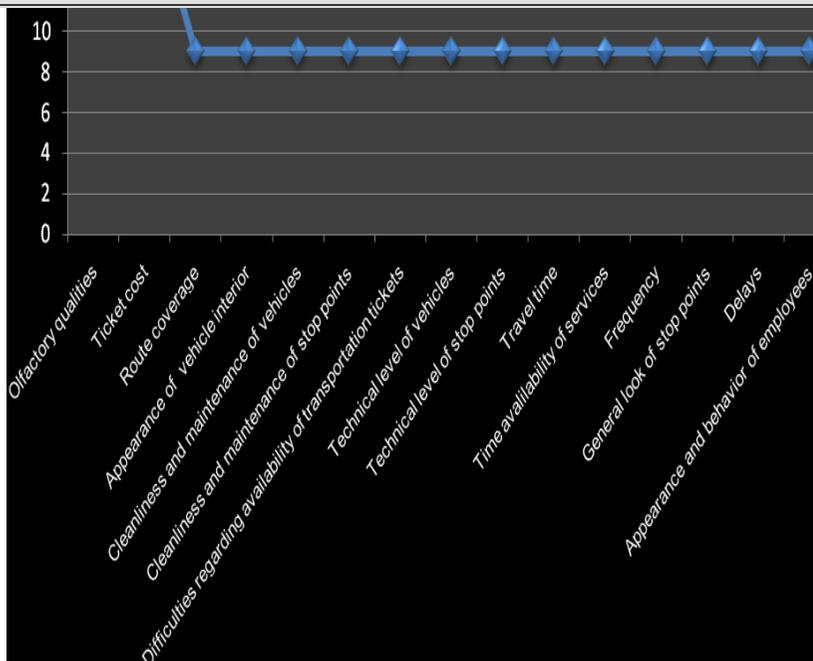
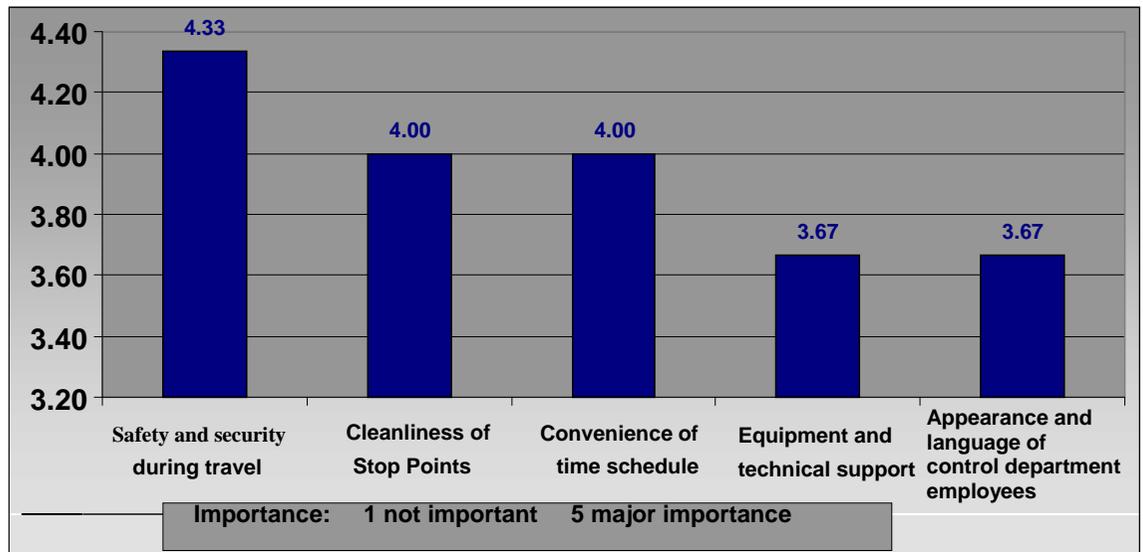


Figure 4 The case of public transportation services: Main reasons for unhappy customers

Respondents (52,7%) appreciate public transportation in Oradea as being with a good quality, 28,40% as being satisfactory and only 18,90% consider that services do not correspond to their expectations.

A major number of people consider olfactory qualities and ticket cost, factors with major importance to qualify public transportation services as being good. It is important to underline that these two factors are among the most important in a fifteen components list (figure 4). SERVQUAL application reveals details about characteristics which do reflect a poor quality of public transportation services. Olfactory qualities and cleanliness of vehicles and stop points received the highest scores. That means that quality is affected negatively because of these characteristics. Transportation companies or local councils should focus their resources to reduce the score for these characteristics. SERVQUAL should be applied again in approximately six months to re-evaluate components of quality of transportation services.

Conclusions

Recommendations regarding improvement of stop points and transportation vehicles would be: more tickets' sale points; equipment and technical base maintenance; cleanliness of vehicles.

SERVQUAL can be used for evaluation and improvement of public services in any sector..

It is recommended to monitor delivered quality of services. It is important that a specialized structure should accomplish these functions. For this purpose, in most cases³⁰⁵ the monitoring unity is the company specialized in public transportation.

Parasuraman, Zeithaml, and Malhotra propose a third century instrument to measure data related to quality of services. Data about the service is gathered on the Internet and the instrument is called E-S-QUAL³⁰⁶.

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³⁰⁵ Gatta Valerio., Marcucci Edoardo, Quality and public service contracts, Working Papers in Economics, Mathematics and Statistics, Università degli Studi di Urbino „Carlo Bo”, Facoltà di Economia, EMS 2007/2008, http://ideas.repec.org/p/urb/wpaper/07_08.html

³⁰⁶ Parasuraman, A., Valerie A. Zeithaml, and Arvind Malhotra. 2005. E-S-QUAL a multiple-item scale for assessing electronic service quality. Journal of Service Research 7: 213–233 in Eriksson Lars, Friman Margareta, Norman Ann – Catrin, *Electronic Service Quality: Public Transport Information on the Internet*, <http://www.nctr.usf.edu/jpt/pdf/JPT%2010-3%20Eriksson.pdf>

L'ANALYSE COMPARATIVE DES FUSIONS-ACQUISITIONS AVEC LES AUTRES FORMES DE CROISSANCE DES ENTREPRISES (II- FUSIONS-ACQUISITIONS VS. ALLIANCES)

Vancea Mariana
University of Oradea
Faculty of Economics

Development through mergers and acquisitions is a company's external growth strategy, as well as business alliances, but these options can not be mistaken, because the characteristics, stakes and risks are fundamentally different nature. In this paper we intent to analyze mergers and acquisitions compared with other ways of the company's external growth, by presenting the main similarities and differences between them.

Keywords: company, external growth, mergers, acquisitions, business alliances

Cod JEL lucrare: L21, L25

1. Introduction

La stratégie de croissance externe se rapporte non seulement aux entreprises cotées qui recherchent la consolidation de leurs activités au niveau mondial mais aussi aux entreprises noncotées qui doivent affronter les problèmes de croissance voire même de survie. Par conséquent, elle constitue un des principaux moyens de développement que les entreprises ont à leur disposition afin d'améliorer leur position stratégique dans leur environnement.

Le principal instrument de réalisation de la croissance externe est représenté par les opérations de fusions-acquisitions des entreprises. Pourtant, il y a aussi des solutions alternatives pour la réalisation de la croissance externe notamment les alliances entre les firmes. La croissance par fusions-acquisitions est proche des autres alternatives de croissance externe, les alliances, mais elle ne peut pas être confondue avec celles-ci car les caractéristiques, les enjeux et les risques associés sont fondamentalement différents. On propose, par la suite une analyse comparative entre la stratégie de croissance par les fusions-acquisitions et la stratégie de croissance par les alliances entre les entreprises.

2. La comparaison entre les fusions-acquisitions et les alliances

Les alliances (quelque soient leurs formes- stratégique ou de marketing) se forment lorsque deux ou plusieurs entreprises décident d'unir leurs forces pour mettre en application un ou plusieurs projets importants (recherche et développement, accès à de nouveaux marchés, le partage des lignes de production, etc.) qu'elles ne pourraient pas assumer toutes seules et elles ont, surtout, un caractère contractuel³⁰⁷.

La croissance par fusions-acquisitions représente un moyen de développement qui permet à l'entreprise de contrôler des actifs déjà productifs sur le marché et détenus au début par d'autres entreprises. La notion d'alliance se rapporte à toutes les formes de combinaisons d'affaires, en dehors des fusions-acquisitions.

Ainsi, à côté des fusions-acquisitions, les affaires peuvent se combiner par joint-ventures, des alliances stratégiques, des investissements minoritaires, des échanges de participations minoritaires, des franchises ou des licences.

La création d'un *joint-venture* implique des relations de coopération dans les affaires entre deux ou plusieurs parties séparées dans le but d'atteindre des objectifs stratégiques communs. Un joint-

³⁰⁷ Gouali, M, (2009), *Fusions-Acquisitions. Les 3 Regles du Succes*, Ed.D'Organisation, Paris, p.79

venture suppose la création d'une entité juridique distincte³⁰⁸ ayant des objectifs nettement déterminés, tandis que chacun des partenaires continue d'exister en tant qu'entité juridique distincte. La création d'un joint-venture implique la mise en commun des compétences technologiques, scientifiques, commerciales ou logistiques dans le but de création de synergies. Un joint-venture fonctionne comme un mécanisme où chacune des pièces est dépendante de la qualité des autres. Cette exigence impose à toutes les parties composantes du partenariat la certitude que les tâches sont bien faites car dans l'ensemble il faut réaliser les objectifs qui sont à la base d'une création de joint-venture. En d'autres termes, la réussite d'un joint-venture est conditionnée par une répartition stricte des tâches entre les différents centres de décision: la définition de la stratégie appartient aux dirigeants des entreprises partenaires mais la gestion opérationnelle revient à l'équipe managériale du joint-venture. De cette façon, elle dispose d'une autonomie de décision complète et assure une continue interaction avec les dirigeants des entreprises partenaires afin que ceux-ci puissent contrôler et ajuster leur stratégie en fonction des résultats obtenus. Si les tâches et les responsabilités au niveau d'un joint-venture sont claires et acceptées par toutes les parties participantes, l'organisation deviendra efficace et s'alignera à la stratégie élaborée. De cette manière, on évite les disfonctionnalités qui interviennent souvent suite à la superposition des périmètres opérationnels des partenaires (y compris les problèmes qui appartiennent à la culture organisationnelle). Dans certains cas, et surtout si un joint-venture s'avère être une réussite, le partenariat s'accroît et évolue fréquemment vers une fusion ou une acquisition³⁰⁹.

Par contre, généralement, les *alliances stratégiques*, ne mènent pas à la création d'une entité juridique distincte. Elles sont des accords entre les entreprises qui désirent la réalisation de certains objectifs communs mais cela dans les circonstances de la préservation de l'autonomie stratégique et de la conservation des intérêts qui lui sont propres³¹⁰. Elles peuvent prendre la forme d'une entente en ce qui concerne la vente des produits de chaque entreprise vers les clients de l'autre entreprise ou du développement en commun d'une technologie, produit ou procès. Les termes d'un tel accord peuvent s'établir légalement ou plutôt, informel.

Les entreprises peuvent opter pour les *investissements minoritaires* dans les petites entreprises ou les start-ups dans le but du développement des produits ou technologies utiles pour les entreprises qui font ces investissements. L'entreprise qui décide d'investir est souvent représentée dans le cadre du Conseil d'Administration de l'entreprise dans laquelle elle a investi. Ces investissements peuvent être opportunistes, les investisseurs passifs arrivant à detenir, à long terme, une position au sein d'une entreprise considérée avoir un potentiel de croissance important³¹¹. Plus encore, le partenariat est plus serré dans le cas d'un autre type d'alliance capitalistique, plus précisément, lorsqu'on réalise un échange de participations minoritaires entre les entreprises, de sorte que, chaque partenaire obtient des participations au capital de l'autre.

Le licencement représente une méthode contractuelle de développement et d'exploitation des droits de propriété intellectuelle par le transfert du droit d'utilisation d'une tierce partie sans toutefois réaliser également le transfert de propriété³¹². Les accords de licence ne nécessitent pas un capital initial et représentent, pour les entreprises, un moyen convenable d'agrandir le brand vers d'autres produits ou marchés par le licencement du nom du brand vers d'autres.

La francise est une forme spéciale de l'accord de licence par laquelle un producteur (franciseur) accorde à un dealer (francisé) le privilège de lui vendre ses produits ou les services dans une

³⁰⁸ Faire la différence par rapport à l'achat en commun d'une société existante, qui devient après l'acquisition la propriété commune des deux partenaires (ce moyen de croissance représente un cas particulier de la croissance externe)

³⁰⁹ Gouali, M., *op.cit.*, p.82

³¹⁰ Ciobanu, I., Ciulu, Ruxandra, (2005), *Strategiile competitive ale firmei*, Ed. Polirom, p.238

³¹¹ DePamphilis, D., (2010), *Mergers, Acquisitions and Other Restructuring Activities*, Ed. Academic Press Advanced Finance Series, Burlington., p.24

³¹² Sherman, A., Hart, M., (2006), *Mergers & Acquisitions from A to Z*, second edition, Ed. Amacom, New York, p.272

certaine zone. Dans le cadre d'un accord de francise, le franciseur peut offrir au francisé une consultation, une assistance promotionnelle, financement ou d'autres bénéfices, en échange d'une partie des revenus du dernier. Les accords de francise représentent un moyen peu coûteux par lequel le franciseur peut s'agrandir, parce que le capital nécessaire est assuré, d'habitude, par le francisé. De cette manière, cette stratégie est adoptée surtout par les entreprises de petites tailles qui ne disposent pas de ressources nécessaires à assurer une croissance interne³¹³.

Selon les remarques ci-dessus, il y a une grande variété d'alternatives stratégiques qui se concentrent sur la construction d'une relation externe dans le but d'atteindre certains objectifs. Les alliances sont souvent utilisées pour atteindre des intérêts économiques communs appartenant à des groupes provenant de pays différents.

La principale différence entre les stratégies présentées au-dessus consiste dans le degré de contrôle des parties. Les fusions-acquisitions supposent le plus haut degré de contrôle tandis que les alliances impliquent un degré plus réduit de contrôle. Ainsi, par opposition à la croissance par fusions-acquisitions, les alliances permettent d'éviter une prise totale de contrôle, en respectant l'autonomie de chaque entité mais toutefois en profitant de la création des synergies³¹⁴. Dans certains cas, ces stratégies sont projetées à long terme, mais dans d'autres cas elles impliquent moins d'engagements ou objectifs communs³¹⁵.

Un autre élément de différenciation des stratégies possibles est représenté par l'exposition au risque. L'opération de fusion-acquisition représente un procès qui comporte un risque. Ainsi, dès la phase préalable de l'acquisition, il est possible que la cible fasse l'objet d'une surenchère et, par conséquent, malgré la signature d'un accord, il arrive qu'elle soit acquise par un concurrent. Ensuite, l'investissement peut s'avérer sans rentabilité, lorsqu'on n'obtient pas les synergies recherchées et donc l'opération ne réussit pas à créer la valeur. Par contre, les partenariats se réalisent beaucoup plus rapidement (il n'est pas nécessaire de parcourir toutes les étapes requises dans une opération de fusion-acquisition), les participants unissent leurs forces sur le fondement de réelles synergies identifiées. Les risques, tout comme les bénéfices d'ailleurs, sont partagés entre tous les partenaires. En fait, en tenant compte des synergies, des coûts d'opportunité, des risques et de la rentabilité, le choix entre les solutions possibles peut se réaliser plus facilement. Ainsi, lorsque le risque peut être assurée, les fusions-acquisitions représentent une option préférable par rapport aux alliances. Par contre, alors qu'il existe l'incertitude en ce qui concerne les risques, les alliances sont préférables. Elles offrent aux entreprises une plus grande flexibilité parce que les engagements peuvent être continués ou suspendus en fonction des résultats obtenus.

Malgré les différences qui les séparent, les fusions-acquisitions ainsi que les alliances, sous leurs différentes formes, ont pour but l'augmentation du nombre des clients et l'obtention des profits supérieurs, ces moyens de croissance ont en commun la combinaison des propres ressources afin d'augmenter et de créer la valeur à un niveau qu'elles n'auraient pas pu atteindre individuellement.

Cette similitude mène à la question logique se rapportant à la pertinence du choix de l'une ou de l'autre de ces options pour assurer la croissance externe. En analysant les facteurs qui déterminent le choix entre ces options, on prend en considération l'hypothèse qu'on va recourir aux fusions-acquisitions dans le cas où les alliances ne répondent pas aux besoins stratégiques de l'entreprise et vice-versa. Pour cela, il faut définir clairement les objectifs recherchés par l'entreprise quand elle se décide d'adopter une stratégie de croissance externe et de comparer l'apport de chaque stratégie. La réalisation de ces comparaisons présente plusieurs bénéfices:

- assure la cohérence entre la solution choisie et l'objectif désiré à être réalisé;
- favorise les chances de réussite de l'opération;

³¹³ DePamphilis, D., *op.cit.*, p.24

³¹⁴ Ceddaha, F. (2007), *Fusions Acquisitions, Évaluation, Négotiation, Ingénierie*, Ed. Economica, Paris., p.277

³¹⁵ Sherman, A., Hart, M., *op.cit.*, pp.254, 256

- envoi un signal au marché pour indiquer le fait que l'initiative prise est pertinente et justifiée. Les premiers deux bénéfices sont intrinsèques à l'entreprise, le dernier se rapporte à l'orientation de la perception du marché en faveur du choix fait³¹⁶.

L'attraction majeure pour ces formes de développement, en comparaison avec les fusions-acquisitions est représentée par l'opportunité du chaque partenaire d'avoir accès aux compétences, aux produits ou aux marchés de l'autre partenaire, à un coût global plus réduit en matière de management, de temps et de financement. Les principaux inconvénients se rapportent au contrôle limité, à la nécessité de la division des profits et à la potentielle perte de quelques secrets commerciaux ou compétences en faveur des concurrents.

En pratique, si l'alliance avec apport de capital représente un succès, il est difficile de maintenir l'indépendance économique des deux entités qui ont mis en commun leurs ressources et leurs compétences, tout cela sous les yeux vigilants des actionnaires des deux entités, qui craignent que les transferts de compétences puissent porter atteinte au patrimoine. Autrement dit, tout se passe comme si les deux entités continueraient à se faire de la concurrence en ce qui concerne les clients, tandis que leurs principales fonctions de production ou de recherche sont communes. Enfin, le maintien des entités autonomes peut empêcher l'obtention d'autres synergies (surtout les synergies commerciales) qu'on pourrait obtenir facilement par une mise en commun de tous les intérêts économiques des entreprises. A cause de cela, une alliance (et surtout celle avec apport de capital) évolue souvent soit vers une approche complète des deux entités, soit vers une interruption rapide à cause du fait qu'on n'avait pas obtenu les synergies recherchées ou la collaboration entre les deux groupes n'a pas marché³¹⁷.

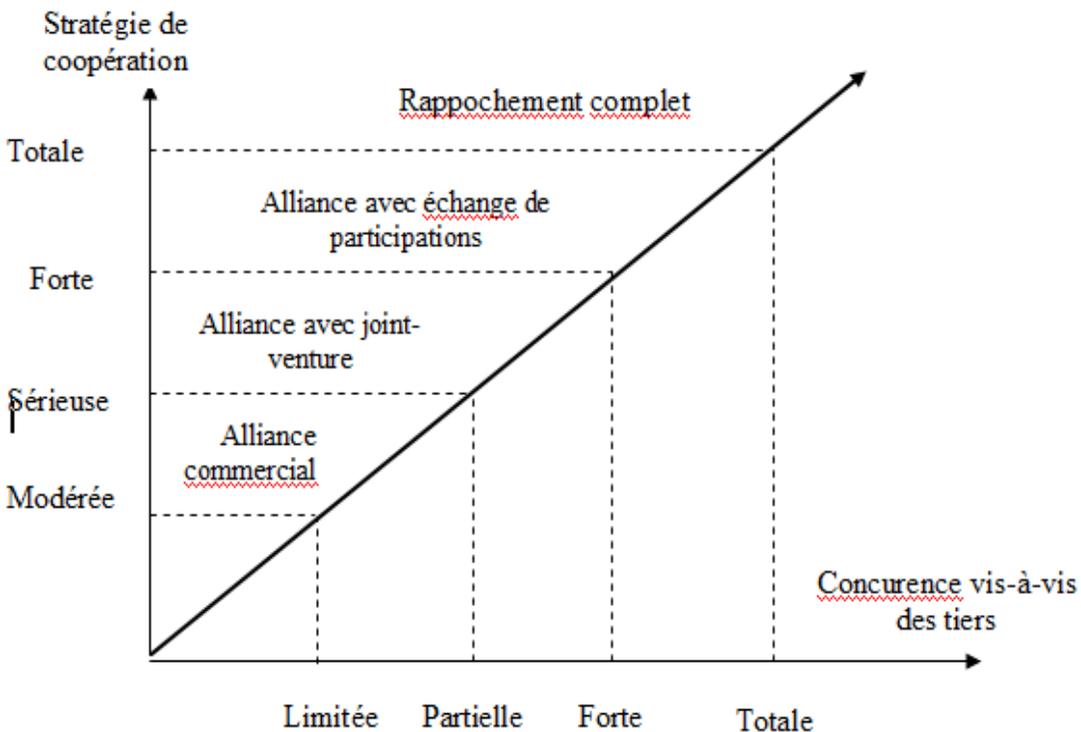


Figure nr.1. Les différents degrés de coopération dans le cadre des alliances

Source: Ceddaha, F., (2007), *Fusions Acquisitions, Évaluation, Négotiation, Ingénierie*, Ed. Economica, Paris, p.279

³¹⁶ Gouali, M., *op.cit.*, p.82

³¹⁷ Ceddaha, F. *op.cit.*, p.277

On peut remarquer que l'alliance n'est pas associée à une catégorie juridique déterminée et on peut, par conséquent le retrouver sous différentes formes, en commençant par la coopération commerciale (accords de licence, franchise, sous-traitance) jusqu'à la création ex nihilo d'une nouvelle structure juridique (filiale commune/joint-venture). Ce dernier représente la forme d'alliance la plus proche des opérations de fusions-acquisitions. Il s'agit d'une alliance avec apport de capital et non pas d'un accord commercial. On peut remarquer que ce moyen de croissance rappelle celui de la croissance par acquisition d'une autre entreprise, inscrivant la relation dans un cadre formel et offrant aux partenaires des avantages liés à la dimension de la nouvelle entité (par exemple réduction des coûts ou économies d'échelle) et à la coordination commune des ressources.

Comme dans le cas des fusions-acquisitions, l'alliance peut même modifier la position des acteurs économiques dans le milieu environnant et par conséquent elle est soumise aux différents mécanismes de contrôle. Enfin, par rapport à la croissance par fusions-acquisitions, ce moyen de croissance constitue une possibilité importante d'adaptation et de transformation des entreprises en fonction de l'évolution des marchés.

En dépit de ces ressemblances, les caractéristiques par lesquelles l'alliance par création d'un joint-venture diffère de l'opération de fusion-acquisition, sont³¹⁸:

- l'alliance par la création d'un joint-venture réside dans la combinaison des moyens, mis à la disposition par les parties participantes, dans le but de développer une nouvelle activité, tandis que les opérations de fusions-acquisitions se caractérisent par la prise de contrôle sur les moyens de production déjà existants en fonction;
- l'alliance par création d'un joint-venture est caractérisée par l'absence d'un système d'autorité unique. Dans une alliance par création d'un joint-venture, les partenaires participent à la direction de la nouvelle entité et contribuent à la prise des décisions par leur droit de vote. L'existence d'un contrôle commun peut créer des problèmes de management lorsqu'il y a de désaccords entre les partenaires. C'est pourquoi, d'habitude, on accorde une attention particulière aux moyens et aux limites d'utilisation des ressources mais aussi aux implications qui découlent d'un renoncement à l'accord.
- dans le cas des alliances par création d'un joint-venture, la maîtrise des conflits d'intérêts devient plus délicate. On peut remarquer que, souvent, les partenaires ne renoncent pas tout à fait aux intentions opportunistes ou concurrentielles. L'alliance peut même, dans certains cas, représenter une forme de compétition déguisée dans le but d'attirer le partenaire dans un piège. Dans le cas d'un conflit stratégique, les parties doivent donc appliquer une procédure de séparation, en permettant la préservation de la valeur créée par l'alliance. Cette situation est moins problématique dans le cas d'une opération de fusion-acquisition quand, lorsque certaines difficultés apparaissent, l'autorité de droit de l'acquéreur s'exerce.
- une autre caractéristique qui distingue l'alliance par création d'un joint-venture d'une opération de fusion-acquisition consiste dans le fait que chaque partenaire garde une certaine indépendance et peut continuer, malgré l'accord, à être en concurrence sur le marché avec les autres acteurs.
- enfin, l'engagement peut se rompre librement par chaque partenaire quand les conflits stratégiques ne peuvent pas être résolus. En effet, malgré les coûts générés par la cessation de l'accord, le degré de liberté laissé aux parties en dehors de l'alliance facilite la sortie des partenaires.

3. Conclusion

³¹⁸ Meier, O., Schier, (2006), *Fusions Acquisitions- Strategie, Finance, Management*, Ed. Dunod, Paris, p.12-13

En conclusion, on peut affirmer le fait que, dans le but de réaliser des opérations de croissance externe, il est nécessaire que les entreprises réalisent une étude comparative entre les différentes possibilités qu'elles possèdent de sorte qu'elles choisissent la plus convenable. Ainsi, on peut éviter de faire de grandes erreurs qui puissent avoir des conséquences négatives sur la création de valeur pour l'entreprise.

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SUB-SECTION: ECONOMIC STATISTICS

ANALYSIS OF CONVERGENCE WITHIN THE EUROPEAN UNION – SIGMA AND BETA CONVERGENCE

Begu Liviu-Stelian

The Academy of Economic Studies

Economic, Cybernetics, Statistics and Informatics Faculty

Teodorescu Irina-Teodora

The Academy of Economic Studies

International Business and Economic Faculty

Dimidov Ioana

The Academy of Economic Studies

International Business and Economic Faculty

Istrate Ioan

The Academy of Economic Studies

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Real convergence study began with the development of neoclassical models of growth and especially with the passage of econometric applications of these models. In this paper we present applications of indicators and patterns of convergence on the example of European Union member countries and some current economic impact assessments on European convergence process. This analysis is based on the estimated σ - and β convergence and on Markov chains. The study deals with the economic convergence of the European countries and especially the convergence of the EU countries, including Romania. In the end of the study presents several economic scenarios for a faster and easier exit from the current crisis in Romania.

Keywords: real convergence, σ -convergence, β -convergence, Markov chains.

JEL Classification: F15, C13, C15

Introduction

The convergence is an essential objective of the integration process of Romania in the European Union, minimizing gaps in the level of development that arise between Romania and the average of European Union.

There are two types of convergences: the Beta (β) and Sigma (σ) Convergence. ‘Sigma’ convergence measures the dispersion of real GDP per capita (in constant prices) between regions or countries based on standard deviation of the cross-section series (Barro 1992). When the standard deviation is falling (rising) over time, the differences of GDP per capita between regions or countries in absolute terms gradually decrease (increase) and convergence (divergence) is approached. If standard deviation does not show any clear tendency but instead, increases or decreases successively, then a mixed process of convergence and divergence is realized. A different way of measuring the ‘sigma’ convergence is to use the coefficient of variation which results by dividing the standard deviation with the mean of the sample. The coefficient of variation is a measure of relative variability and is expressed usually, as percentage and not via the units of data in which is referred. If the coefficient of variation decreases over time we have convergence otherwise we have divergence.

The ‘beta’ convergence of the neo-classical approach is obtained by a regression analysis estimating the growth of GDP per capita over a certain period of time in relation to its initial level. If the regression coefficient ‘beta’ has negative sign indicates that GDP per capita of countries with lower initial GDP per capita grow more rapidly than this of countries with higher

initial GDP per capita. The neo-classical theory presents two types of convergence: unconditional and conditional (Sala-i-Martin 1996). When all regions (or countries) converge to the same terminal point (steady-state point) the convergence is calling unconditional. In such a case, having considered that the economies do not differ significantly in terms of variables like the investment level, coefficient β is estimated without introducing structural variables. On the contrary, when the economies have different structures, it is assumed that they converge to a different steady state point. In this case convergence is calling conditional and both the coefficient β and the structural variables (influencing the level of growth of GDP per capita) are introduced in the model. According to the neo-classical model the query of why poor regions (or countries) grow faster than rich regions (or countries) can be answered by the diminishing returns to capital explanation.

A Markov chain is a multistage experiment consisting of a sequence of trials in which the state, or outcome, of each trial depends on the state of the trial that immediately precedes it. The goal in a typical problem involving Markov chain is to compute the probability that the system will be in a particular state at a specified time.

For a Markov chain with m states, the transition matrix P is the $m \times n$ matrix in which the entry p_{ij} is the probability of going from state i to state j in one step.

Convergence sigma and beta

A commonly used indicator for measuring convergence is the variation coefficient on the level of GDP/capita, denoted by σ . This indicator is used to measure Sigma convergence. It can be used to evaluate the real convergence level by measuring the dispersion of GDP/capita over a one year period, using for this purpose cross series (countries and regions). In this case, the relevance of the convergence indicator appears only when making comparisons.

In our study, we have used this indicator to measure and predict the real convergence level for all EU countries, specifically the group of EU27. Data series refers to the 1998-2007 period. The considered indicator concerning the GDP/capita variation coefficient of the EU countries shows a decrease during the entire period analyzed, from 1.6353 to 1.4835, fact that indicates the tendency of increasing convergence of the economies of the mentioned countries.

Besides Sigma indicator, expressed by the variation coefficient or standard deviation, there were numerous concerns within econometric research, a significant place being occupied by the Beta parameter estimation and interpretation of growth regression equation.

Beta indicator's values are increasing throughout the period 1999-2007, compared to 1998: they range from 1,043 to 1,358. This means that if in 1998 the indicator's GDP / capita would have increased by 1 unit, in 2007 it would have reached values of 1,358 or higher.

From 1998 to 2007, the Gini-Struck coefficient has decreasing values ranging from 0, 3207 to 0, 2909, which reveals that the indicators distribution is a relatively uniform one on all 27 EU countries.

Markov chain

Total crossing matrix between 1998 and 2007 is presented in the following table. We used nine stages for indicator GDP/inhabitants [1100-9900); [9900-18700); [18700-27500); [27500-36300); [36300-45100); [45100-53900); [53900-62700); [62700-71500); [71500-80300). All data are expressed in Euros. Based on this matrix we calculated the matrix of probability.

Probability vector is:

[1100-9900)	[9900-18700)	[18700-27500)	[27500-36300)	[36300-45100)	[45100-53900)	[53900-62700)	[62700-71500)	[71500-80300)
23.42	21.43	36.37	14.15	2.83	1.15	0.47	0.05	0.10

The forecast based on probability vector for the next three years (2008-2010) is as follows:

[1100-9900)	[9900-18700)	[18700-27500)	[27500-36300)	[36300-45100)	[45100-53900)	[53900-62700)	[62700-71500)	[71500-80300)
23.42	21.43	36.37	14.15	2.83	1.15	0.47	0.05	0.10
22.42	19.83	35.83	16.50	3.23	1.24	0.53	0.06	0.21
20.54	16.99	34.71	21.08	4.27	1.36	0.60	0.08	0.37

We can say there are increases the probability for higher stages, for example the last stage [71500-80300) increase from 0.10% in 2008 to 0.37% in 2010 and on the other hand the first stage [1100-9900) decreases from 23.42% in 2008 to 20.54% in 2010.

Conclusion

This paper has reviewed a number of methods and instruments developed for the analysis of economic and/or social inequalities and that can be used for examining disparities among EU27 countries.

One objective of the paper was to produce an update analysis of the convergence process and Markov change among EU countries. Another was to show that instruments vary significantly in terms of their specificities and qualities and that it is therefore important to be aware of their limits when measuring the extent and evolution of countries disparities within the EU. These results also underline that the analysis of convergence is in fact complex.

Finally, even if the analysis of countries disparities is conducted thoroughly, it says little about the effectiveness of EU Cohesion Policy. It is necessary to proceed to further analysis, notably by controlling other variables likely to affect the convergence process, as a proper econometric analysis would do.

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SECTION: FINANCES, BANKING AND ACCOUNTING

SUB-SECTION: FINANCES

FISCAL SETTLEMENTS OF INCOMES OBTAINED FROM ABROAD BY NATURAL PERSONS RESIDENT IN ROMANIA

Antonescu Mihail

“Spiru Haret” University

Faculty of Financial and Accounting Management Craiova

Buziernescu Radu

University of Craiova

Faculty of Economy and Business Administration

The resident natural persons and those who qualify for residency conditions are subject to taxation in Romania for the incomes from any source, both from Romania and from abroad. External fiscal credit can be granted in order to avoid double taxation, so that the person can be entitled to deduct from the tax on income due in Romania the tax of income paid abroad, without exceeding the share of the income tax payable in Romania related to the income from abroad. The procedure of granting external fiscal credit vary depending on different categories of income.

Keywords: resident, external fiscal credit, tax, resident natural persons, foreign states.

JEL codes: F53, H24, K34.

The income obtained from abroad by natural persons resident in Romania are taxed under the national legislation, corroborated with the provisions of conventions for avoidance of double taxation concluded between Romania and other countries. The conventions for avoidance of double taxation determine which state has the right to tax incomes of natural persons, respectively the residence state or income source state.

In order to benefit from the provisions of conventions for avoidance of double taxation the Romanian natural persons will obtain from the Romanian fiscal authority the certificate of fiscal residence (according to OMF no. 1798/1998 for approval of forms regarding the application of conventions for avoidance of double taxation and determining the powers of signing this form) which he will present to the fiscal authorities from the income source country. The certificate of fiscal residence can also be obtained by natural persons who qualify for residency conditions for three consecutive years, starting from the fourth fiscal year.

The tax on incomes obtained from abroad is owed by:

- resident natural Romanian persons that are domiciled in Romania;
- natural persons that fulfill the criteria for residence for 3 years in a row become subject on income tax starting the fourth fiscal year.

Establishment of the residence in Romania for natural persons, according to Romanian legislation

In the Romanian legislation, the notion of resident involves every natural resident person and every Romanian legal person. According to the Fiscal code a resident natural person is “any individual who meets at least one of the following conditions³¹⁹:

- a) the person has his or her domicile in Romania;
- b) the center of vital interests of the person is located in Romania;

³¹⁹ Law no 571/2003 regarding the Fiscal Code, with the changes and ulterior completions, Official Monitor no 927/23.12.2003.

- c) the person is present in Romania for a period or periods that exceed in total 183 days during any period of 12 consecutive months ending in the calendar year in question;
- d) the person is a Romanian citizen who is serving abroad as an official or employee of Romania in a foreign state.

In order to prove that the natural person has its center of vital interests located abroad, it has to present the necessary documents to the tax office to prove that incomes obtained from abroad are higher than incomes obtained from Romania and that the tax authority of the relevant State is exercising its right to consider that person as its resident on globalized income taxation and in this case the person is subject to taxation in Romania only for incomes obtained in Romania

The following persons are exempt:

- a foreign citizen with diplomatic or consular status in Romania;
- a foreign citizen who is an official or employee of an international and intergovernmental organization that is accredited in Romania;
- a foreign citizen who is an official or employee of a foreign state in Romania and members of the family of such foreign citizens.

The concept of resident through The Model Convention OCDE for avoidance of double taxation

According to the Model Convention OCDE the term of “resident of a Contracting Country” represents every person that, in accordance with the country legislation, he is obliged to pay taxes in that Country, for reasons of domicile, residence, management place and any other criteria of similar nature, but excluding the persons that are subject to taxes in that country only for the income obtained from sources in that Country or for the stock situated in that Country.

In the case where the person is resident of both the Contracting Countries, there were set up the following criteria of establishing the residence, applied in the following order:

- 1) the person will be considered a resident of the Country that has a permanent domicile, put on her disposal; if she holds a permanent apartment in both the Countries, she will be considered resident only in the Country where her personal and economical relations are tight (the centre of vital interests). For solving the possible conflicts that might appear between the laws of the two countries, the first criteria which will be taken into consideration is the holding of every form of set up domicile for permanent use of the person concerned, that means that it is not taken into account a domicile that is used occasionally, or for short period. If the person has a permanent domicile in both the Contracting Countries, it is required to analyze the situation in order to decide with which of the two Countries the person concerned has closer personal and economical relationships, that means that they will be taken into account others criteria: family, her social relations, occupations, her political activities, cultural or of any other type, her place of activity, the place where she administers her properties, etc.
- 2) If the Country where the individual has the centre of vital interests can't be determined, or if the person concerned does not hold a permanent domicile put on her disposal in neither of the states, it will be considered that she is a resident of the Country where she has the usual address;
- 3) If the person has the usual address in both Countries or in none of them, it will be considered that she is resident of the country where she has the usual address.
- 4) If the person has the nationality of both Countries or in none of them, the competent authorities of the Contracting Countries will solve this matter amicably.

So, if the first criterion cannot apply for establishing the residence, it is applied the second one, it is repeated this algorithm until the last criterion, respectively the amicable procedure stipulated in Article 25 from the Model Convention.

Tax on incomes obtained from abroad owed in Romania by natural persons

A natural person can be subject to income tax in Romania for both local and abroad incomes if the one of the following conditions is met for three year in a row:

- the center of vital interests of the person is located in Romania;
- the person is present in Romania for a period or periods that exceed in total 183 days during any period of 12 consecutive months ending in the calendar year in question;

Documents required for establishing the center of vital interests are: copies of income declarations from the foreign state, statement concerning the situation of school children, the statement of assets, where appropriate, for members of family and other documents.

In case the incomes from the foreign state are below requirements and therefore tax residence cannot be granted, the Romanian authorities find that conditions are met in order to tax the incomes in Romania and do so, by taxing the globalised income of that natural person. Romanian authorities and authorities from the foreign state will exchange information concerning the case.

Where income from other state are not conducive to the granting of tax residence in this state and Romanian tax authority considers that the conditions for taxation in Romania, the taxpayer will be required in Romania and worldwide revenue by information exchange, Romanian authorities and other State shall inform about this case.

Starting the 4th year of compliance of one of the above conditions, the natural person is to become a fiscal resident and therefore subject to taxation in Romania for all incomes. Tax authority will issue a fiscal residence certificate also in the 4th year.

Taxpayers that live abroad and keep their domicile in Romania are subject to taxation in Romania, according to Romanian legislation, for taxable incomes obtained both in Romania and from abroad. In case they cannot fulfill its obligation they can empower a natural person or designate fiscal representative

In order to tax incomes from abroad the taxation rate (16%) is applied to the basic income determined by specific rules for each category: independent activities, commerce activities, intellectual property rights, the grant of the use of goods, dividends, interests, prizes and gambling, transfer of securities, other investments and sources of incomes from abroad.

Losses from abroad are carried over and compensates incomes of the same category or nature of incomes obtained from abroad, for each foreign country for the next 5 fiscal years.

The taxpayers that obtained incomes from abroad have to fill in form 201 “Special Declaration regarding the incomes earned abroad” and submit it to the tax office by may 15th of the year following the year they obtained the income. The sources of incomes included in form 201 “Special Declaration regarding the incomes earned abroad” are: independent activities, commerce activities, intellectual property rights, the grant of the use of goods, dividends, interests, prizes and gambling, transfer of securities, other investments and sources of incomes from abroad.

The forms regarding the incomes earned abroad have to be submitted for each foreign state and for each source of income by may 15th of the year following the year the income was obtained.

For incomes earned abroad in 2010 the taxpayers have to submit the *tax statements* by may 25th of the year following the year the income was obtained and also they have to determine the tax amount³²⁰.

External fiscal credit

The method used in Romania to avoid double taxation as it is provided by the OECD model of the Convention for avoidance of double taxation, is the credit method, by granting external fiscal

³²⁰ The Emergency Government Ordinance no. 109/07.10.2009, for the amendment and supplementation of Law no. 571/2003 regarding the Fiscal Code, published in the Official Monitor no. 689/13.10.2009.

credit for incomes obtained from abroad, which are subject to taxation in both states. By this method the tax due in the foreign state is to be deducted from the tax paid in the state of residence, under certain conditions

Credit method in terms of the OECD model of the Convention for avoidance of double taxation

The credit method takes into account the so-called legal double taxation, that means the case where the same capital or the same income is taxable in several States. In the conventions for avoidance of double taxation there is a difference between the income tax and the capital tax, there are several ways of eliminating double taxation: exemption method (complete or gradual) and the credit method (full or ordinary). By the ordinary credit method it is given the deduction from the tax owned in the residence state of an amount equal to the tax paid in the source state, but without exceeding the income tax or the capital tax calculated before the deduction is given, which is attributable, depending on the case, to the income or capital which can be taxed in the source state.

Granting the external fiscal credit according to national legislation

Resident natural persons taxpayers, who, for the same income over the same taxable period and are subject to tax income both in Romania and abroad, are entitled to the deduction of income tax due in Romania of the tax paid abroad. The amount deducted from income tax in Romania is called external fiscal credit. Having at the basis the principle of ordinary credit the national legislation provides granting external fiscal credit at the level of the tax paid abroad in association with the income from foreign source, but not exceeding the income tax due in Romania, in association with taxable income from abroad. If the taxpayer in question receives incomes from abroad from several countries, external fiscal credit allowed to be deducted from tax payable in Romania will be calculated according to the above procedure for each country and each kind of income.

The external fiscal credit is granted for the following income categories:

- a) incomes from independent activities;
- b) incomes from wages;
- c) incomes from the grant of the use of goods;
- d) incomes from investments;
- e) incomes from pensions;
- f) incomes from agricultural activities;
- g) incomes from prizes and from gambling;
- h) incomes from transfer of real estates;
- i) incomes from other sources.

Granting the external fiscal credit is made for income types as those mentioned above, only if the tax paid abroad, for the income earned abroad, was actually paid directly by the natural person or his legal representative or by withholding at the source of the payer's income. To benefit from external fiscal credit, the tax paid abroad must be proved by a document in proof, issued by:

- tax authority of the foreign state in question;
- employer, in the case of income from wages;
- other income payer, for other income categories.

At the end of the tax year concerned, the taxpayer attaches to the tax declaration the documents in proof regarding the income and the tax paid, issued by the tax authorities in the country where the income was obtained, employer or other payer, documents used to calculate the fiscal credit.

The exchange in lei of the income obtained abroad and the associated tax expressed in foreign currency units proper to the State in question, are made at the annual average rate of exchange on the currency market, reported by the National Bank of Romania, from the year the income was

earned. If the currency of that country is not listed on the National Bank, the amounts will be transformed in the following way:

- a) from the currency of the source state in an international currency such as dollars or euros, using the exchange rate from the source country;
- b) from the international currency into lei, using the average annual exchange rate of this one, expressed by the National Bank of Romania, from the year the income in question was earned.

Granting external fiscal credit for incomes from independent activities, incomes from the grant of the use of goods and incomes from agricultural activities

Natural persons that have obtained incomes from abroad and paid tax on income in that foreign state are entitled to deduct from the tax on income due in Romania the tax on income paid abroad for each source of income. The tax paid abroad which is deducted from the tax on income owed in Romania is limited at that share of the tax owed in Romania

For the incomes which have been considered abroad as obtained from the entire world, the external fiscal credit for each of these incomes is limited to the tax on income computed by applying the taxation average quote from abroad to each source of income obtained abroad but not exceeding the taxation quote provided by national legislation related to the relevant income.

The taxation average quote is computed as follows:

tax paid abroad

Taxation average quote = -----

global income obtained from abroad

The global income obtained from abroad represents all the categories of incomes which, by law of the relevant State, shall be globalized abroad.

For the incomes obtained abroad not globalized in view of their taxation, the external fiscal credit is limited to the tax on income from abroad but not exceeding the tax on income due for a similar income in Romania.

In order to grant the deduction, the amount of the external fiscal credit is compared to the tax paid abroad, taking into account the smaller amount:

- if the amount of the external fiscal credit is greater than the tax paid abroad, the amount of this tax will be recognized as being deductible
- if the amount of the external fiscal credit is less than the tax paid abroad, the amount recognized as being deductible and representing the external fiscal credit will be computed according as above.

The external fiscal is computed by the fiscal body distinctly for each source of incomes. If the incomes from abroad of the taxpayer in question are obtained from several countries, the external fiscal credit allowed to be deducted from the tax due in Romania is to be computed according to the above procedure for each source of income and each country.

Starting 2010 calculation of the external fiscal credit according to the same rules.

Granting external fiscal credit for income from investments, incomes from pension, incomes from prizes and gambling, and incomes from transfer of real estates.

External fiscal credit for these categories of income is granted comparing the foreign tax rate paid abroad to that prescribed by internal legislation for each similar income in Romania, as following:

- a) if the foreign tax rate from abroad is higher than that provided in the internal legislation for a similar income, external fiscal credit is limited to income calculated tax by applying the rate provided in the national legislation;
- b) if the tax rate from abroad is lower than tax rate for a similar income in Romania, the external fiscal credit is calculated at the level of tax paid abroad, and the annual tax remaining to be paid in Romania is calculated as the difference between tax income (which will be calculated by

applying the tax rate prescribed by national legislation) and tax income paid abroad for income earned abroad.

Granting external fiscal credit for income from wages

Even though the national legislation states that in Romania will be taxed the income obtained from employment performed abroad and paid for it by the Romanian employer, they are taxed in Romania, however, for this category of income there was no proceeding for granting the foreign tax credit, the legislature stating only that income from wages which are not taxable in Romania, are not related to the foreign tax credit.

Legislation regarding this category of income has been improved, so that starting with income earned in 2010 the following legal provisions will be taken into consideration:

„If the same income from wages is taxable both in Romania and abroad, the foreign state having the right to tax under the Convention for the avoidance of double taxation concluded by Romania with that state for income earned during the period in which Romania has not the right to tax, the competent fiscal authority will reimburse the tax withheld by the Romanian employer, at the request of Romanian resident”³²¹. It can be inferred from these provisions that the reimbursement of tax held in Romania is conditioned by the existence of a convention for avoidance of double taxation between Romania and the State in which the natural person worked.

Analyzing the conventions for avoidance of the double taxation concluded by Romania with various states, it results that income from employment activities performed in another state, which are paid by a Romanian employer and are not borne by a permanent head office that this one has in the foreign State, are taxable in the foreign State only if the natural person receiving the income is present in the foreign State for a period or periods exceeding on the whole 183 days in any 12 month period starting or ending in the calendar year in question.

Therefore, for tax refund in Romania it is taken into consideration only the situation when between Romania and the State where the person has developed his activity there is a convention for avoidance of the double taxation.

Conclusions

For taxation of income from abroad, it will first be determined whether the beneficiary of income is Romanian resident, according to the criteria for residence under national legislation, in conjunction with the provisions of conventions for avoidance of double taxation. After declaring this income, their taxation will be achieved, taking into consideration the granting of the foreign tax credit, taking into account the nature of income earned abroad and presenting the documents in proof on payment of the tax abroad. In Romania, avoidance of double taxation on income earned abroad by Romanian natural persons is done by ordinary credit method, method which is provided for both the conventions for avoidance of double taxation and in national tax legislation.

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³²¹ Pt. 209 from G.D. no. 44/2004 for the approval of the Methodological Norms for applying Law No. 571/2003 regarding the Fiscal Code put into application of art.91 from Law no. 571/2003 regarding the Fiscal Code

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VAT TAXATION OF INTRA-COMMUNITY SUPPLIES AND ACQUISITIONS OF SERVICES

Antonescu Mihail

“Spiru Haret” University

Faculty of Financial and Accounting Management Craiova

Antonescu Ligia

University of Craiova

Faculty of Economy and Business Administration

As of January 1st, 2010, as a result of the transposition in the national legislation of the Council Directive 2008/8/CE of 12.02.2008 for the amendment of the Directive 2006/112/CE regarding the place of the supply of services, new notions of tax law have arisen, namely intra-community acquisitions of services and intra-community supply of services. The transposition in the national legislation³²² of the new CE directives in the field of the VAT aims not only at the way the place of the supply of services is determined, but also at the changes regarding the person subject to taxation, tax registration, declarative obligations, etc.

Keywords: supply of services, acquisition of services, registration for VAT purposes, intra-community services, recapitulative statement.

JEL codes: H25, K34.

The place of the intra-community supply of services

One of the conditions required by law for the operations within the value added tax to be taxable in Romania is that *the place of supply of services should be deemed as being in Romania.*

As a general rule, the place of the supply of services towards a taxable person acting as such is the place where the person receiving the services has established the registered office for his/her business. If the services are supplied to a fixed headquarters of the taxable person, located in a place other than the one where the person has the headquarters of his/her business, the place for the supply of services is the place of that fixed headquarter of the person receiving the services.

In the case of the fixed headquarters wherefrom the services come, in order to qualify as fixed headquarters of a taxable person, the degree of permanence and its structure with respect to the technical and human resources must be sufficient to provide taxable services on a regular basis. In the case of the fixed headquarter receiving the services, in order for it to be qualified as a fixed headquarter of a taxable person, it must meet the same conditions.

A taxable person having the headquarters of his/her business outside Romania, *but settled in Romania* by fixed office/office, the place for the service supply will be deemed the place where the beneficiary has established his/her business headquarters, or , as the case may be, a fixed headquarters situated in another state, if the beneficiary can submit enough proofs to the service provider that these services have been provided to the headquarters of his/her business, or to a fixed headquarters established in another state, and not to the fixed office/offices in Romania;

A taxable person having the headquarters of his/her business in Romania, *but has established fixed office/offices outside Romania*, it shall be deemed that the place for the supply of services is the fixed headquarters whereto the services are provided, if the beneficiary can present enough evidence to the provider in order to prove that these services have not been provided to the headquarters of his/her business in Romania, but to the fixed office/office outside Romania.

³²² Emergency Government Ordinance no. 109/07.10.2009, for the amendment and supplementation of Law no. 571/2003 regarding the Fiscal Code, published in the Official Gazette no. 689/13.10.2009.

In case of the services provided by a taxable person not settled in Romania to a taxable person having his/her registered office in Romania, it shall be deemed that the place of the supply is not in Romania, if the beneficiary can prove that the service is provided to a fixed office located outside Romania.

The services for which the general rule for the establishment of the supply is applied, which are supplied by the providers settled in Romania to beneficiaries who are taxable persons settled on the territory of the Community, are called *intra-community service providers*.

The services received by a taxable person settled in Romania from a provider, a taxable person settled in the community but not in Romania, are called *intra-community acquisitions of services*.

The general rule for the establishment of the place of supply is not applied for the following services:

- the services carried out with respect to the real assets, including the services provided by real estate agents and experts, of accommodation in the hotel sector or in sectors with similar function, as well as holiday camps or camping places, for the granting of user's right of real estate, for services of preparation and coordination of the construction works, as well as services provided by architects and companies supplying construction site supervision;
- services of passenger transport;
- services regarding cultural, artistic, sports, scientific, educational, entertainment or similar activities, such as fares and exhibitions, including the services provided by the organisers of these activities;
- restaurant and catering services, except for those actually provided onboard ships, aircrafts or trains during a part of a passenger transport operation carried out within the Community;
- short-term leasing services of a means of transport.

A taxable person also carrying out activities or operations that are not considered taxable according to the legal provisions is considered a taxable person for all the services received.

Moreover, a non-taxable legal person registered only for VAT purposes or registered for VAT purposes for intra-community acquisitions of goods or services, is considered to be a taxable person for all the services received.

The person bound to pay the value added tax is the taxable person providing services, except for the cases where the beneficiary is bound to pay the tax.

The tax is owed by any taxable person, including by the non-taxable legal person registered for VAT purposes, which is a beneficiary of the taxable services purchased within the community.

The tax is owed including if the beneficiary, taxable person settled in Romania, has not honoured his/her obligation or being registered for VAT purposes.

The registration of the taxable persons for VAT purposes

The taxable person having the headquarters of his/her business outside Romania, but settled in Romania by a fixed office, is bound to request the registration for VAT purposes in Romania, as follows:

- before the reception of the services, if he/she is going to receive, for the fixed office in Romania, services provided by a taxable person settled in another Member State (*intra-community acquisition of services*), the latter being bound to pay a tax in Romania;
- before the supply of the services, if he/she is going to provide the services from the fixed office in Romania for a beneficiary taxable person settled in another Member State (*intra-community supply of services*), bound to pay the tax in the other Member State;

The taxable person having the headquarters of his/her business outside Romania and settled in Romania by several fixed offices without legal personality will be identified by a single registration code for tax purposes. To this end, the taxable person will appoint one of the fixed offices on the Romanian territory that would submit the tax deduction and be liable for all the VAT obligations of all the fixed offices settled in Romania.

The taxable person having the headquarters of his/her business in Romania, not registered and not having the obligation of registration for VAT purposes and not already registered for intra-community acquisitions of goods or for intra-community acquisitions of services, is bound to be registered for VAT purposes if he/she provided services with the place in another Member State (*intra-community supply of services*), before the supply of the service.

The taxable person having the headquarters of his/her business settled in Romania, not registered or having the obligation of being normally registered for VAT purposes, not already registered for intra-community acquisitions of goods or for intra-community supply of services, is bound to be registered for VAT purposes if receiving services with the place in Romania (*intra-community acquisition of services*), before the reception of those services, because this person is bound to pay the tax in Romania.

The registration will be deemed valid as of the registration application.

The persons registered according to the above cannot communicate this code for the deliveries of goods or supply of services carried out to other people, as it is communicated to other people only for intra-community supply of services and for intra-community acquisitions of services.

The public institutions that are normally registered for VAT purposes, for their entire activity or only for part of the structure, will not apply for the registration for VAT purposes for intra-community acquisitions of services or for intra-community supply of services. They will communicate the normal registration code for VAT purposes, whether the acquisitions are meant to be used for the activity carried out in the capacity of public authority, for which the public institution does not have the capacity of taxable person, or for activities for which the public institution has the capacity of taxable person.

Any public institution not normally registered for VAT purposes, but which has been given a registration code for VAT purposes for intra-community acquisitions and supply of services will be deemed a taxable person only with respect to the establishment of the place for the service supply.

The fiscal period and the declarative obligations

The taxable persons using the calendar trimester as fiscal period are not bound to use the month as fiscal period if they carry out intra-community acquisitions of services.

The persons normally registered for VAT purposes must submit to the authorised fiscal agencies, for each fiscal period, a tax deduction, until the 25th, inclusive of the next month of the one in which that fiscal period ends.

The operations regarding the intra-community supply and acquisitions of services are distinctly emphasized in the tax deduction, the intra-community acquisitions of services being emphasized both as deductible tax and as collected tax.

The taxable persons who are not registered and who need not be normally registered for VAT purposes, whether or not they are registered for intra-community acquisitions of goods and services, as well as the non-taxable legal person registered for VAT purposes for intra-community acquisitions of goods or for services, which are the beneficiaries of the services having the place of supply in Romania and which are supplied by taxable persons without residence on the territory of Romania, but settled within the Community, submit the special tax deduction for intra-community acquisitions of services until the 25th of the next month after the one in which the exigibility of the operations arises.

Any taxable person normally registered for VAT purposes or only for intra-community acquisitions of goods or for services must draw up and submit with the authorised fiscal agencies, until the 15th, inclusively, of the next month of a calendar month, a recapitulative statement which should mention:

- the supply of services carried out to the benefit of taxable persons not settled in Romania, but settled in the Community, others than those exempt of VAT in the Member State where they are

taxable, for which the tax exigibility has arisen in that calendar month;

-acquisitions of services carried by taxable persons in Romania who have the obligation of paying the tax, for whom the tax exigibility arose in that month, from taxable persons not settled in Romania, but settled in the Community.

In the case of the supply of services carried out to the benefit of taxable persons not settled in Romania, but settled in the Community, the provider will report in the recapitulative statement only the services that do not get tax exemption in the Member State where they are taxable. To this end, the operation will be deemed tax-exempt in the Member State where it is taxable if that operation were tax exempt in Romania. If in Romania the tax exemption is not applicable, the provider is exonerated of the obligation of declaring that service in the recapitulative statement if he/she receives an official confirmation from the fiscal authority of the Member State where the operation is taxable, wherefrom it should result that in that Member State a tax exemption is applied.

The beneficiaries of the taxable persons in Romania have the obligation of declaring in the recapitulative statement the intra-community acquisitions of services, provided by the taxable persons not settled in Romania, but settled in the Community, when they have the obligation of paying the tax for those services, respectively when no tax exemption is applied for that service.

Conclusions

The new regulations of the Fiscal Code and the methodological rules issued for its application, especially those regarding the intra-community services have imposed the issue of new orders from the President of the National Agency of Fiscal Administration that would harmonize their contents with the new regulations. We hope that all these changes, along with the change of the declaration periods, especially the monthly submission of the recapitulative statement will contribute to the increase of the efficiency in the administration of the value added tax and, implicitly, to the increase in the fiscal output of this tax.

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IMPROVEMENT OF THE FISCAL CLAIMS MANAGEMENT SYSTEM

Bene Gheorghe-Florin

West University of Timisoara

Faculty of Economics and Business Administration

Herbei Marius

West University of Timisoara

Faculty of Economics and Business Administration

Deliman Eugen

West University of Timisoara

Faculty of Economics and Business Administration

The conduct of the fiscal administration regarding the simplification and modernization of the systems of statements and payment of tax obligations is a necessary task to improve the relationship between the fiscal administration and the taxpayers, and also to induce efficiency regarding the management of fiscal duties in a single system. Regrouping the collecting of taxes under a single administration by taking over the functions of the social security administration has been the cornerstone of establishing a simplified tax administration. Improving the methods of compulsory enforcement of tax claims, the implementation of the management by objectives and the improvement of performance indicators of the fiscal administration activity, are considered to be the commitment of the fiscal body regarding the process of improving the collection of public financial resources.

Keywords: management of statements, budgetary arrears, efficient collection, fiscal indiscipline, performance indexes

JEL code: G, H21, H30

1. Introduction

The decision of the fiscal administration concerns the specialization of the management of large taxpayers, because a careful analysis of the contribution of budgetary resources at the level of the general consolidated budget for 2004 indicates a contribution of 44.4% of large taxpayers to the total revenue collection, with a personnel structure of only 187 posts. Moreover, administering large taxpayers involves more complex issues than for most taxpayers. This is the reason for which the administration of the largest contributors was entrusted to a specialized structure.

At the level of the territorial fiscal bodies began, together with the establishment of the National Agency for Fiscal Administration (NAFA), a necessary process of management improvement, by the progressive development of a method of management by objectives, thus adopting the modern management that exists in most developed countries.

The development of this management model required the implementation, since the year NAFA was set up, of a system of **performance indicators**, of a set of 12 indicators covering the major fields of the activity of the fiscal administration, among which:

- The degree of voluntary compliance of taxpayers to declare budgetary obligations.
- The degree of voluntary compliance of taxpayers to pay the budgetary obligations.
- The share of the amounts collected in full and on time, in the total amount expected as declared.
- The share of notifications received from taxpayers, who responded within less than 20 days.
- The share of solutions for admittance or dissolving in the total of solutions given by the review bodies responsible for settling solutions of appeals.
- The share of appeals resolved in the favor of NAFA, by the courts.

- The share of appeals filed by taxpayers in the total of foreclosures issued and the documents prepared for the fiscal inspection.
- The level of arrears collection in the case of large taxpayers.
- The percentage of budget revenues collected by the procedure of compulsory enforcement.
- The average annual number of documents of control signed by an inspector.
- The additional amounts incurred to the general consolidated budget.
- The additional amounts incurred as a result of tax audit reports, which correspond to an inspector.

NAFA and each of its component structures at central and territorial level must then engage in a performance plan to achieve goals regarding the development of such indicators considered a priority and determinants in assessing the degree of achievement of the annual targets of the fiscal management distributed to each of the territorial fiscal unit.

Considering the NAFA objectives as reference, which set the targets to be achieved by the national fiscal administration, each territorial structure (district, sector) is building its own performance plan. This way, the targets in the plan direct the activity of the staff in the territorial fiscal unit, leading towards focusing on what needs to be made to fit the broad lines of development and modernization of the fiscal administration. This approach involves a broad participation and raises responsibility among employees at all levels, a collective effort to increase the performance of the entire activity of the fiscal administration.

NAFA's mission is to ensure the means necessary to finance the operation of the state, the basic duty of the fiscal administration in a broad sense that subscribes to achieving the budget revenue by applying two principles:

- First, equal treatment of taxpayers regarding taxes is fundamental and should guide the entire activity of the fiscal administration, so that every taxpayer is sure of being charged a fair contribution and will accept the very principle of the tax.
- The second is that of efficiency: that, as any administrative action in a modern country, the administration of taxes and social contributions should be made at the lowest cost. It's not just about performing a cheaper service, but also at higher standards, the taxpayers being entitled to benefit from a public service of quality.

2. Conclusions

The rate-setting of activities and of the work of the fiscal administration on specific types of activities and on each person separately, aiming at increasing productivity in all the activities of the administration, required to define the three priority guidelines of the National Agency for Fiscal Administration:

- To encourage voluntary compliance, by providing a better administration of taxes and social contributions.
- To promote a quality fiscal control, more oriented towards risk sectors.
- To increase the efficiency of collecting the taxes and social contributions in order to guarantee the necessary budgetary revenue.

The encouraging of voluntary compliance, by providing a better administration of taxes and social contributions, was made based on the feature of the tax system in Romania, which is a declarative one, and relies on the statements made by each taxpayer. This way, the efforts of the administration have set the frames to establish a system of statement for budgetary obligations, so that a maximum number of taxpayers should pay the amounts due to legal term.

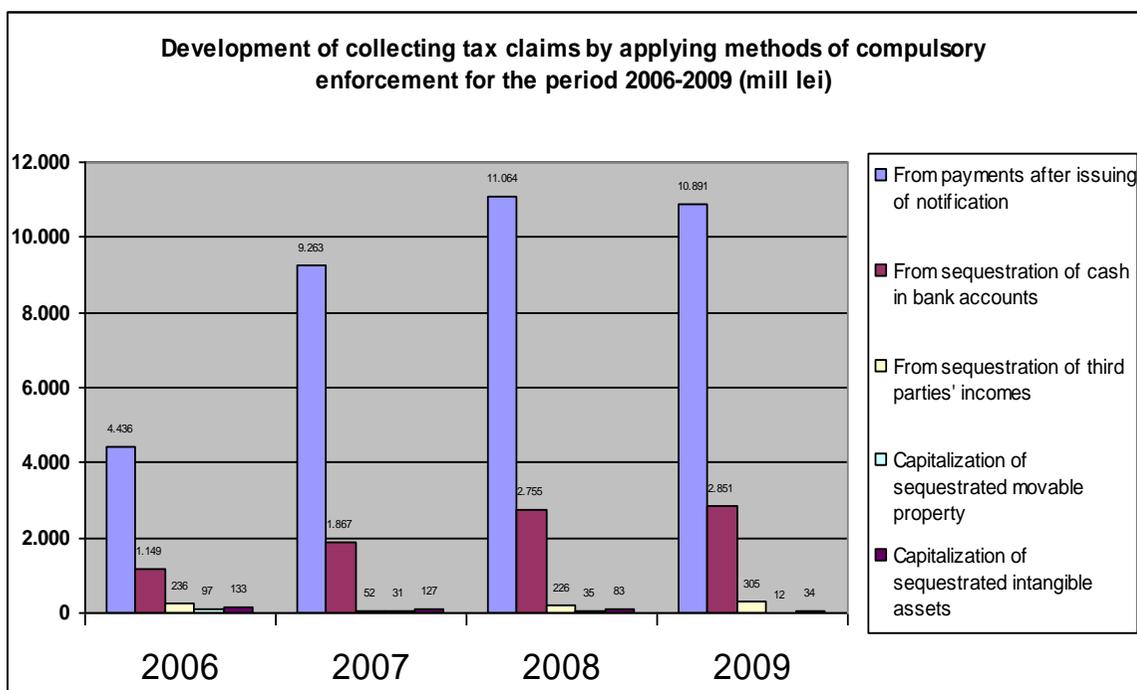
The management of the respective statements is a complex process, which allows the setting of taxes and eventually of refunds for any surplus of payment, such as the income tax refund or the VAT, for example.

The procedure of simplifying the activities of the fiscal administration continued through the suppression of the previous systematic review of requests for reimbursement of VAT credit, the

repayment period being reduced for the taxpayers who are not at risk of fraud. Through this procedure they resort to the electronic information and accomplish the concentration of the activity for setting solutions for VAT refunds in a department of risk analysis.

In order to analyze the voluntary compliance of taxpayers regarding statements and payment a timetable was established, and as a result, all territorial units will analyze the nonconformities for the same period and will automatically draw up notifications for non-submission of declarations and summons for lack of payment of overdue budgetary obligations. This will be achieved by modernizing the record on taxpayers.

In terms of **budgetary arrears**, increasing the degree of collecting by procedures of compulsory enforcement procedures mainly constituted the priority action taken by NAFA, and publishing on the website of the Ministry of a list of small and medium taxpayers with large debts was another objective of ensuring the transparency of the fiscal administration, with the consequence of determining the effect of preventing the formation of new arrears.



Source: www.anaf.ro NAFA report of performance

The working out of a record of the economic agents who registered tax debts, at the level of every territorial unit level, has allowed the development of a system for the monitoring and analysis of achieved revenues to the general consolidated budget, for reporting the results achieved in the collection process at the level of the objectives set by performance indicators and for taking measures to avoid the formation of new budgetary arrears, through a wider use of bankruptcy proceedings and the renunciation of granting payment facilities.

Pursuing performance in all the activities of NAFA, targeting positive results and better and better quality from one year to another, reflects a new culture in the activity of the fiscal administration. The approach related to the annual performance Plan of NAFA takes into consideration the following developments:

- The system of performance indicators should be improved by refining the existing indicators, and especially by introducing new indicators. The complex activities related to

administering the state's revenue will be assessed based on more representative indicators and will be boosted by establishing attractive targets.

- The level for which targets will be set will increase, because at least a medium term vision will ensure the necessary consistency in the management of the fiscal policy.

The detailed knowledge of the current situation and of the potential of the territorial structures, through the performance indicators, will be an essential prerequisite for grounding the major decisions that will guide the evolution of the fiscal administration.

There is the need to improve the budgetary revenue collection and shift them towards the most sensitive and important sectors regarding the budget revenue: the large debtors must be more insistently pursued, and the action of collection should be, especially for this category of taxpayers, more aggressive.

The activities of NAFA and of the territorial structures rely especially on information of fiscal nature, and it is vital that these should be correct. Continuous upgrading of the IT system has allowed in particular extending the reporting of fiscal obligations through the Internet.

We consider that the NAFA reform should be accompanied by a new vision regarding **the collection** of revenues to the general consolidated budget in the jurisdiction of the territorial fiscal structures – which, according to the Regulation on the organization and operation of NAFA, are empowered to collect fiscal claims and to apply the compulsory enforcement of budget revenues, thus, essential for carrying out NAFA's basic mission, they should express their option regarding the adoption of the following fiscal administration principles:

- Voluntary fulfillment of tax obligations by as many taxpayers as possible.

- To decrease the number of taxpayers - customers of the collecting measures, using particular methods of compulsory enforcement.

- Efficient management of taxpayers.

- Lowering the cost of the current activity regarding collection and the special ones resulted from applying the performing measures for every leu collected to the general consolidated budget of the state.

- Minimizing the losses representing overdue fiscal claims, subtracted from the fiscal record due to causes of insolvency and bankruptcy and other reasons not attributable to the fiscal unit.

- Reduction of overdue budget arrears and current arrears made up from the current fiscal year's debit.

- The management of specializing the taxpayers according to the criterion of size and revenue share paid to the general consolidated budget in accordance with the social importance.

The implementation of NAFA's IT program was considered a fundamental milestone in modernizing the fiscal administration through the usage of the IT application Management Information System of Fiscal Claims, which allowed the keeping of a log according to taxpayers on separate subsystems, the analytical leadership - distinct for each type of fiscal claim of the analytical evidence on taxpayer and of possible fiscal claims, accessories for increasing taxes due to delay, the analytical management of compulsory enforcement, facilities for payment, VAT refunds, offsets, the fiscal claims being in a stage of adjournment or insolvency, as well as the synthetic result of the process of fiscal administration, through the automatic transfer of data based on IT applications.

Regarding the granting of facilities for payment, we consider that the fiscal administration should apply the principle of equality between taxpayers regarding taxes, a principle which should be endorsed, promoted and enacted by the Tax Procedure Code and to represent the coordinating vector of the entire array of fiscal administration procedures both regarding the collection of state revenues through fair and non-discriminatory tax regime applied to all taxpayers, and especially in improving the business environment and encouraging competition by eliminating discriminatory tax incentives and facilities for payment.

For the collection of budget revenues the rapid acknowledgement of the situation of overdue payments is essential in order to effectively decide which is the method to prevent and/or regulate the lack of payment, and of the arrears' reduction, adapted to every taxpayer.

To discourage the accumulation of **budgetary arrears** by corporate taxpayers, NAFA updates and publishes quarterly, on their website, the list of large taxpayers and the list of small and medium taxpayers who register overdue budgetary obligations, and their collection arrangements applied by the bodies of enforcement.

The NAFA priority axes, on which the entire activity is based, is aimed at three major strategic objectives that govern its current and future actions, contained in the larger strategic guidelines set by the Government in the governing program.

First, **to prevent the elusion of taxes**, a vital stage regarding importance and the first from a chronological point of view in the process of fiscal administration: the taxpayers' assistance and providing optimal conditions for statements and payment will encourage voluntary compliance, will push for fiscal discipline.

Secondly, **an efficient and rapid collection**, which should treat taxpayers equally, will not allow deferred payment and will avoid the creation of those budgetary arrears whose likelihood to become income to the budget decreases in time.

Finally, NAFA should **suppress any phenomenon of fiscal indiscipline**, to ensure a healthy business environment in which the economic agents should engage in fair competition and in which the market law should not be distorted by taxpayers who do not pay their budgetary obligations.

We consider that in order to modernize fiscal administration there should be accomplished the decentralization of the administrative decision and also the transparency of the management process, objectives which have not found a correct application at the level of the territorial structures of the fiscal administration, the willingness of the Executive regarding decentralization being only in a declarative stage. The current organizational structure of NAFA reflects the concentration of the administrative decision at the level of the 21 general directorates of the Agency, both in the human resources management and especially in the ability to adapt the collecting methods and techniques to the development of the economic situation, but mostly to the budgetary constraints and to the need to induce efficiency regarding public expenditure.

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CURRENT COORDINATES OF THE ROMANIAN INSURANCE MARKET

Bențe Corneliu
University of Oradea
The Faculty of Economics

Although the insurance activity is well known to the Romanian market ever since the 14th century, when insurance was all about mutual help, this activity evolved rapidly in the period before the First World War and in the period between the World Wars, and it manifested itself as the entrance on the market of insurance companies representatives from countries as Austria, Italy, Great Britain. facultative insurance.

Keywords: gross written premiums, gross paid indemnities, market

Cod JEL lucrare: G22

In 1989 the change in the political system came about with significant changes in the insurance industry. Certain types of insurance which previously were compulsory became facultative. From the point of view of the insurance market's offer, the year 1989 meant also the end of state monopoly, ADAS seized its activity and its portfolio was taken over by three companies that later on were privatized – Asigurarea Romaneasca SA, Astra SA, and Carom SA. The beginning of "the new era" for the Romanian market represents the year 2000 when the law concerning the supervision of the insurance market was implemented, and the Insurance Supervisory Commission was set up; better improvements have been registered. Since then, the Romanian insurance market recorded a constant growth, as we can see in the following table:

Table 1
Insurance market ratios

		2000	2001	2002	2003	2004	2005	2006	2007
Number of insurers		70	47	45	40	40	39	41	42
Volume of subscribed premiums	Mil USD	311	344	500	610	1051	1508	1970	2630
Penetration degree	% GDP	0,85	0,87	1,09	1,06	1,44	1,55	1,67	1,84
Insurance weight	USD/capita	13,85	15,38	22,95	37,51	47,01	68,4	91,27	122,3

Source: Badea D. G., Novac L. E., "Romanian Insurance Market Facing Globalization Process", Theoretical and Applied Economics., 2008, vol. 9(526), p.62

In 2006, the total volume of insurance premiums reached 1.62 billion Euros, a nominal increase of 23.68% compared to 2005, when the volume of premiums recorded 1.21 billion Euros, being the second year in which the threshold of 1 billion Euros was exceeded.

In 2007, 42 insurance companies centralized a total volume of gross written premiums of 2.15 billion Euros with a nominal increase of 25.07% compared to the level of 2006. As structure, 79.9% of the total premiums was generated by the general insurance (an increase of 24.73% in the volume of premiums subscribed compared to 2006), whereas the life insurance brought about

only 20.1% (a more accentuated increase – related to the increase in the general insurance – of 26.46% compared to 2006).

At the level of European Union, the Romanian insurance market had in 2007 the fastest growth in the entire Europe, overcoming other significant markets in the region, such as Poland. With a growth rate of 33% in Euros, the local insurance market had the greatest dynamics among the 33 member states of CEA – Comite Europeen des Assurances.

In the last 15 years, the insurance market increased 30 times in terms of gross insurance premiums subscribed and even though the motor insurance continue to have a significant weight, it can be noticed an accelerated increase of other property insurance, credit insurance and health insurance³²³.

In 2009, there were 43 insurance companies on the market. Of these, 19 companies ran non-life insurance, 12 ran life assurance and another 12 had a composite structure of their business: life & non-life.

As we are still crossing the global economic crisis, CEIOPS analyses show that the insurance market in European Union has not proved to be a source of systemic risk for the financial sector, still the global crisis affect it by diminishing the written premiums or decreasing the value of the investments on the financial or capital market.

The analysis of data submitted by insurance companies for 2009, show that written premiums to the level of the insurance market in Romania (non-life and life) were at a slightly lower level than the one in 2008, of 1.1%, an increase of 2.03% for non-life insurance and a decrease of 13% on life insurance.

1.Gross written premiums (GWP)

The total volume of gross written premiums in 2009 of nonlife insurance and life assurance was 8.837,01 million lei, dropping from 99,42 million lei, compared to the same period last year.

1.1. GWP for non-life insurance

GWP volume of insurance in 2009 was of 7.211,68 million lei, representing 81.60% of total GWP for the two categories of insurance.

Compared with 2008, the premiums for non-life insurance recorded a nominal increase of 2.03% and the growth was of 143,51 million lei.

While gross written premiums for (Casco), recorded a drop of 231,02 million lei, the motor third party liability insurance (MTPL) registered a growth of 392,65 million lei.

In 2009, auto Insurance related to the insurance of land vehicles other than railway rolling stocks (Casco) and MTPL hold a significant share in the total amount of GWP (77.13%), although they recorded a growth rate reduction of 6.49% from the previous year.

Higher rates of growth, recorded the following two classes, whose premiums grew with amounts between 5 and 20 million lei: class XV – Surety ship insurance security guarantees (+158.59%), XII class - Liability insurance for ships (+93.67%).

Gross written premiums for insurance against financial loss registered a downward trend in 2009, dropping by 39.20% compared to 2008, leading to decrease the share of them in total non-life insurance GWP of up to 1.6 %.

This situation was due to a more expensive lending and reducing or stopping the granting of loans charged by credit institutions.

³²³ Badea D. G., Novac L. E., “Romanian Insurance Market Facing Globalization Process”, Theoretical and Applied Economics., 2008, vol. 9(526), p.65

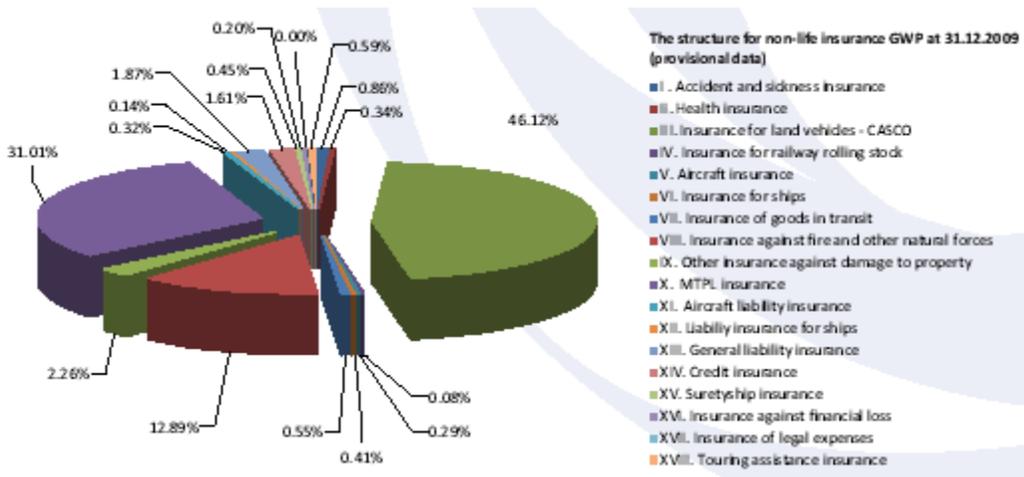


Figure 1: The structure for non-life insurance GWP at 31.12.2009, p.16

Source: Insurance Supervision Commission, Newsletter, no. 1/2010, p. 16

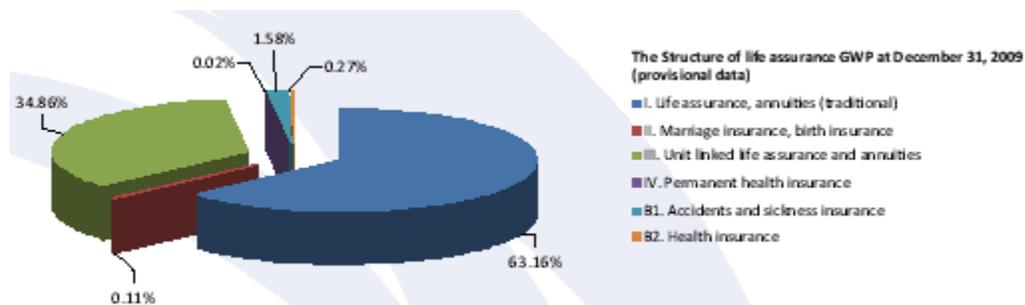


Figure 2: The structure of life insurance GWP at 31.12.2009

Source: Insurance Supervision Commission, Newsletter, no. 1/2010, p. 16

I.2. GWP for life assurance

The total volume of GWP in 2009, for life assurance amounted to 1625,32 million lei in 2009, representing 18.38% of the total volume of gross written premiums. GWP for life assurance were of 242,79 million lei (13%) lower than in 2008³²⁴.

This situation was generated by the negative trend of the traditional life assurance products assigned to Class I life assurance, representing 63.15% of total written premiums for life assurance, mainly due to the significant decrease in purchasing power of the population.

In terms of class structure, class I – traditional life assurance and class III – annuities related to investment funds hold together a share of 98.01% of total amount of GWP.

However the premiums related to class I decreased with 21.92% in 2009, in comparison with the previous year, in absolute terms with 288,41 million lei, while the premiums for the class III (unit linked) recorded a nominal growth of 8.9 % (with 44,80 million RON), compared to 2008.

In comparison with the previous year, accidents and sickness life insurance registered a growth of 14.42%, while permanent health insurance (class IV) registered a growth of 7.54%, although the two classes represent only up to 1, 5%, of total amount of GWP of life assurance.

³²⁴ Insurance Supervision Commission, Newsletter, no. 1/2010, p.17

2. Gross paid indemnities (GPI)

The volume of gross paid indemnities for the two categories of insurance was of 5861, 63 million lei, an increase of 26.36% compared to the year 2008.

3. Gross technical reserves

Of the provisional data provided by insurers, we can notice that on 31.12.2009 insurers had gross technical reserves for non-life worth 6900,42 million lei, up 7.6% compared with 31.12. 2008. For life insurance, on 31.12.2009 insurers had gross technical reserves set up in the amount of 3.889,48 million lei, (+13.60%) of the value recorded at the end of the previous year.

4. Conclusions

If the economy is returning to growth in 2010, the insurance market could begin, in the second half of this year, to experiment a slight increase, so that, in December, the gap recorded in 2009 to be recovered.

But if the pessimistic scenario, in which we will see a sharp decline in macroeconomic indicators, will occur, the insurance market would end 2010 at a similar level of gross written premiums as the one registered at the end of the last year.

Insurance industry is directly connected to the development of the main economic branches and is also depending on consumption, which last year saw a slump.

Insurance Supervisory Commission analysis shows, however, that this market could end 2010 on an addition of at least 5%, given that the need for protection began to be increasingly conscious of potential consumers.

What meant year 2009 for the insurance market, both for the companies and the Insurance Supervisory Commission? Rapid reactions, strategy changes, a more prudent risk management, significant infusions of capital, changes to some regulations, in order to enhance the protection of the policyholders, the introduction of new procedures, such as the “Bonus–Malus” system.

Unfortunately, the insurance market in Romania continues to be dependent on MTPL and CASCO segment, given that it generates over 60% of the gross written premiums for non-life insurance market.

Meanwhile, in Romania, life insurance segment, the one that makes the rule of the industry on the full grown markets, is still feeble. Moreover, in 2009, life insurance proved to be the most exposed to the crisis.

The wave of redemptions and termination of contracts, started towards the end of 2008, still it was tempered in the latest quarter of the last year.

Since 2007, the local insurance companies apply the Solvency I while preparing for Solvency II. Together with the accounting standards IFRS, Solvency II is going to dramatically reshape insurance and reinsurance industry in Romania, to boost competitiveness and professionalism.

When it is to be implemented, Solvency II will lead to a change in the way the supervisors are working. Insurers and reinsurers are going to be evaluated according to the existing risks in their portfolios, their assets and liabilities being quantified by economic principles. The implementation of Solvency II will mainly increase the consumers’ confidence in insurance products, as the solvency model enables early detection of possible shortcomings and to further adapt the risk management process. It is of a high importance that policyholders believe that the insurers are willing to accomplish their commitments. Insurance companies, under the careful supervision of the Insurance Supervisory Commission, are responsible for generating and maintaining that trust.

The continuous improvement of the insurance premiums, the insurance density and the insurance penetration rate (annual amount of Euros paid on average by an inhabitant) support the importance of this sector of activity in the total economy of Romania.

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CONSIDERATIONS ON THE PROSPECTS OF THE INTEGRATION OF THE EUROPEAN FINANCIAL MARKETS IN THE CONTEXT OF THE GLOBAL CRISIS

Boghean Carmen

University Stefan cel Mare Suceava, Faculty of Economics and Public Administration

Boghean Florin

University Stefan cel Mare Suceava, Faculty of Economics and Public Administration

Năstase Carmen

University Stefan cel Mare Suceava, Faculty of Economics and Public Administration

Morosan-Danila Lucia

University Stefan cel Mare Suceava, Faculty of Economics and Public Administration

In recent years, as the efforts linked to the elimination of the capital movements control between countries have intensified, the preoccupations concerning the explanation of the financial integration concept have multiplied, in their turn. An integrated financial market is necessary particularly to the distribution of liquidity between the institutions in the euro zone, and, implicitly, for the enforcement of a common monetary policy. Thus, the problem of the integration of the financial market, respectively of the monetary one, appears as a premise for a homogenous transmission of the financial policy impulses all throughout the euro zone. The financial integration is defined in conformity with the law of a single price. According to this definition, in case the markets are integrated, the financial assets bearing identical characteristics should have the same price, regardless of their geographic origin.

Keywords: financial market, financial stability, euro zone, single currency

JEL classification: F15

1. Introduction

The level and rate of integration of the European financial markets have been remarkable in recent years. In the last decade, there was a high level of market integration, both on the monetary and on the bonds markets, especially in the euro zone. In addition to that, there was the integration of the capital markets in EU, although the progress was impeded by a lack of integration within the clearance and reimbursement infrastructure.

From a conceptual point of view, we can distinguish between the vertical integration and the horizontal integration of the financial market. We can speak about a vertical integration, due to the fact that the telecommunications determine an increase in the interdependence between the monetary markets and the currencies, on the one hand, and between the option markets and the markets of short-term financial instruments, on the other hand. Systematically, the investors arbitrate between the different compartments of the financial market, with a view to obtain the best ratio cost/benefit. The horizontal integration of the financial market recorded in the last decades a spectacular progress, especially due to the elimination of the obstacles between the national financial markets, progress that was interrupted by the recent financial crisis that has affected the whole world.³²⁵ As far as the EU markets are concerned, they are in different stages of the financial integration process. The financial integration process advanced during 2008 and a

³²⁵ Corina, Weidinger Sosodean, *Euro și piețele financiare internaționale*, Editura Mirton, Timisoara, 2005, p.174.

new impetus may derive from the implementation of the Markets in Financial Instruments Directive (MIFID), the Single Euro Payments Area (SEPA), as well as the adoption of the single currency in an increasingly large number of the member states.

The question of the integration of the European financial markets may be approached starting from the very slogan of the European Union that is “unity in diversity”. EU gives the possibility of uniting several countries, each of them having things to learn from the other ones, this union covering various domains, including the financial markets of the member states. The integration of the European financial markets is a question relating to competitiveness. It is difficult, especially under the current circumstances, to talk about a single market, even if this is to be desired; yet, it is true that we can talk about several niches of a single European market. Besides this, there is an atrocious competition in different sectors and fields of activity, with a strong impact on the European financial markets (the capital market, the bank market, the insurance market, etc.).³²⁶ Nevertheless, at present and also as a future prospect, in what regards the less developed countries in Central and Eastern Europe, their access to an integrated European financial market is rather difficult, situation determined also by economic and financial indicators which differ a lot from one country to another. But, with the help of structural funds coming from and financed by the European Union, people are trying to direct the financial markets of these countries towards an integrated European financial market.

In addition to that, under the circumstances of the financial crisis with effects on the entire European economic system, it is intended to create a single system of supervision of the financial sector, which could lead almost instantaneously to the process of financial integration of the member states. This unique supervision system was not thought of beforehand by the founders of the integration idea, nevertheless it proves to be very useful, given the effects of the financial crisis. Thus, will come into being the European System of Financial Supervisors means to ensure an objective and real monitoring of the financial institutions activating in at least two member countries. The system would enable the setting up of new European authorities in the banking field, in the field of insurances, of securities and of occupational pensions, meant to supervise and to coordinate the activities of the national supervision authorities.

Among the advantages of the European financial markets integration, we can mention the enhancement of the potential of economic growth. Thus, as the financial system is becoming more integrated, especially in the euro zone, the gross domestic product (GDP) is also growing. At the same time, a more integrated and larger financial system enables the economic agents, among others, to better exploit the economies of scale and the economies of scope, while the population can benefit from the access to a greater variety of financial products – such as the mortgage loans – at relatively low costs. At the same time, the existence of the integrated financial markets bears major implications upon the mission of ensuring the financial stability both in the euro zone, and all throughout EU. Thus, the financial integration can have positive effects on the financial stability, taking into account the fact that more and more integrated financial markets will be able to ensure the necessary conditions for an easier absorption of the financial shocks. The Eurosystem's mission to promote the good functioning of the payment systems is based on the integration phenomenon, this mission holding a fundamental role in ensuring a safe and efficient functioning of the clearance and reimbursement systems of the securities operations.³²⁷ But, according to the Report of the European Central Bank from April 2009, the financial integration process is threatened by the unrest characterizing this year. The basic question under scrutiny is whether and to what extent the financial unrest starting in the middle of 2007 has led or can lead to a suppression of the financial markets within the national

³²⁶ Ciampolini, M., Rhode, B., *Money market integration: a market perspective*, ECB Conference „The operational Framework of the Eurosystem and Financial Markets”, Frankfurt, 5-6 May, 2000.

³²⁷ Garganas, N., *International role of the euro*, Conference of the European Commission, „Europe, the Mediterranean and the Euro”, February, 2003, p.3.

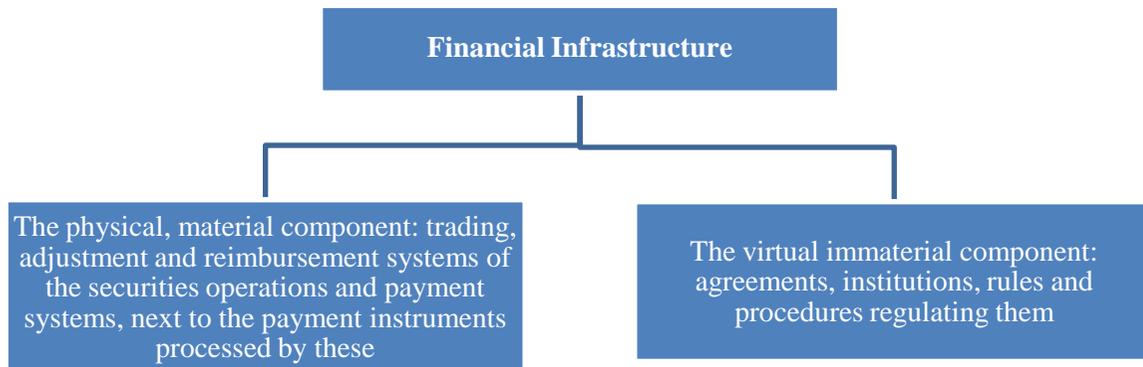
borders and, by way of consequence, to an inversion of the European financial integration process.

2. Specific of the European Financial Markets

The EU financial integration is a continuous, dynamic process, contributing to the efficient transmission of the monetary policy impulses all throughout the euro zone, at the same time, stimulating the member countries to rally to the communitarian financial standards.

Thus, the infrastructure of the European securities markets comprises all the arrangements and facilities connected to the issue, the listing, the trading, the clearance and the reimbursement of the transactions with securities and derivatives, as it is highlighted in figure no 1.

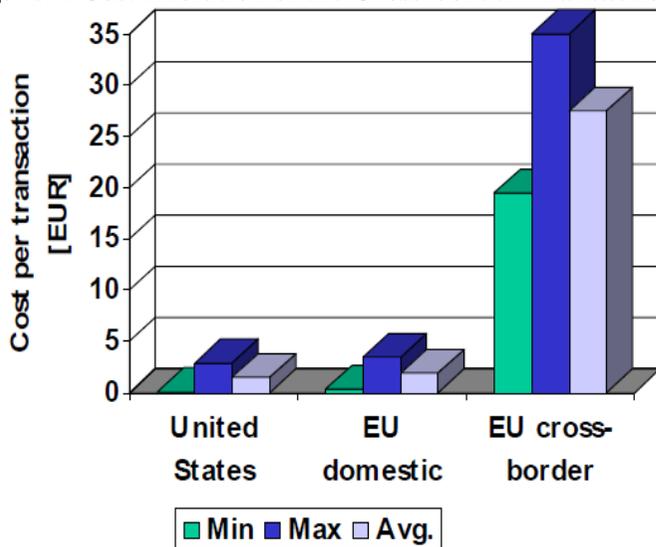
Figure 1. The European Financial Infrastructure



The infrastructure in the euro zone and EU is still extremely fragmented and pursues the accomplishment of three extremely important objectives: efficiency, integration and safety.

The limited integration of the infrastructure of the capital market leads to significantly high post-trading costs for the cross border securities transactions within EU (Figure no.2), thus causing the reduction of the economies' potential, as well as the impossibility to create equitable competitive conditions.

Figure. 2 Cost Evolution of the Cross-border Transactions



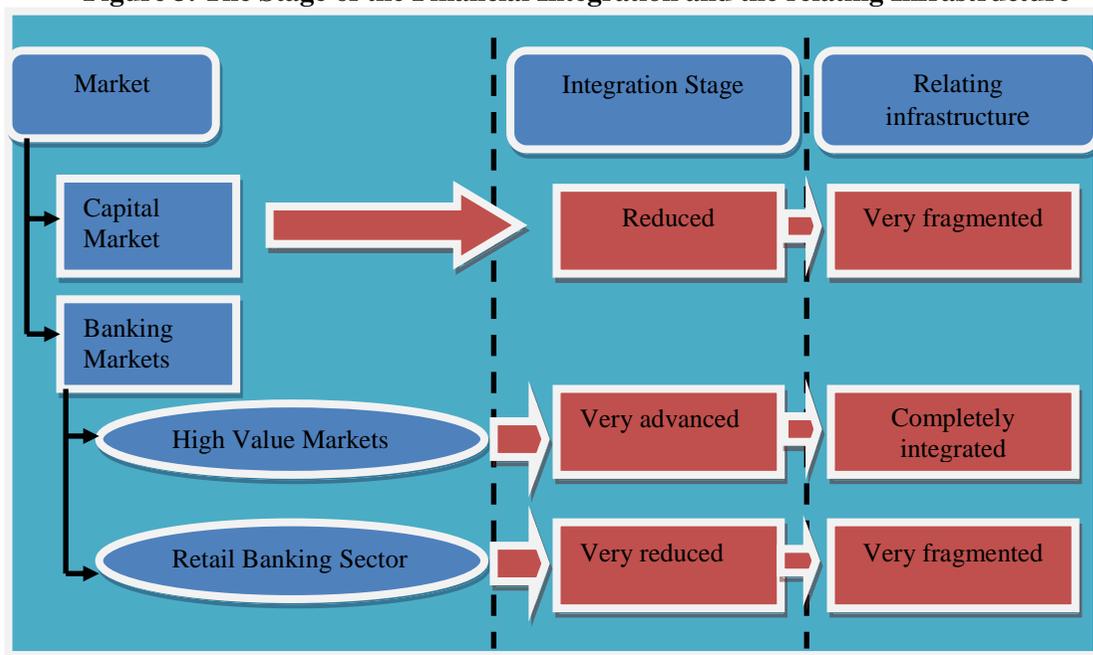
The European banking financial policies and institutions are situated within its regulating,

institutional, functional and operational dimensions and, to this purpose, are open to the economic integration, and also to the political one.

The foundation of the Economic and Monetary Union (EMU) of the euro zone is a result of the European integration dynamics, a phenomenon that can be retraced all throughout Europe's modern history, both in terms of idea and concept, and of action and organization. The integrationist attempts within the European area are obvious, the determining factor being often the military one, disguised in political and sometimes state clothes; the novelty, the originality of this new attempt of European integration consists in the fact that the determining factor is the political one, bearing often initiating characteristics, a factor turned into an instrument and objectified through material, trading, financial and social elements; all of these are engendered and, at the same time, pushed forward by an immaterial, invisible, ineffable force, the currency, that is the primary constituents of the „human construction”, the needs.³²⁸

The financial markets integration is highly advanced in the euro zone, facilitating the allocation of the savings towards the most profitable investment opportunities and enabling the participants to partially diversify the risks of the asymmetrical shocks. The euro has obviously accelerated the integration, particularly of the *monetary market*. Furthermore, the measures adopted through the *Financial Services Action Plan* significantly intensified the integration of the government securities market, yet less in the case of the corporate securities market. However, in *the retail field*, (Figure no 3), especially in the banking sector, the market segmentation remains rather stressed, the cross border loans from the banks from the euro zone towards the nonbanking financial sector remaining under 5% from the total of the loans there existing a persistent dispersion between countries, in what concerns the level of the interest rates of the financial institutions, at least in the case of certain categories of instruments, this fact determining ECB to support the foundation of a *common area of the payment system*.

Figure 3. The Stage of the Financial Integration and the relating Infrastructure



The analyses conducted throughout the research have revealed the similarity of the transmission

³²⁸ Lommatzsch, K., Tober, S., Monetary Policy aspects of the enlargement of the euro area, Deutsche Bank Working Paper, No.4, August, 2002.

channels of the monetary policy, the channel of the interest rate having a prevailing role in all the countries, while the channel of the bank loan is characterized by a less prevailing role.

Yet, the national financial structures still continue to present significant differences ; for instance, the role of the debt securities and of the shares in financing the private sector and the types of vehicles (pension funds, insurance funds and mutual funds) used in order to orient the long-term economies, still differing in the countries in the euro zone.

As a result of the high degree of trade integration, particularly the intra-industrial and financial one, as well as of the high degree of convergence of the macroeconomic policies in the euro zone, the business cycles tend to be significantly synchronized. The cross border correlations of the business cycle, particularly of the industrial productions, were rather high in the case of many countries in the euro zone in the previous period, under the circumstances in which the business cycles tended to be rather synchronized all throughout the world. Furthermore, the dispersion of the growth rates of the real GDP in the euro zone has remained very close to the historical average, which suggests the absence of major asymmetrical shocks. In the case of the new member states, the business cycles are less correlated within the group and within the euro zone, which also points out to the high degree of production variability. Due to the continuity of the trade integration and of the flows of the direct foreign investments in these countries, we may consider that the synchronization level will increase.³²⁹

3. The impact of the crisis on the European financial markets

In only a few months, the effects of the financial crisis have changed everything - from the oil prices to the nature of the market economy itself. It is obvious that the changes surpass the limits of the economic and financial sector and will inevitably affect the EU institutional architecture. It remains to be seen whether these times of economic incertitude will cement the relations between the member countries or will result into a process of European disintegration.

If we look first at the empty half of the glass, the prospects are not very encouraging. In an initial stage, the European governments responded to the challenges entailed by the crisis in a reactive and uncoordinated manner. First of all, Ireland unilaterally assumed a generous offer of guaranteeing the deposit money, this way encouraging the clients from other countries to transfer their money to the Irish banks. As a response, several other countries felt they were obliged to resort to similar measures, this transforming into a measure against the other banks, at the European level. The financial markets reacted worse at the meeting of the only member states that are part of G8 (France, Germany, Italy and Great Britain), especially since this meeting did not end with an ambitious action plan. As usual, in such cases, out of electoral reasons, the national governments point their finger to Brussels. But what expectations can we have from EU if, at the moment of conceiving the single currency, the member countries decided it was better not to constitute centralized economic and fiscal institutions?

To put it differently, we may assume that EU will reduce the external assistance for the developing countries. Why fighting poverty somewhere else, when at home unemployment is advancing at high speed? Likewise, given the reluctance of countries like Great Britain, Ireland and Spain towards the intra-EU migration of the labour force, we can anticipate that the extension will not be a to list topic too soon. Actually, it did not really meet with too much enthusiasm even before the crisis. In spite of these, a recent report of the European Commission declares that the last enlargement waves were successful, in terms of policy, demonstrating with numbers that the countries in the ex-Soviet block recorded an important increase in their living standard, thing which was not accomplished - and this is equally important - at the expense of the older members. Dwelling on the full half of the glass, there are at least two other reasons for optimism. The first one lies in the relative stability of the single currency. At least, the states in the euro

³²⁹ International Monetary Fund, Annual Report, Washington DC, 2003, p.34-36.

zone felt safer, having the ballast of a currency of a continental scale. Of course, in the euro zone there are also problems, but not as dramatic, if we compare them to the situation in Iceland, Russia or Ukraine. Let us imagine that instead of euro we still had the Spanish pesetas, the French, Belgian and Luxembourgish franc, the German and Finnish mark, the Italian and Irish lira etc. They would have obviously reacted differently to the convulsions of the financial markets and not always in favour of the state in question. The relative stability of the euro has surprised many people, so in Denmark and Great Britain there have been debates concerning the costs for being outside the euro zone. According to the Euro barometer, the single currency is seen as one of the most positive aspects of the European integration, next to the free movement of capital of persons. These evolutions may cause structural changes in the financial administration at the EU level, as the euro has a central bank without also having a centralized financial system, the supervision being reserved to the national governments.³³⁰ There are already top-level discussions regarding the facilitation of the entry conditions in the euro zone, so that the aspiring states may adopt more rapidly the single currency. The second reason is related to the fact that the crisis effects have proved the necessity of a coordinated intervention at the EU level, which may be the beginning of changes in the institutional architecture of the Union. Although the solidarity between the EU countries seemed to be weak in certain cases, for the moment, at least, there is an understanding between the governments not to embark upon actions that might affect the neighbours. After what happened, „thanks to” the world financial crisis, it became clear that there was need for a more stable EU presidency, with a long-term mandate. Certainly, depending on the direction of the „financial storms” that ravish the world, things can still change, inclining the balance to either side. Yet, up to now, the prevailing conclusion is that the European leaders have been capable of learning rather rapidly the lesson of the benefits taken from a common economic cooperation.

The financial monetary integration of Europe, within the euro zone, generates multiple effects. In the terms of macroeconomic stability, the euro zone and the newly enlarged EU promotes a context oriented towards stability, which may provide the best conditions for sustainable economic growth and occupation. The results of the euro zone in achieving the nominal and real convergence are relevant and approach the criteria of an optimal monetary euro zone, having a major role in obtaining these results, role it continues to have.

4. Conclusions

Concerning the future, the change processes put into motion, under the current circumstances of the market and of the single currency, combined with the structural changes in the economic world, lead to changes in the economic conditions. These changes finally lead to a high degree of economic diversity and regional specialization, which, on condition that these may be caused by market forces, may enhance richness in the euro zone, taken as a whole. The redistribution between the advanced regions and the less advanced ones may generate certain challenges for the regional policies, at a national and at the EU level.

Automatic fiscal stabilizers can contribute to the economic stability, through their regulating impact on the aggregate demand. Taking into consideration the lack of a central mechanism of cross border budgetary transfer, it is vital that these stabilizers should be capable to operate freely. The adopted measures, through the structural policies, in the euro zone countries, have led to the increase in flexibility of the labour and product markets, with positive results and future additional benefits. While sometimes these imply short-term costs and incertitude, especially when the measures are not implemented in a decisive way, to a large scale, the positive impact of the well-structured reforms on production and the occupation is highly significant.

³³⁰ Prasad, E., Rogoff, K., Wei, S., Kose, M., *Effects of Financial Globalization on Developing Countries: Some Empirical Evidence*, International Monetary Fund, March, 2003.

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INFORMATION ASYMMETRY THEORY IN CORPORATE GOVERNANCE SYSTEMS

Boloş Marcel
University of Oradea
Faculty of Economics

Tudor Orţan
University of Oradea
Faculty of Economics

Cristian Otgon
University of Oradea
Faculty of Economics

The evolution of corporate ownership structure, in particular the resolution of asymmetric information among stockholders, managers and creditors, requires very complex research. This paper aims to investigate how asymmetric information determines stakeholders to behave and how financial decision bears upon the performance of the organization.

JEL classification: G1, G3

Keywords: asymmetric information, financial decision making, corporate performance, leverage, stockholders.

1. Introduction

Modern theories converge on the idea that the objective pursued by stakeholders is to maximize corporate value. In 2004 the OECD issued a document, *The OECD Principles of Corporate Governance*, that underlines that corporations need to be run, primordial, in the interest of shareholders (OECD 1999, 2004). This means that the old concerns in the field, as to maximize profit in terms of cost of production, have been abandoned and now the emphasis is on this new paradigm of maximizing corporate value. But this aim is achieved when trends of the corporate value are increasing, since the value of shares plenary comprises the performance of companies. Hence shareholders choosing investments that generates a high return will tend to force corporations to seek a high return.

But in the corporate governance systems, the company is seen as a set of expectations that each stakeholder establish in their relationship with the company. This is like a sort of polycentric vision of the corporate governance systems, having in the center the company around which stakeholders attempt to govern.

Regardless of the theories underlying corporate governance systems, there is a system which generates flows between the company and stackholders that regardless of their nature (informational, financial, material, etc..) has a number of features formed on the basis of apparently conflicting interests that exists between the company and its stackholders.

When referring to streams caused by company-shareholder relationship (Jensen, Merckling 1976) it is not surprising that shareholders will seek to identify forms (dividend or earnings differentials in the price of the shares) to recover the fastest way possible the capital they have invested. In turn the company will try during it's development periods to convince shareholders to let at its disposal financial resources that could be distributed as dividends to avoid the possible risk of de-capitalization of the company. Yet this conflict of interests between the company and its shareholders may affect in a long-term the companies performance. Actually identifying this

conflict of interest and resolving it through a specific management approach can lead to long term sustainability of corporate performance.

Interesting are also the flows caused by the relationship between the company and its suppliers, respectively its customers. Its a category of flows formed upstream the company, between the company and its suppliers in which the society acts as the client and it legitimately aims to obtain raw materials at the best price and the best quality. The other party, the supplier, is convinced that when the transaction took place he has obtained the best price. Conflicting interests of companies and suppliers are more than obvious. While the price is "high and low" because the supplier is confident that the price he gets is a price that meets his interests (meaning good) while the company is confident that the material is obtained with the lowest price that will lead to selling prices of its products accepted by its consumers.

The same apparently conflicting interests can be found in the company-customer relationship (Flynn et al, 1990). But this time the company is in a position to deliver products and services at prices they considered to satisfy at least the companies stakeholders interests. On the other hand the consumer, who in the new theory governing the markets, in which the consumer is considered "the king", is convinced that through the transaction he has received the highest quality product and at the appropriate price.

Analysis of these flows may continue with the study of the relationship between the company and its financial creditors (Morellec, Schurhoff 2010). Usually this category of flows appears under the development and the investment financing of the company for business expansion. What kind of interests are manifested in these types of flows? Financial creditors are interested in obtaining the best interest for the capital which they provided to the company. Or such interest is borne by the selling prices of goods and services produced by the company so that the pressure exercised on the consumer, which may at any time to change its supplier of products and services. Furthermore the company hopes to obtain a gain from the investment made and financed by its financial creditor, so from the net profit and the amortization to be able to repay the loan and interest due to the financial creditor. The implications of this category of flows doesn't stop here. Because the interest will erode the profits of shareholders they will require that the rate of return they expect to be satisfied after debt repayment to financial creditors at least equal to the duration over which the loan was incurred to finance investments required. And there are conflicting interests. Financial lender considers the loan offered at the best interest rate while the company is convinced that she contracted a liability at an interest rate as low. This category of conflicting interests must be supplemented by the interest that the shareholders show, they give up the lender for financial gain, so that for long term they can increase their earnings to.

Flows of goods and services or financial resources are not considered limited. They may be supplemented by flows between the company and human resources (its labor force) or between the company and the state as beneficiary of taxes. These flows of links regardless of their nature are governed by information held by human resources who are responsible with taking the decisions. The information is held in a different way by individuals making their behavior also different. This is the first step that leads us to believe that any flow links between the company and its stakeholders, are based on elements of information asymmetry leading to different behaviors of individuals with influence over the medium and long term on the companies performance.

An agency relationship develops whenever there is a relationship between economic actors and the welfare of one person depends on the actions of the other party; that is, when the welfare of the principal is influenced by the action (or inaction) of the agent (Howard, Snowdon 2005).

A first attempt to define the asymmetry of information in corporate governance theory shows that it is in possession of information in different ways by individuals involved in running streams between the stakeholders and the company, under which individuals have different behaviors and different decisions which may affect the performance of companies.

It is the objective pursued by this research to study factors governing the flow of information asymmetry between the company and stakeholders that are based on the corporate governance system.

2. Information asymmetry and individual behavior in corporate governance system

In the previous paragraph we tried to outline the definition of informational asymmetry in the corporate governance system, which revealed that individuals involved in all streams of links between the company and stakeholders do not have the same information, at the same point of time. This means that individuals will have different behaviors and can take different decisions that may impact on company performance.

Therefore in the theory of information asymmetry, the information that individuals have it's important and the decisions they can take with the information they hold. Place a natural and legitimate question for the companies stakeholders namely: How to measure information asymmetry and its impact on the companies performances?

In an attempt to measure information asymmetry there were taken as the basis for the research the most important flows in the corporate governance system, namely: flow links between the company and its shareholders. In a first step we examined the information asymmetry between the two shareholders who invest in financial markets. To generate the ecuational model of measurement for the information asymmetry we was established the following research hypotheses:

- a) on the financial market there are two investors who are characterized by information asymmetry, according to information they hold about companies where they are to invest;
- b) each investor has a certain amount of information on which companies are to invest and has some form of rate expectations on earnings that they hope one will get from the capital that they invested;
- c) each company provides a standard volume of information covered by the Securities Commission's financial market and while each company has a certain volume of information that is standardized to provide a certain visibility.

Suppose that between the two investors there is an information asymmetry arising from holding a different volume of information for the investor (I_1) against investor (I_2), so that the first investor holds information of the standardized rate of net profit that the company provides to its investors ($InfI_1$) while the second investor has the same information on the net gain rate ($InfI_2 = InfI_1$). Both information are part of standardized information and the same for any two investors. In addition to the first, second investor is aware that one of the companies on the capital market is to develop an investment that will lead to an increase in long-term gains to be granted to investors every year during the period of investment. This information is denoted $InfI_2^1$.

The two investors are subject to information asymmetry because the volume of information they hold is different. The first investor has the amount of information that is equal to $InfI_1$, while the second investor has a volume of information formed by the addition of $InfI_2 + InfI_2^1$. Absolute deviation $\Delta InfI = InfI_2 + InfI_2^1 - InfI_1 = InfI_2^1$ is the form of measurement of information asymmetry in which the first investor is to the second investor. If $\Delta InfI = 0$ we can say about the two investors that they have the same volume of information and are not in situations of information asymmetry.

The question that appears, is determined by how the two investors will behave. To answer this question it is essential a thorough analysis of investor expectations that the two have. Yet expectations are determined by the common interest they have. If investors are rational when

they will watch the market to have a capital gains rate to meet their expectations (Kothari, Nikolaev, Loutskina, 2006). The rate of earnings is an standardized information and is provided freely for those two investors.

To address the behavior problem of the two investors in a situation of information asymmetry is necessary to establish the level of information NI_{inf} , for which the two investors will act the same. Regarding this level of information that determines the behavior of the two investors we can distinguish a few situations in which, depending on the information, the investors will take the same decisions or contrary their decisions will be opposite, namely:

The first situation corresponds to a common level of expectations for both investors and the rate of gain that the company offers meets the interests rate they seek. Their expectations are met by the rate of gain (r_c) that the company offers, so although they are in a situation of information asymmetry they decide to invest in shares that the company offers. The conclusion that emerges is that in situations of information asymmetry investor behavior is the same if their expectations are the same.

The second situation corresponds to different levels of earnings that investors expect from their investments. Thus if the rate of gain noted (r_{c1}) that the first investor expects and (r_{c2}) the rate of gain expected by the second investor, and with (r_c) the rate of success the company provides, we will identify the following types of behavior caused by information asymmetry:

a) If the rate of earnings provided by the company is above the expectations of both investors, even in the situation of information asymmetry they will take the decision to invest in company shares;

b) If the rate of earnings provided by the company is below the expectations of both investors then their behavior will be different, the first investor will not invest in company shares because of the fact that it offers a rate of return to capital that would not meet his demands expected for the invested capital. While the second investor is in the same situation as the first, that the expected rate of return is below its requirements, yet he knows that from the investment in the company is next to be obtained a bonus for its shareholders so that, after the company's investment the expectations of its shareholders would be fully realized. The second investor who finds himself in a information asymmetry, decides to invest in the financial market, so he acquires a volume of actions, depending on his available capital.

If we note +1 the situations of where investors that are in a situation of information asymmetry decide to invest in financial markets and -1 where investors chose not to invest when they are in a situation of information asymmetry, form the function of informational asymmetry, in which information is marked $Inf_1, Inf_2, \dots, Inf_n$ the function will look like this:

$$f(Inf_i) = \begin{cases} 1 & \text{if } r_c \geq r_{c1}; r_{c2} \text{ si } \Delta Inf \neq 0 \\ 0 & \text{if } r_c = r_{c1}; r_{c2} \text{ si } \Delta Inf \neq 0 \\ -1 & \text{if } r_c < r_{c2} \text{ si } \Delta Inf \neq 0 \end{cases}$$

Limits for this function established by information asymmetry, are determined the function refers to a market where there are only two investors who are really in a situation of information asymmetry but also is considered the situation where the two do not communicate with each other, no exchange of information between them taking place. Information asymmetry research will continue at a later stage, a market consisting of N investors, where the asymmetry function can establish investment trends that investors are investing in a company, taking into account that the function market information asymmetry is determined by existing investors in the financial market crowd.

3. Implications of informational asymmetry on the possible performance of the company

It is important to investigate the implications the asymmetry information has on the companies performance. But this implications are determined precisely because the two financial market investors are in a situation of information asymmetry leading to different behaviors. So assume that both investors decide to invest in the company. This corresponds to a value of function of information asymmetry equal to +2, respectively $f(InfI) = +2$ and a situation where $r_c \geq r_{c1}; r_{c2}$ and if the volume of investments made by the two investors are noted $V_1 = N_1 \times V_p$ and $V_2 = N_2 \times V_p$, this means that the company will attract from the capital market a level of financial resources equal to $V = (N_1 + N_2) \times V_p$. Thus, the impact on company performance is determined by the cost savings that the company would be contracted out if the same level of resources for the banking market would pay an interest rate level equal to r_d . Let us denote by k_a the cost shares, this means that the difference between the interest rate margin and cost actions will determine the cost of the two funding sources denoted m_f .

In these circumstances, if $m_f \geq 0$ we are where the information asymmetry will lead to cost savings equal to $E_c = (r_d - k_a)(N_1 + N_2) \times V_p$, which will have a positive influence on company performance, while $m_f < 0$ will cause a negative impact on company performance as determined by the same formula for cost savings. This may correspond to the opportunity to procure funding sources for the banking market as the interest rate is lower to cost operations. Or cost shares can be found in this situation only when the expected rates of earnings investors are characterized by irrational exuberance.

If both investors are subject to information asymmetry and one of them decides to invest and the other identifies other investment opportunities on financial markets then this situation is characterized by the fact that the rate of gain that although the company offers lower rates to gain both investors, however, the second investor hope that he will gain a bonus if the company will achieve the investment expansion that is planned, so he will make the investment.

For this situation, an investor decides to invest and the other gives up the information asymmetry function has the value $f(InfI) = 0$, while $r_c < r_{c1}; r_c \geq r_{c2}$ and the volume of investment that the two investors make is determined by the second investor who buys shares $V_2 = N_2 \times V_p$. The company is in a situation where to procure the necessary financial resources, the lack of investment which would have made the first investor will procure from the banking market which as is known to pay an interest equal to r_d .

Cost savings is also lower than in the first situation analyzed and will be determined using the formula $E_c = (r_d - k_a)N_2 \times V_p$ with specific situations for positive margin financing, where the positive effect on company performance, while negative margin financing there will be a deterioration in company performance.

The cases analyzed concern the impact on companies performances, being limiting in terms of the number of investors who invest on the financial markets. But the information asymmetry specific to the companies stakeholders can be analyzed in conjunction with other indicators of profitability which usually are followed by the stakeholders. Actually eliminating the negative impact that information asymmetry has on company performance can be achieved only by increasing access to non-standard information available about the company. And by increasing the visibility of information that the company offers its stakeholders, there is the risk that the different interpretation of the information provided by the company, investors not to behave the same.

For a market with two investors in a situation of information asymmetry the results obtained upon the companies performance are very different, drew the conclusion was that information asymmetry influence the performance of companies even if they record a performance attractive for investors.

4. Conclusions

Corporate governance system consists of flow links that are established between the company and its stakeholders, involving material, human and financial resources in order to help maximize business value. Link flows are based on information moved from the company to its stakeholders in which most often manifests conflicting interests. The price of raw materials necessary for the company, for example, may both large and small from the market perspective but also from the company's suppliers perspective.

This information is not shared proportionally between stakeholders making it appear the concept of information asymmetry that defines the state in which two individuals at the same time not have the same amount of information. This fact makes the two investors have different behaviors depending on the information they hold and the expectations they have. Information asymmetry function has a value equal to +1 when the investor decides to invest in the company, or this happens only if the profit rate they offer is superior to the investors expectations. Information asymmetry function has a value equal to -1 when the rate of earnings provided by the company is below the hoped value for by investors. There is however a situation where although the function of information asymmetry is equal to -1, the investor decides to invest in the company since he has information that in the next period the company would develop investment to expand business activity and thereby ensure that earnings growth are to meet long-term investor interests. Information asymmetry impact on company performance is also a very interesting research topic. It was found that there are situations for positive values of the function of information asymmetry, which causes a positive impact on company performance and company value equal to the indirect cost savings resulting from resorting to other categories of funding sources, such as te banking market. There are also situations where information asymmetry has a negative impact on company performance because not all investors choose to invest in the company or investors' expectations contrast ratio is above the interest rate charged on the banking market.

Model has also limitations. It refers to a market which consists of two investors which in reality there isn't, but respecting the hypothesis that the specimen could be extended to N investors. Also to consider the hypothesis that investors do not communicate among themselves and develop links between the flows from the company and its shareholders. Future research about information asymmetry should continue to expand the market for N investors, taking into account the fact that they communicate among themselves and with the expansion flow links that are established between the company and the other categories of stakeholders, underlying modern business activity.

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CONCEPTUAL CLARIFICATIONS REGARDING THE FINANCIAL CONTROL

Boța Moisin Anton – Florin
University of Pitești
Economic Science Faculty

Măgură Cerasela
University of Pitești
Economic Science Faculty

In this paper, the author presents the concept of financial control, distinguishing between financial supervision and tax control based on the analysis of relations finance - Public finance - taxation, namely, financial law - tax law.

Keywords: public finance, control, tax.

JEL Classification: N20.

1. GENERAL CONSIDERATIONS ON FINANCIAL CONTROL

1.1. The concept of control

The Control, in general, plays an important role in any economy of any state, it is a basic tool of management for all segments of society. The activity of control is in all the phases of processes taking place in society, from their planning, their progress and impact assessment.

The origin of *control* is found in a Latin word phrase „*contra rolus*”, which expresses the activity of comparing, checking duplicates of the original act, entrusted - in this respect - to another person. In a synthetic speech, the phrase „*contra rolus*” means „checking an act after the original check”³³¹.

More broadly, in its semantic sense, control is „a continuous or periodic review of an activity, a situation to watch them march and take action to improve”³³². Meanwhile, the *control* means „further monitoring moral and material, and possession of an activity, a situation or a process of comparing facts with the required or planned, and the enterprise of collective approaches, so that achievements are in accordance with predetermined goals”³³³.

Under its various aspects, human activity has been subject to control since ancient times. The power of control of man, suspected occurrence of a particular predisposition to evil man to other people, need the good and / or had (owners) to protect their interests affected by the bad guys and not having ”.

By newer days, other purposes have become increasingly important: *efficiency* (to control what goes wrong to go through measures to improve the operational order, tactical or strategic), *legality* (compliance verification established by law and application of sanctions, if any), *opportunity* (the events are appropriate circumstances and situations)³³⁴.

In the specialised literature we meet other acceptable definitions regarding the control, namely:

- The Francophone sense according to „Le Petit Larousse - Dictionnaire encyclopedique, Paris, Larousse, 1975 ”, „control is a check, a careful inspection of the correctness of an act”.

³³¹ M. Ghiță - „The financial control, a component of economy”, Universitaria Publishing House, Craiova, 1995, page 6.

³³² *** „Romanian Language Dictionary”, Academic Publishing House, Bucharest, 1975.

³³³ Ionel Bostan - „, The financial control”, Economic Publishing House, Bucharest, 1999, page 6.

³³⁴ Ionel Bostan - „, The financial control”, Polirom Publishing House, Iași, 2000, page 11.

- The Anglo – Saxon sense according to „, The New Merriam - Webster Dictionary, Merriam - Webster Inc., Publishers, Springfield, Massachusetts, 1989 ”, „ supervisory control is the action of someone, something, an examination or the power to control an instrument for regulating a mechanism. ”

The need for control is determined by objective reasons and above all, forms of ownership, commodity production and action of specific laws economy.

Control has been and continues to be one of the factors that have influenced and stimulated progress³³⁵, always people with admiration on the achievements of their predecessors and contemporaries, subjecting them to rigorous examination, which led to change and progress.

In addition to the original meaning, *the concept of control* has gained more meaning over time: *the continuous or periodic review* of an activity, a situation they are going to track and take improvement measures, surveillance, moral and material; *to rule* , *to dominate* an activity or situation; *periodic verification of knowledge*; *careful inspection of the correctness* of an act.

Finally, the *control* is an activity that provides data and information derived from the findings *before, during* or *after* the execution of an operation aimed at the prevention of irregularities or deficiencies, in which their correction and establishing liability, where applicable .

The control is an activity that the findings before, during or after the execution of operations, is providing data and information about them, with the final goal of preventing irregularities and deficiencies - lack of conformity to predetermined rules - and their correction and determination of liability if case³³⁶.

In practice, the control is obvious in all social fields, from politics and obviously in the economic sphere where economic control is revealed primarily by financial control.

1.2. Financial supervision and tax control: definition.

The relationship between finance, public finance and taxation. Relationship between financial law - tax law.

1.2.1. Financial control: definition

Starting from the notion of control and by developments in the economy - which it belongs - *financial control* - its defined „*as the action to determine the status of activities represented in financial and accounting documents, by reporting these representations to the provisions laws that have been defined*”³³⁷.

Analyzing the above definition that audit work *is more* than one action to the need to check the status of knowledge of certain economic phenomenon and pursued to address the effects of deviations from certain statutory provisions.

Specifically, the financial control shall examine the way in which the financial terms of objectives and programs undertaken by different public bodies, in order to prevent them or to discover any irregularities, errors, deficiencies, correct them and to avoid them in the future.

In the sphere of public finance law, financial control covers all the legal rules governing social relations - the legal relations of financial law are set in relation to control the *formation, administration and use* of public financial resources (state and / or administrative units of territories) and that are intended to correct the acts and transactions and other compliance and default rules³³⁸.

³³⁵ Dan – Drosu Şaguna - „, Financial and tax treaty law”, All Beck Publishing House, Bucharest, 2001, page 329.

³³⁶ Doina Petică Roman - „, Public Financial Law”, Tribuna Press House and Publishing House, Sibiu, 2003, page 222.

³³⁷ P.Popeangă, G.Popeangă - „,Financial and tax control”, C.E.C.C.A.R. Publishing House, Bucharest, 2004, page 19.

³³⁸ See Doina Petică – Roman, op.cit., page 223.

The economic literature has formulated various definitions of the financial control, a common denominator of them is the fact that relations in the sphere of financial control is a *component* of the relations which arise in connection with the state's financial resources.

Thus, Professor Ioan Gliga defined the financial control as „*a compliance and enforcement activities conform to norms of financial conducted with the purpose of restoring legality, training and use made of public money funds and hence the purpose of establishing liability and application of legal coercion cases of violation of financial law*”³³⁹.

Professor Dan Drosu-Şaguna defined the financial control as „*a component of economic control, which is to know how material and financial resources are managed by public companies, the form for spending public money, ensure financial balance, achieving economic efficiency, development of national economy, the achievement of social progress*”³⁴⁰.

In his work, public finance law " (Printing Press House and Tribune, Sibiu, 2003), Mrs. Professor Doina Petică - Roman makes the distinction between financial control and public financial control, defining *the public financial control* as being „*a component of financial control activity to verify how is formed the public financial funding and how the public patrimony is managed*”³⁴¹, to ensure a good financial management with the purpose of restoring legality in situations of violation of legal rules”³⁴².

The *training, management and efficient* use of public money are *crucial* to achieving the major objectives of the State, both economic and social, but are *determined* to a large extent, by the efficiency of activities developed by *financial control*.

From the definitions above, we conclude that the financial control activity serves a triple system of interest namely:

1. Financial control is the instrument through the effects of prevention and settlement failures that can occur at any time in activities within an economic unit, serves the interests of the state in achieving its long-term fiscal policy.
2. Financial control serves the interests of economic operators who organize it and carry it through *both* the prevention of situations of failure in the management of heritage, and especially the work of remedying violations of legal provisions established.
3. Financial control serves the interests of economic entities marketing partner, which gives precise information on the economic situation of economic unit and are concerned for a possible partnership.

1.2.2. The relationship between finance, public finance and taxation. The financial law - tax law relationship.

Definition of fiscal law

In the analysis of definitions given to the financial control we can see the following observations³⁴³:

- a) Through *financial control* occurs the inspection of the establishment of public revenue. Since the formation of public revenues is on account of *taxes and other revenue* of public budgets, the legal rules governing these issues are covered in theory as the *tax law*, subdivision belonging to *financial law*. Therefore, *tax law* is a component of *financial law*, just as *taxation* is part of the *science of Finance*. Taking *finances* - the financial relationships – as a *whole*, *public finances* are

³³⁹ Ioan Gliga - „Financial Law, Humanitas Publishing House, Bucharest, 1998, page 380.

³⁴⁰ Dan Drosu-Şaguna - „Financial and tax treaty law”, All Beck Publishing House, Bucharest, 2001, page 329-330.

³⁴¹ Public property means all rights and obligations at a time, of state administrative units - regional public entities or their economic value, acquired or assumed in any way (Doina Petică - Roman, op.cit., Page 226)

³⁴² Doina Petică – Roman, op.cit., page 224.

³⁴³ See Doina Petică – Roman, op.cit. 225-227.

the *part* (and the private finance too) in the public finances, *taxation* is also *part* (the *taxation* is a component of *public finances*, which is a component of finance in its sense). Even so, considering the entire *financial law* as a whole and the relationship between *tax law* and *financial supervision*, by analogy the relationship between financial supervision and tax control is a relationship of the *whole to part*.

Financial Control reflects the *inspection* of the establishment of public revenues through taxes, respectively, verifying the *fulfillment* of tax obligations by taxpayers.

b) Through *financial control* we can check how *to use* the *public revenue / public funds*, regardless of the quality of public or private entity to receive the funds. In addition to checking the *constitution* of government revenue - work carried out through *fiscal control - financial control* (as a whole), and we can also check how public revenues are used. The ultimate goal of *using public revenues* is the satisfaction of needs and general interests, which is why it is imperative to verify the use of these public revenues because it is natural that the requirements are respected by *legality, regularity, economy, efficiency and effectiveness*.

c) The financial control occurs inspection of the *management of public property* - understood as whole and the rights and obligations of the administrative units - territories to public goods in their field and / or private, at one time, value economic, acquired or assumed in any way. In this case, *financial control aimed* is protecting public property against losses caused by natural wear (erosion), waste, abuse or fraud.

2. Conclusion

We can define the *financial control*, as a component of economic control, meaning the activity of verification provisions and operations, which has the objective of knowledge of the *state*, the way they are *formed, managed and employed* the material and financial means (by public companies - which are state entities and the administrative - territorial) - in other words - how to do and spending public money in order to achieve an efficiency of economic life - social, ensure financial balance, the national economy, achievement of social progress and restore the rule of law .

The formation / construction of public revenues is mainly on account of *taxes and other revenue* of public budgets to regulate such matters are the responsibility of *tax law*, a subdivision of financial law. In the context of *fiscality, fiscal control* - reflects the inspection of the establishment of public revenues through taxes, and verifying the fulfillment of tax obligations by taxpayers.

As the French author, Fr. Querol, assessing the effectiveness of a state „depends first of its propensity to tax product to enter the public pay offices and therefore to ensure that citizens do not avoid their tax obligations. For this, it - has endowed with a certain tool: *fiscal control*”³⁴⁴. The tool ensures the supremacy of state tax sovereignty³⁴⁵.

In addition to fiscal control, *financial control* also comprises checking how public revenues are *used*, and inspection of the management of public property.

As tax law is part of the financial law, so, fiscal control is part of financial control.

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CONSIDERATION REGARDING TO THE FISCAL REGULATIONS IN SOME EUROPEAN STATES

Cîrmaciu Diana
Universitatea din Oradea
Facultatea de Științe Juridice

Ardeleanu-Popa Carmen
Universitatea din Oradea
Facultatea de Științe Juridice

It can be observed, that the member states of the European Union were guided to implement some reforms in the domain of fiscal politics, the aim of which would constitute in fighting and eliminating the “damaging” fiscal competition, of the differences regarding to indirect fiscality, etc.

Without this political fiscal instrument coordinated by the members of the European Union, the free traffic of capitals could be transformed into a determinant factor of the cross-border fraud.

Keywords: tax law, financial crisis, regulatory framework for Tax

Cod JEL: K34

From the foresights of the institutional Treaty of the European Community (CE Treaty) we outline the fact that at a fiscal level, the national sovereignty is manifested (with some exceptions) through the fact that the national Governments and not the European Union are those who make decisions upon the taxes which must be paid by their citizens. This way, the primary objective of the European Union is to assure that the national fiscal regulations respect the general orientation of the Union and that these regulations show no disloyal advantages for some companies from a country in front of their competitors from an other, the communitarian fiscal politics sustaining the principle of unique market and that of the free traffic of capitals.

It is known the fact that the taxes are contributions created to finance public expenses, but the priorities in the matter of expenses are different in every member state, and the European Union does not intervene, in the condition that these must be maintained in reasonable limits. In the context and under the condition of some prudent actions in the matter of economical politics, the member states have great freedom in deciding how to spend their money and what taxes are applied to finance their expenses.

Though, in the matter of indirect taxation it is assessed the legislative harmonization, because this type of fiscality influences the free traffic of goods, the free practice of services – the indirect taxes are contained by the final prices of goods and services, so that it increases the risk of the distortion of the communitarian transactions; that’s why the legal dispositions are more fixed in the matter of harmonization of the fiscal politics.

For the majority of the legal aspects in the domain of direct fiscality there is no need for a harmonization, so that these are at the appreciation of the member states of the European Union, also respecting the principle of subsidiarity.

Having in attention these facts we try to make a concise presentation of some elements of fiscality from some member states of the European Union..

The *Austrian* tendencies in the fiscal matter have been manifested in the direction of diminution of the taxes between the period 2008/2012. More concrete, the principal aspects applied by the fiscal reform from year 2009 aims the followings:

-reduction of tax rates on salaries and income³⁴⁶ – Austria using the progressive method of taxation, in this case³⁴⁷;

- increase of the exemption limit and changes concerning the reduced tax rate of other receipts;
- increase of the child tax credit from € 50.90 to € 58.40/month;
- analogue adjustment of the single-parent tax credit;
- introduction of a child tax-free amount of € 220/child/year;
- deductibility of child care costs up to € 2,300/child/year for children up to an age of 10;
- tax exemption for employers' subsidies for child care up to € 500/child/year;
- change from the tax-free amount for profits invested by entrepreneurs subject to accounting to a tax-free amount for profits as from 2010: the tax-free amount will be increased from 10 % to 13 % and the requirement for investing profits will be abolished up to € 30,000;
- abolishment of the preferential taxation for retained profits as from 2010;
- abolishment of the preferential tax treatment of stock options as from 1 April 2009;
- tax deductibility of donations for humanitarian purposes, for development cooperation and emergency aid up to 10 % of the profits or income of the previous year;
- increase of the maximum deductible amount of contributions to churches to € 200 as from 2009.

The economical crisis have affected France too, in the moment when this country had already confronted with the increase of the budget deficit – this way there were also outlined difficulties in fiscal matters. In case of the taxation³⁴⁸ of the incomes of physical persons, the scheme of progressive taxation is presented this way (fractions of taxable incomes of the physical persons; the taxable income is divided according to a fiscal domicile, for example, into one part in case of a single person, into two parts in case of a married couple, etc.):

Table no.1

Fractions of taxable income (one part)	Rate
up to 5852 euro	0%
from 5852 euro to 11673 euro	5,5%
from 11673 euro to 25926 euro	14%
from 25926 euro to 69505 euro	30%
over 69505 euro	40%

In the German fiscal spectrum it is observed the introduction, beginning with January 1st 2009, of the tax restrained through stop by the source, upon the incomes of the capital³⁴⁹. Also, an other important moment was the adoption , at the end of 2008, of the reform plan of the system of

³⁴⁶ The Income Tax Act covers the following seven categories of income: income from agriculture and forestry; income from self-employment; income from trade or business (*categories of business income or income from profit*); income from employment; income from investment of capital; income from rental and leasing; other income (*income from receipts over expenditures or categories of non-business income*).

³⁴⁷ Among the effects of this measure it is outlined the fact that, whereas in 2008 2.54 million people out of 6.535 million taxpayers did not pay any taxes on salaries/income, from 1 January 2009 2.7 million people no longer pay taxes on salaries/income.

³⁴⁸ It must be mentioned that the need for taxation is asserted in art. 13 of the 1789 Declaration of the Rights of Man and of the Citizen: „for the maintenance of the public force, and for administrative expenses, a general tax is indispensable [...]”, adding that „it must be equally distributed among all citizens, in proportion to their ability to pay”. Article 14 of the Declaration states that „all citizens have the right to ascertain, by themselves or through their representatives, the need for a public tax, to consent to it freely, to watch over its use, and to determine its proportion, basis, collection and duration”.

Unlike other mandatory levies, *taxes may be assessed and collected only by virtue of an act of the legislature*, i.e. Parliament.

³⁴⁹ Named „*Abgeltungsteuer*”.

heritage taxes – the modifications aiming especially the evaluation rules of the inherited properties.

The last aspect discussed referring to the actual state of the German legal frame of taxation is regarding to a decision of the Constitutional Court (2008), through which there were declared unconstitutional the dispositions referring to the deduction of costs of transport to the working place. According to those foresights, the tax-payers could not deduct their costs in case when they lived no farther then 20 km from the working place, a contractual amount could be directly deducted for every kilometer of transport which crossed this limit. The constitutional Court had considered that this is an arbitrary limit which breaks the basic regulation of the equal treatment in the front of the law. As a consequence, every tax-payer has the right for deduction by a contractual amount for every kilometer.

In the *Italian* fiscality we must mention the taxation rates of the incomes, as follows:

Table no.2

Taxable income	Rate	IRPEF³⁵⁰ –income tax for individuals
up to 15000 euros	23%	23% of income
more than 15000 and up to 28000 euros	27%	3450 + 27% on the part exceeding 15000 euros
more than 28000 and up to 55000 euros	38%	6960 + 38% on the part exceeding 28000 euros
more than 55000 and up to 75000 euros	41%	17220 + 41% on the part exceeding 55000 euros
more than 75000 euros	43%	25420 + 43% on the part exceeding 75000 euros

Also in 2006 (exactly on October 3rd 2006) the legal frame for inheritance and donations was excepted. The heirs and legatees who benefit from the following property and rights shall pay this tax:

- real estate and rights from real estate. The evaluation of the property is done by multiplying the cadastral revenue by the relevant updated coefficients (see below the calculation of the cadastral value to work out the cadastral and mortgage tax);
- shares in the capital of a company (the value is given by the net equity);
- bonds (excluding government bonds);
- companies (the value is given by the net equity without evaluating immovable goods and good will);
- credits and money;
- movable goods (jewels, furniture).

The taxable base is made up of the *total net value* of the hereditary assets, that is to say of the value of the property and the rights object of the inheritance, net of liabilities and deductible expenses (debts of the deceased, medical expenses and funeral expenses).

The inheritance tax is determined by the office which applies different rates according to the degree of kinship of the heir.

In our presentation we are also dealing with some fiscal aspects from Grand Duchy of Luxembourg, which has tried a long period of time to increase his global competitiveness. These effort were materialized in an extremely high political and social stability, in a coherent legal frame, in a direct and favorable fiscal environment. In 2009 for *tax-payers physical* (Law no. 19

³⁵⁰ That is applied on the following incomes: real estate income; capital gains; income from self-employment; income from employment; corporate income; other incomes.

from December 2008³⁵¹) and for companies, there were introduced new positive measures in the fiscal matter (for example through adoption of Law from 19 December 2008³⁵²).

For the physical person tax-payers³⁵³ the new thing is represented by a better consideration of the inflation by introducing the new fiscal credits, the better payment method of the children allocation, sustaining the donations for some charity organizations and the annulment of the taxes restrained by the payment of debts by some saving institutions.

The directions of the fiscal politics(implying fiscal legislation) elaborated by the Ministry of Public Finances with the cooperation of the three fiscal administrations („Administration des contributions directes du Grand-Duché de Luxembourg”, „Administration de l’Enregistrement et des Domaines” and „Administration des douanes et accise”) will aim even in the future to assure the balance of public finances.

In the fiscal system from Bulgaria, an important moment was represented by the introduction of the unique level of taxation³⁵⁴ (10%), this being the lowest taxation level of the personal incomes in Europe; the system of unique level of taxation have registered positive effects because the simple method of calculations, the equal treatment of tax-payers, the low level of taxation. In these conditions it was considered, that the adopted fiscal politics had a primordial role in the economical development of Bulgaria, especially in 2008.

The fiscal system of Croatia had not registered essential modifications in the last period, the main fiscal incomes of the state having as source the tax on the personal incomes, the company taxation, the Value Added Tax and excise duties. Though, we must mention that from the total amount of these fiscal incomes, the greatest part is registered by VAT.

In the Dutch tax system, the rate for income from employment and home ownership is a progressive rate that is charged over four „brackets”. As a result, the private taxpayer will pay a proportionally higher amount of tax as his income increases. tax rates in 2008.

Table no.3

Taxable income from employment and home ownership	Tax rate³⁵⁵
up to 17 579 euro inclusive	2.45%
17579 euro to 31589 euro inclusive	10.70%
31589 euro to 53860 euro inclusive	42.00%

³⁵¹ „Journal Officiel du Grand-Duché de Luxembourg”, no. 198, from 23. dec. 2008, p. 2622-2629.

³⁵² „Journal Officiel du Grand-Duché de Luxembourg”, no. 207, from 24 dec. 2008.

³⁵³ We are referring to the matter of income taxation. According to this legal dispositions tax-payers are:
 -resident taxpayers, i.e. those physical persons who have their domicile or normal place of residence in Luxembourg. Luxembourg residents are taxable on their worldwide income.
 -non resident taxpayers, i.e. those physical persons who have no domicile or normal place of residence in Luxembourg. Non residents are taxable on income arising from Luxembourg sources only. Taxable income consists in the total net income less special expenses.; but only the following categories of income are taken into account for the determination of total net income: trade and business income; agriculture and forestry income; income from independent professional services; net income from employment; net income from pensions and annuities; net income from capital and investments; net income from rentals and leases; sundry net income.

³⁵⁴ *Law on taxes on the income of natural persons* (01.01.2007), with the ulterior modifications and completions.

³⁵⁵ Tax rates in 2008.

53860 euro and more	52.00%
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Not at least we try to present concisely the main elements of the Hungarian legal frame in the fiscal domain, represented mainly by: [Act XCII of 2003 on the Rules of Taxation](#); [Act CXVII of 1995 on Personal Income Tax](#); [Act CXXVII of 2007 on Value Added Tax](#); [Act LXXXI of 1996 on Corporate Tax and Dividend Tax](#); [Act XLIII of 2002 on Simplified Entrepreneurial Tax](#); [Act CXX of 2005 on Simplified Contribution to Public Revenues](#); [Act LIX of 2006 on the Introduction of the Special Tax and Bankers' Contribution Intended to Improve the Balance of Public Finances](#); [Act XCIII of 1990 on Duties](#); [Act LXXXVII of 2003 on Consumer Price Subsidies](#); [Act XXXIV of 1991 on Gambling Operations](#).

In the domain of taxation of physical persons the legal regulations outline the following categories of taxable incomes:

-incomes to be consolidated: income from activities other than self-employment, income from activities of self-employment and other incomes to be consolidated;

-incomes taxed separately: (in-kind benefits, capital gains, income from private businesses and income from rental of real estate). In case of the incomes from the first category the taxation is represented in the following way: the rate for the combined tax base that is under 5 million HUF is 17 %, for incomes higher than 5 million HUF a fixed amount of 850.000 HUF + a percent of 32% for the amounts over 5 million HUF³⁵⁶.

In the matter of taxation on income/profit of judicial persons we mention that pursuant to the Corporate Tax Act, the following are deemed resident taxpayers:

-companies established under Hungarian law (thus, firms established under the Act on Business Associations: joint stock company, limited liability company (Kft.), joint company (Kv.), general partnership (Kkt.), limited partnership (Bt.) and other organizations (foundations, associations);

-non-resident taxpayers performing entrepreneurial activities at business premises in Hungary.

No group taxation is permitted under Hungarian law and in general the tax year corresponds to the calendar year.

We can observe that in every state, the fiscal politics are based on the national public budget, the budgetary expenses and incomes, constituted in great part by taxes and fees, will influence the destiny of the national economy (even on communitarian level, the economical politics are implemented through monetary and fiscal politics – form here originating the particular importance of the establishment of the general frame of these regulations).

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³⁵⁶ Beginning with 01.0.2011 there will be modifications by the quantum of the tax, this way for the incomes under 15 million HUF there will be a percent of 17%, and for the higher incomes then 15 million HUF, the tax will be a fix amount of 2.550.000 HUF + a percent of 32% for the amounts over 15 million HUF.

EFFICIENCY AUDIT WITHIN THE SOCIAL HEALTH INSURANCE SYSTEM. HOSPITAL SERVICES PROVIDERS IN ROMANIA

Dobra Iulian Bogdan

„1Decembrie 1918” University of Alba Iulia

Faculty of Science

Given how the healthcare sector records a continuous rise of costs, decision factors and theoreticians try to develop policies that will contribute to the improving the way resources are used.

Keywords: performance auditing, efficiency, DRG

JEL codes: I11, I12, I18

Introduction

In literature it is well known that the goal of performance audits is to provide information and to ensure the management manner of public resources. This type of audit assesses: “the economy, efficiency and effectiveness of managing public entities by examining the used resource, the information systems and the supply of information, including performance indicators, the monitoring of the results and observing the law and the ethics”³⁵⁷. The most known ways to measure performance are the three traditional Es: economy (*to minimize consumption of inputs*), efficiency (*the relations between inputs and outputs*) and effectiveness (*results compared to expectations*)³⁵⁸.

The present paper tries to determine the performance level recorded by several hospital services providers with the help of one of the three indicators, namely efficiency.

Literature review

Economy, efficiency and effectiveness have been a major concern for all the governments in trying to reform and modernize healthcare systems. It seems the 3Es were adopted as “raison d’être” of the intervention of public authorities in areas like healthcare³⁵⁹.

There are authors like Hollingsworth & Peacock (2009) that provide a comprehensive overview of stochastic frontier studies which attempted to measure efficiency in hospital or other health services.

Liu & Mills (2007) shows that organizational (hospital) efficiency can be measured by: multidimensional weighted ratio analysis: “outputs are measured by using one indicator derived by converting all types of outputs into an output equivalent, and that the inputs are measured by using either the total cost measure or an input equivalent”³⁶⁰, or by production function analysis used to : “estimate the output elasticity from which scale effects can be derived; elasticity of the input substitution that can be used to measure allocative efficiency in combination with the input prices; and efficiency”³⁶¹.

³⁵⁷ S., Anwar, (2007), *Performance Accountability and Combating Corruption*, International Bank for Reconstruction and Development/ World Bank, Washington, DC, USA, p. 313.

³⁵⁸ J., Wholey, E., Zapico-Goni (2007), *Monitoring Performance in the Public Sector: Future Directions from International Experience*, Transaction Publishers, New Brunswick, New Jersey, SUA, p. 5.

³⁵⁹ M., Marinker (2006), *Conversations about Health: Policies and Values*, Radcliffe Publishing Oxford, Oxford, UK, p. 97.

³⁶⁰ X., Liu & A., Mills (2007), *Public ends, private means: strategic purchasing of health services*, World Bank Publications, Washington, DC, USA, p. 360.

³⁶¹ Idem, p. 365.

Research methodology

In order to conduct this research, we did a documentation based on various analyses, studies, practice handbooks regarding the efficiency of hospital service suppliers. At the same time, the specialized literature, the current legislation, as well as the practical aspects met in the contracting and reporting activity of medical services by providers was also taken into account.

Regarding the size of the sample, we mention that during the analyzed period, 2005-2009, of a total of 68 hospital services providers, which are included in the category of municipal hospitals, 12 units (17.65%) were subjected to analysis. At the same time, it was considered useful that the sample is composed of municipal hospitals that operate in the same development region (Center Regional Development Agency³⁶²). Given that the indicators underlying the analysis of the present study have relatively similar values, we believe that the results of the research can't be distorted significantly.

The indicator according to which the over 80% of hospital services providers contracted budgets with the second credit accountants (Health Insurance Houses) is tariff value for solved case (Diagnosis Related Groups - DRG). According to the law (e.g. Framework Agreement), this indicator is considered a quantitative indicator due to the specific indicators that are included in its structure. The calculus formula for contracted DRG is the Number of discharged cases (NDC) – which is negotiated with the Health Insurance House, multiplied by the Case-mix index from the previous year (CMI) – stipulated in the norms, and multiplied by the Tariff on average case (TAC) – stipulated in the norms. Starting from the calculus formula highlighted above, we tried to conduct a study based on empirical indicators (achieved values of the indicators).

Case study

In the first stage of research, we determined the tariff value for solved case (DRG_{aMH}) achieved by each hospital service provider by multiplying the number of achieved discharged cases ($NDCa$) with the achieved Case-mix Index ($CMIa$) and the achieved tariff on average case ($TACa$) as follows:

$$DRG_{aMH} = NDCa * CMIa * TACa \quad (1)$$

Source: data processed by the author according to the Framework Agreement, 2010

The dynamic of the tariff value for solved case (DRGr)

Table no. 1

Supplier Municipal Hospital (MH)	Year 2009 -lei-	2008 -lei-	2007 -lei-	2006 -lei-	2005 -lei-
Aiud MH (AMH)	13.035.375,13	13.721.660,57	8.423.909,31	8.610.580,34	6.310.430,78
Blaj MH (BMH)	14.424.701,44	13.320.990,27	9.670.934,49	8.142.229,58	7.705.533,07
Sebeş MH (SMH)	12.644.791,78	12.345.072,74	11.216.334,99	7.106.466,52	5.252.441,59
Făgăraş MH (FMH)	14.864.141,87	14.974.200,88	11.303.466,11	9.275.214,85	6.820.803,17
Săcele MH (SMH)	4.163.427,72	3.158.030,46	2.052.123,67	1.497.583,66	550.276,70
Codlea MH (CMH)	3.663.037,50	3.779.643,41	2.990.454,77	1.869.172,03	2.452.606,36
Odorheiu Secuiesc MH	25.744.031,12	24.721.867,17	16.393.636,28	13.158.627,24	11.390.723,31
Topliţa MH (TMH)	9.212.595,72	9.232.686,04	4.496.168,18	3.984.093,31	3.694.323,99
Sighişoara MH (SMH)	16.889.157,60	15.381.927,12	10.041.795,10	8.580.768,78	7.106.603,11
Reghin MH (RMH)	13.465.912,21	12.827.297,34	8.684.663,88	7.037.691,60	5.641.836,22

³⁶² Center Regional Development Agency (ADR Centru) aims to contribute to the sustainable and equitable development of the Center Region by removing disparities and imbalances between areas of the region for the benefit of its inhabitants.

Târnăveni MH (TMH)	19.988.085,60	17.612.227,92	16.645.216,80	10.420.887,38	6.815.895,84
Mediaş MH (MMH)	18.641.004,12	16.919.497,73	11.775.565,39	7.777.400,67	6.718.272,81
DRG_{aMH}	13.894.688,48	13.166.258,47	9.474.522,42	7.288.393,00	5.871.645,58

Source: data processed by the author, 2010

In the next stage, with the help of the relation below, we determined the hospital healthcare service provider that in the last five years recorded the closest value to: the average number of discharged cases, the case-mix index of the tariff on solved case, as follows:

$$f_{MH} = \min(|I_{eMH} - \overline{I_{eMH}}|) \quad (2)$$

Source: data processed by the author, 2010

where:

f_{MH} – the minimum value of the efficiency indicator of the municipal hospital compared to the average

I_{eMH} – the efficiency indicator achieved by the municipal hospital

$\overline{I_{eMH}}$ – the average value of the achieved efficiency indicators

In order to determine which organization has the best value of the f_{MH} function, we determined the values for each indicator (for the number of discharged cases -; the case-mix index - f_{CMaMH} ; tariff on average case - f_{TACaMH}). The summary of these values, calculated based on the data in Annex no. 1, is highlighted in the following table:

Evolution of the smallest deviation from the minimum value of the analyzed indicators

Table no. 2

Indicator\Year	2009	2008	2007	2006	2005
No of achieved discharged cases f_{NDCaMH}	118	180	323	303	135
Case-mix Index f_{CMaMH}	0,0030	0,0387	0,0042	0,0052	0,0022
Tariff on average case f_{TACaMH}	8,46	8,46	20,33	3,58	3,44

Source: data processed by the author, 2010

By comparing the data in table no. 2 with the values recorded by each provider, the following aspects can be observed:

-for the Indicator “number of achieved discharged cases” (**NDCa**) there are two hospital units that obtained in the analyzed period the smallest deviations from the average (f_{NDCaMH}), namely Sighişoara Municipal Hospital (with 118 cases in 2009, 180 in 2008, 323 in 2007, and 135 in 2005);

-for the achieved Case-Mix Index (**CMiA**), of all the providers, two obtained the smallest deviations from the average (f_{CMaMH}) in the same period, namely Reghin Municipal Hospital (0.042 in 2009, 0.0462 in 2008, 0.0110 in 2007 and 0.0165 in 2006) and Mediaş Municipal Hospital (0.0052 in 2006 and 0.0022 in 2005);

-for the tariff on average case indicator (**TACa**), of all the providers, five recorded the smallest deviations from the average (f_{TACaMH}) in the analyzed period. In this case also we can see that

Reghin Hospital had relatively low values of the indicator compared to the average: 34.33 lei in 2007, 40.62 lei in 2006 and 35.56 lei in 2005.

After processing the data in Annex no. 1 with the help of relation number 2, the following values were obtained the values from Table no. 3.

It can be noticed that during those five years the entity with the most representative values compared to the average if Reghin Municipal Hospital (RMH). Even if in 2006 and 2007 it recorded slightly higher values in comparison to the other units, it ranks second in both periods. Consequently, based on what was revealed before, we believe that RMH can be considered the best performer among the providers and the entity at the base of determining the efficiency indicator for the tariff on solved case for the analyzed municipal hospitals.

The minimum value of DRG_{aMH} in the 2005-2009 period

Table no. 3

Provider\ Year	2009 -lei-	2008 -lei-	2007 -lei-	2006 -lei-	2005 -lei-
AMH	859.313,35	555.402,10	1.050.613,10	1.322.187,35	438.785,20
BMH	530.012,95	154.731,80	196.412,08	853.836,58	1.833.887,49
SMH	1.249.896,71	821.185,73	1.741.812,58	181.926,47	619.203,99
FMH	969.453,39	1.807.942,41	1.828.943,69	1.986.821,86	949.157,59
SaMH	9.731.260,77	10.008.228,01	7.422.398,74	5.790.809,34	5.321.368,88
CMH	10.231.650,98	9.386.615,06	6.484.067,64	5.419.220,97	3.419.039,22
OSMH	11.849.342,64	11.555.608,70	6.919.113,86	5.870.234,24	5.519.077,73
TMH	4.682.092,76	3.933.572,43	6.484.067,64	3.304.299,68	2.177.321,59
MHSi	2.994.469,12	2.215.668,65	567.272,69	1.292.375,78	1.234.957,53
RMH	428.776,27	338.961,13	789.858,54	250.701,40	229.809,36
TMH	6.093.397,12	4.445.969,45	7.170.694,39	3.132.494,38	944.250,26
MMH	4.746.315,64	3.753.239,26	2.301.042,98	489.007,67	846.627,23
f_{DRGaMH}	428.776	154.732	196.412	181.926	229.809

Source: data processed by the author, 2010

In the last stage of the study, starting from the formula for determining efficiency, known in economic theory as the ratio between the obtained results and the used resources; the specific criteria of efficiency audit pursued by the Supreme Audit Institutions (SAI) and the data processed previously, we established the following calculation method for the efficiency of the analyzed hospital (e_{DRGaMH}) units:

$$e_{DRGaMH} = \frac{DRG_{aMH}}{DRG_{aPMH}} \quad (3)$$

where:

e_{DRGaMH} – the efficiency indicator tariff on solved case of the municipal hospital

DRG_{aMH} – Diagnosis Related Groups produced by the municipal hospital

DRG_{aPMH} – Diagnosis Related Groups produced by the performing municipal hospital

Following the calculus of the efficiency indicator at the level of each MH, in the examined period, based on the data in Annex no. 1, we obtained the values from Tabel no. 4.

Therefore, we can see that during the analyzed period most providers have recorded values higher than the level considered optimum (≥ 1) for the studied efficiency indicator. Of the municipal hospitals with high values, two are more evident: Odorhoiu Secuiesc Municipal Hospital had a value of the efficiency indicator that exceeded 2 in the year 2005, and for the other years it recorded values over 1.8; Târnaveni Municipal Hospital recorded values from 1.21 (2005) to 9.7 (2007) and in the last year the value was 1.48. At the opposite pole are three municipal hospitals that recorded during the same period much lower values compared to the optimum level: Săcele Municipal Hospital had values between 0.1 in 2005 and 0.34 in 2009; Codlea Municipal Hospital recorded values between 0.43 in 2005 and 0.27 in 2006 and 2009; and Toplița Municipal Hospital has values ranging from 0.65 in the first year and 0.68 in the last year.

The evolution of the efficiency indicator e_{DRGaMH} during the 2005-2009 period

Table no.4

Provider \ Year	2009	2008	2007	2006	2005
AMH	0,97	1,07	0,97	1,22	1,12
BMH	1,07	1,04	1,11	1,16	1,37
SMH	0,94	0,96	1,29	1,01	0,93
FMH	1,10	1,17	1,30	1,32	1,21
SaMH	0,31	0,25	0,24	0,21	0,10
CMH	0,27	0,29	0,34	0,27	0,43
OSMH	1,91	1,93	1,89	1,87	2,02
ToMH	0,68	0,72	0,52	0,57	0,65
SiMH	1,25	1,20	1,16	1,22	1,26
TaMH	1,48	1,37	1,92	1,48	1,21
MMH	1,38	1,32	1,36	1,11	1,19

Source: data processed by the author, 2010

Conclusions

It is known that resources within the healthcare system are limited, regardless of the type of the system or of the organization and functioning economic system of the trade economy, which is why it is *completely immoral to waste them*. An inefficient use of resources in a certain area implicitly determines a lack of services in other areas where they are truly needed. Therefore, it is *a moral requirement* to identify the most efficient manner of organization for all healthcare services and to use *economic rationality* at their level.

At the same time, in literature, it is known that efficiency is related to economy. Also, regarding economy, as well as efficiency, the central concerns are related to the deployed resources. The main question is if these resources were used in an optimum or satisfying manner or if the identical or similar results, in terms of quality, could have been achieved with less resources.

Therefore, next to the indicators calculated in this study (efficiency), we believe that in practice, in order to determine performance for a hospital services provider, the economy, as well as effectiveness, must be taken into account.

Therefore, next to the indicators calculated within this study (efficiency), we believe that in practice, in order to determine the performance of a hospital services provider, the economy, effectiveness, as well as quality indicators must be taken into account (e.g. clinical infections).

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- 5.***The Orders of the Ministry of Health and of the President of the National Health Insurance House numbers: 56/45 of 03.02.2005; 681/243 of 13/02.06.2006; 1.781/CV 558 of 28/15.12.2006; 522/236 of 27.03.2008; 416/428 of 31.03.2009; for the approval of the Methodological Norms for implementing the Framework Agreement regarding conditions for granting medical assistance within the social health insurance system for the years 2005-2009 (published in the Official Gazette of Romania, part I, no. 134 bis of 14.02.2005; no. 569 bis of 30.06.2006; no. 1.057 bis of 30.12.2006; no. 257 bis of 01.04.2008 and no. 210 bis of 01.04.2009).

Annex no.1

Number of discharged cases, Case-mix index and the tariff on average case

Provider\ Year	2009 -lei-	2008 -lei-	2007 -lei-	2006 -lei-	2005 -lei-
<i>Number of achieved discharged cases (NDC)</i>					
AMH	10.193	10.653	10.043	11.924	11.717
BMH	11.874	11.637	11.507	13.101	13.919
SMH	11.954	12.056	12.101	11.786	10.296
FMH	11.911	11.978	12.043	11.999	12.019
SaMH	4.118	3.260	3.073	2.990	1.250
CMH	3.450	3.542	3.553	4.030	2.864
OSMH	21.721	21.525	21.007	22.153	21.509
TMH	7.186	7.714	7.453	7.521	7.973
SiMH	10.900	10.759	10.579	10.959	10.315
RMH	10.462	10.142	10.436	10.864	10.798
TMH	12.900	12.319	13.945	13.354	11.109
MMH	15.550	15.680	15.081	14.459	14.190
NDC average	11.018	10.939	10.902	11.262	10.663
<i>Achieved case-mix index (CMI)</i>					
AMH	0,9174	0,9240	0,7358	0,8234	0,7066
BMH	0,8803	0,8295	0,7811	0,7506	0,7691
SMH	0,8635	0,8359	0,8283	0,7003	0,6811
FMH	0,9043	0,9059	0,7681	0,7864	0,6639
SaMH	0,8005	0,7670	0,6772	0,6599	0,6668
CMH	0,7750	0,7789	0,6887	0,4704	0,9989
OSMH	0,9399	0,9108	0,8062	0,7973	0,8170
TMH	0,9290	0,8673	0,6143	0,7007	0,7044
SiMH	1,1228	1,0360	0,7768	0,7699	0,7791
RMH	0,9327	0,9165	0,7836	0,7929	0,7359
TMH	1,2128	1,9117	0,9832	0,8355	0,7556

MMH	0,9652	0,8688	0,8280	0,7409	0,7502
CMI average	0,9370	0,9627	0,7726	0,7357	0,7524
<i>Tariff on average case (TAC)</i>					
AMH	0,9174	0,9240	0,7358	0,8234	0,7066
BMH	0,8803	0,8295	0,7811	0,7506	0,7691
SMH	0,8635	0,8359	0,8283	0,7003	0,6811
FMH	0,9043	0,9059	0,7681	0,7864	0,6639
SaMH	0,8005	0,7670	0,6772	0,6599	0,6668
CMH	0,7750	0,7789	0,6887	0,4704	0,9989
OSMH	0,9399	0,9108	0,8062	0,7973	0,8170
TMH	0,9290	0,8673	0,6143	0,7007	0,7044
SiMH	1,1228	1,0360	0,7768	0,7699	0,7791
RMH	0,9327	0,9165	0,7836	0,7929	0,7359
TMH	1,2128	1,9117	0,9832	0,8355	0,7556
MMH	0,9652	0,8688	0,8280	0,7409	0,7502
TAC average	0,9370	0,9627	0,7726	0,7357	0,7524

Source: data processed by the author according to the Framework Agreement and according to the data of the National School of Public Health and Health Management Bucharest for the 2005-2009 period.

THE ANALYSIS OF ABSORPTION CAPACITY OF EUROPEAN FUNDING IN THE NORTH WESTERN REGION OF ROMANIA

Droj Laurentiu
University of Oradea
Faculty of Economics

This paper analyzes the Romanian absorption capacity of the funds allocated through the REGIO programme, which is part of ERDF programme. Within the paper are presented the concept of absorption capacity and several opinions regarding its main composing elements. Also the Regio programme, its main axis and its budget is briefly presented. In the last chapter of the analysis a thorough analysis of the implementation of REGIO in the Romanian North-West Region was carried out and several causes for the low absorption of European Funds have been identified.. The process of improving the absorption capacity of European Funds is still at the beginning in Romania and will certainly become an important issue over the following years at all levels of the Romanian society and at the level of the European Funding Authorities as well.

Key words: Absorption capacity, European Union, European funds, Structural Funds, European Regional Development Fund, Financial allocation

The article's JEL code: F15, F36, E61, D78, H77, O23

1. Introduction

The Structural Funds and the Cohesion Fund are financial instruments of the policy of economic and social cohesion. These instruments support the reduction of the gap between the development of different regions from the member states and promote, to this purpose, the economic and social cohesion. The general rules for the Structural Funds and the Cohesion Fund were set by the *EU Council Regulation no. 1083/2006 June 2006*, which defines the general framework for the European Regional Development Fund, European Social Fund and for the Cohesion Fund (European Council, 2006). The eight East European EU member states that joined in 2004, along with Bulgaria and Romania—the “EU10”—are set to receive a huge amount of support from the EU in 2007-13. The eight more seasoned “new member states” will see their funding allocations almost double, and the jump in funding for Bulgaria and Romania compared to the pre-accession funds they had been receiving will be even more sizeable (Economist Intelligence Unit, 2007).

Total funds allocated to the EU10 for 2007-2013

Country	Total assistance (billion (euro))	Per capita assistance(euro)	% of the GDP
The Czech Republic	26,686	2.627	3.5
Estonia	3,393	2.555	4.1
Hungary	25,307	2.561	3.9
Latvia	4,001	1.751	3.9
Lithuania	6,775	2.041	4.2
Poland	67,284	1.773	3.6
Slovakia	11,507	2.102	3.9
Slovenia	4,102	2.082	2.0
Bulgaria	6,674	901	4.0
Romania	19,668	911	3.2
TOTAL	175,397	1.930	3.6

Figure 1. Total funds allocated to the EU 10 for 2007-2013
(Economist Intelligence Unit, 2007).

Despite the EU10 have also been busy building new institutions and training staff to improve their “absorption capacity”— the ability to manage and organise the spending effectively, is still under much debate and questioning both from their citizens and from old member states as well.

2. Defining the absorption capacity

The absorption capacity is generally defined as the “capacity of the countries on low incomes to absorb productively a large volume of foreign aid”, the central issue here being to prioritize the granted aid (Bourguignon and Sundberg, 2006). From this perspective and taking into account the beneficiaries of the international aid, the absorption capacity relates to the general functionality of the particular state, to the adjustment of obvious dysfunctions and to the adoption of minimal administrative and economic standards(Cace et al, 2009).

The analysis by Boot et al, 2001, is the first to systematically put forward the notion of absorption capacity. It has defined it as “the extent to which a member state is able to fully spend in an effective and efficient way the allocated financial resources from the Structural Funds” (Boot, de Veet, Feeks, 2001). On this basis three more specific factors of absorption capacity have been established(Wostner, 2008):

- The *macroeconomic absorption capacity*, which would be defined and measured in terms of GDP;
- The *managerial-administrative absorption capacity* which refers to the abilities and skills of central, regional and local authorities to prepare acceptable plans, programmes, and projects in due time, to decide on programmes and projects, to arrange the co-ordination among the principal partners, to cope with the vast amount of administrative and reporting paperwork required by the Commission, and to finance and supervise implementation properly, avoiding fraud as far as possible.
- Finally, the *financial absorption capacity*, which refers to the ability to co-finance EU supported programmes and projects, to plan and guarantee these national contributions in multi-annual budgets, and to collect these contributions from several partners, interested in a programme or project.

3. Regional Operational Programme - the main infrastructure financing tool of the European Union in Romania

The Regional Operational Programme 2007 - 2013 (REGIO) is one of the main Romanian operational programmes agreed with the European Union and a very important tool for implementing the national strategy and the regional development policies. It is applicable to all eight development regions of Romania. The overall objective of the ROP consists of "supporting and promoting sustainable local development, both economically and socially, in the regions of Romania, by improving the conditions of infrastructure and business environment, which support economic growth". This means that the ROP's aim is to reduce economic and social development disparities between the more developed regions and the less developed ones. (Romanian Government, 2007). As mentioned above and presented in the figure bellow Romania has eight development regions: which contain between four to seven counties(Region 1 to 7) and the Ilfov County of the capital city of Bucharest(Region Eight).

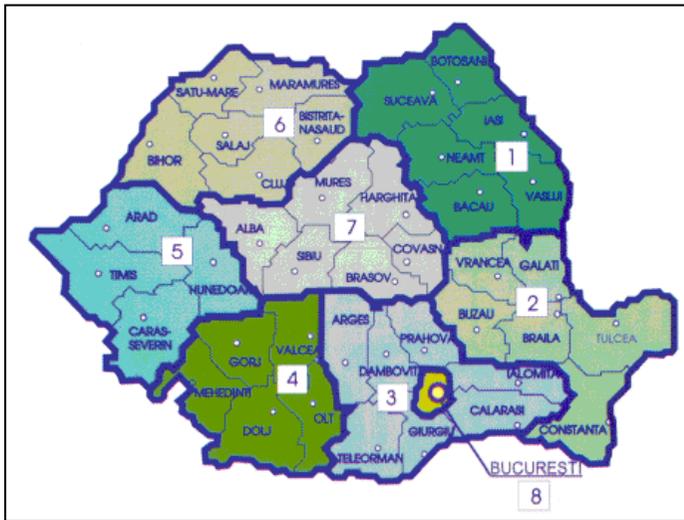


Figure 2. Development Regions – Romania (Romanian Government, 2007)

The Regional Operational Programme in Romania is financed within one of the structural funds of the European Union – the European Regional Development Fund (ERDF). This fund supports EU regions with a GDP per capita below 75% of the European average.

The total budget allocated to the ROP is approximately 4.4 billion Euros in the first 7 years after accession (2007-2013). EU funding represents approximately 84% of the ROP budget. The rest comes from national funds, public co-financing (14%) and private co-financing (2%).

The distribution of funds is done on the priority axes of the Regional Operational Programme. Each priority axis is allocated a certain budget and includes a number of key areas of intervention whose target is the achievement of development objectives.

It is expected that the implementation of this programme will create better conditions for the economic and social balanced territorial development of all Romanian Regions and for urban growth poles able to spread the development.

The balanced development of all the counties regions will be achieved through an integrated approach, based on a combination of public investments in the local infrastructure, active policies to stimulate business activities and support for the valorisation of the local resources, by the following priority axes:

- Support to sustainable development of urban growth poles
- Improvement of regional and local transport infrastructure
- Improvement of social infrastructure
- Strengthening the regional and local business environment
- Sustainable development and promotion of tourism
- Technical assistance.

In order to ensure the implementation of the actions within the program an amount of almost 4.4 billion Euros have been allocated between the six Priority Axis of the fund:

Priority Axis	EU Contribution	National Public Contribution	Total Public Contribution
Support to sustainable development of urban growth poles	1 117 806 529	273 365 256	1 391 171 785
Improvement of regional and local transport infrastructure	758 355 021	118 355 985	876 711 006
Improvement of social infrastructure	558 903 260	98 629 992	657 533 252
Strengthening the regional and local business environment	633 423 700	76 471 117	709 894 817
Sustainable development and promotion of tourism	558 903 264	57 862 924	616 766 188
Technical Assistance	98 629 988	32 876 662	131 506 650
Total	3 726 021 762	657 561 936	4 383 583 698

Figure 3. Regio - Breakdown of finances by priority axis (European Union - 2007)

From this amount of 4.4 billion Euros an amount of 536.41 million Euros are directly allocated to the North-West Region as presented in the programming documents of the Regio Programme (Ministerul Dezvoltării Regionale și Turismului, 2007). North-West Region has a surface of 34,159 sqkm, accounting for 14.3% of the total surface of the country. It comprises six counties (NUTS 3): Bihor, Bistrita-Nasaud, Cluj, Maramures, Satu Mare and Salaj. North-West Region's network of localities comprises of 42 towns and cities and 1,802 villages, grouped in 402 communes. Out of the towns and cities, four of them have a population over 100,000 inhabitants (Cluj-Napoca – 310,194 inhabitants, Oradea – 206,223, Baia Mare – 140,937 and Satu Mare – 115,197), nine between 20-100,000 inhabitants and 29 less than 20,000 inhabitants.

4. Absorption capacity in the North-West Region

To the North-West region of Romania as described above was allocated from the Regio Programme 2007-2013 an amount of 536.41 million Euros. The allocations of funds are distributed between the five implementation axis of the programme. Based on a Report presented by the North Western Region Development (Agency Agentia de Dezvoltare Regională Nord-Vest, 2010), which is dated on 31.03.2010, was assessed the current state of the REGIO funds contracting till that date. As will be presented in the table bellow the current state of the contracting within the programme for all five axis is in this moment under 24% from the total budget.

Regional Operational Programme - Axis	Amount allocated (mill EUR)	Amount requested (mill EUR)	Amount contracted (mill EUR)	Amount contracted %
Axis 1 - Support to sustainable development of urban growth poles	168,19	82,32	0	0,00%
Axis 2 - Improvement of regional and local transport infrastructure	105,99	218,02	95,33	89,94%
Axis 3 - Improvement of social infrastructure	79,50	161,66	11,65	14,65%
- 3.1 Improvement of Health Infrastructure	20,99	42,68	1,97	9,39%
- 3.2 Improvement of Social Services Infrastructure	12,03	21,06	3,1	25,77%
- 3.3 Improvement of Emergency Infrastructure	12,03	9,79	0	0,00%
- 3.4 Improvement of Education Infrastructure	34,45	88,13	6,58	19,10%
Axis 4 - Strengthening the regional and local business environment	96,19	48,00	4,4	4,57%
- 4.1 Development of sustainable business support structures	33,17	27,77	0	0,00%
- 4.2 Rehabilitation of unused polluted industrial sites	28,46	0,00	0	0,00%
- 4.3 Support the development of micro-enterprises	34,56	20,23	4,4	12,73%
Axis 5 - Sustainable development and promotion of tourism	86,54	109,31	16,84	19,46%
- 5.1 Restoration and valorization of cultural heritage	28,46	42,78	15,35	53,94%
- 5.2 Creation, development, modernization of the tourism infrastructure	39,90	66,09	1,05	2,63%
- 5.3 Promotion of Tourism	18,18	0,44	0,44	2,42%
Total	536,41	619,31	128,22	23,90%

Figure no 3 The status at 31.03.2010 of Regio Programme in North-West Region

As observed from the table above the biggest contracted amount are on the Axis 2 Improvement of Regional and Local Transport Infrastructure where are contracted 95.33 million Euro from the total of 105.99 million Euros, a 89.94% from the budget of the Axis.

The other Axis have contracted between 0%(Axis 1) and 19.46% on the Axis 5. The biggest concern comes from the Sub-Axis 4.2 Rehabilitation of polluted industrial sites where no projects have been proposed even if the total budget of this action is 28.46 million Euros. Large delays in evaluation and contracting of projects have been registered also in Axis 1 or sub-axis such as 3.1, 3.2, 3.4, 4.1, 5.1 and 5.2. In these cases despite the large amount of funds requested, sometimes over 250% over the allocated budget, the evaluation of the projects and contracting procedure are delaying the implementation of the projects. For example even if 82.32 million Euros have been requested on Axis 1 or 27.77 million Euros have been requested on Sub-axis 4.1 no projects have been contracted yet. In other cases even if the amount requested was much higher than the funds allocated (Axis 3.1, 3.2, 3.4 or 5.2) modest evaluation and contracting rates have been achieved: between 2.63%(Axis 5.2) and 25.77%(Axis 3.2). In the same time can be mentioned the delays in presenting feasible financing projects by the beneficiaries. And since 2010 is the half of the contracting period 2007-2013 all these analyzed facts demonstrate a low capacity of absorption of European Funding by the Romanian stakeholders.

The most important reasons identified for these facts as reflected within the analysis from this paper and from the numerous studies(Fundația Șoros Romania, 2009 or Departamentul pentru Afaceri Europene, 2009). Most of the factors causing a lower than expected absorption capacity in Romania can be summarized in the following lines:

- Slow actions of the institutions specialized in analysis and contracting of the financing projects
- Lack of proper specialized staff in the fields of European funded projects accession and management, mostly at the level of the beneficiaries
- Low level of information, low expertise and very low qualifications of the beneficiaries regarding the accession and management of European funded projects
- “Low percentage” of contracting specialized external consultancy at the level of the beneficiaries with direct effects over the low capacity for absorption of external financing, the lack of professional approach regarding the proposal and contracting of European projects, and the quality of the proposed projects.
- Low reaction at the level of beneficiaries and management authorities regarding the process of elaboration, proposing for financing or evaluation and contracting of projects
- Low request or wrong established eligibility criteria for some of the proposed financing programs causing low interest from the stakeholders, as in the case of REGIO – 4.2.
- The “continuous” modification and completion of the eligibility conditions imposed both to the beneficiary and to the project, most of the times after the financing round is open, causing the beneficiaries costly modification of the projects, or even causing the impossibility for the submission of the project or in some cases submitted projects to be declared not eligible.
- Low financial and management capacity of the beneficiary. Some of the proposed projects lack the co-financing in order to be implemented.

In order to correct these inconsistencies and to increase the absorption capacity for the programme direct actions should be taken both at the level at the management authorities and at the level of beneficiaries.

5. Conclusions

This paper tried to analyze the Romanian absorption capacity of the funds allocated through the REGIO programme, which is part of ERDF programme. Within the paper was presented the concept of absorption capacity and several opinions regarding its main elements: macroeconomic absorption capacity, managerial-administrative absorption capacity and financial absorption

capacity. Also the Regio programme, its main axis and its budget was briefly presented. In the last chapter of the analysis a thorough analysis of the implementation of REGIO in the Romanian North-West Region was carried out and several causes for the low absorption of European Funds have been identified. Since these causes are directly threatening the successful accession of EU a direct action should be taken both at the level of Programme Management Authorities and at the level of the beneficiaries. The process of improving the absorption capacity of European Funds is still at the beginning in Romania and will certainly become an important issue over the following years at all levels of the Romanian society and at the level of the European Funding Authorities as well.

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THE ACCOUNTING PROCESS FOR ACCESSING EUROPEAN FUNDS

Durgheu (Cioara) Liliana Marcela
Camera de Conturi Bihor

Kolozsi Lucia
Camera de Conturi Bihor

The beneficiaries of structural funds are various entities¹ that can be classified on different criteria, and keeping the accounts for these entities can raise certain problems. Keeping accounts in Romania is organized in a double circuit. Information given to third parties, also used by the economic entity is supplied by financial accounting, and the confidential information, used only by the economic entity is supplied by management accounting. In accounting, reflecting the accession and the use of European funds by the economic entity, taking into consideration the classification of various entities, is done distinctly.

Keywords: structural funds, funds accounting, beneficiary entities

The beneficiary entities can be identified without approaching these exhaustive aspects, just by covering the entities classification on various criteria. A first classification can be done in terms of the great sectors in which the enterprises activate:

- 1.Primary sector – agriculture, extractive industry etc.;
- 2.Secondary sector – enterprises affiliated to industry and construction;
- 3.Tertiary sector – enterprises that have as an activity object commerce, transport, tourism, banking, insurance, teaching, health. In terms of the people who invest in its activity, we have:

- 1.Private companies – companies where the investor is represented by one or more individuals (private persons);
- 2.Public companies – the ones whose activities are possible exclusively because of public investments;
- 3.Mixed companies – companies with both private and public investors.

In terms of production management:

- individual production entities are the ones where a unique product or a small number of unique products are manufactured with the same technology;
- series production entities which produce batches of goods using a certain recipe or technology with a periodical change in the technological process (equipment, tools, confections etc.);³⁶³
- entities with mass production are the entities which manufacture, for long periods of time and in great amounts, one or more goods with the same recipe, technologies and equipments (sugar, bread, oil etc.).

According to the 1752/2005 Decree (presently OMFP 3055/2009) for approving the accounting regulations pursuant to European directives, entities are separated into two categories:

- large and very large entities;
- medium and small entities.

The tie-break criteria for these entities are: total assets (3.650.000 Euros), turnover (7.300.000 Euros), and the average number of employees during the financial year (50).

The accounting law makes the following assignation regarding the accounting management and administration: trading companies, national ventures, autonomous administrations, research-

³⁶³ We mention that Order 1752/2005 uses the concept of entity and not the traders, asset unit, enterprise, etc.

development national institutes, co-operative companies and other types of legal persons, are obliged to conduct and organize their own accounting, meaning financial accounting, according to present law, and management accounting adapted to the businesses characteristics. Public institutions, associations, and other legal persons with and without patrimonial purpose, and also natural persons that is involved in an income generating activity, also have the obligation to organize and conduct their own accounting, meaning financial accounting and if it is necessary, management accounting³⁶⁴.

The accounting process for Romanian entities is organized in a double circuit. Information given to third parties, also used by the economic entity is supplied by financial accounting, and the confidential information, used only by the economic entity is supplied by management accounting. Book-keeping for the entities is provided by the Accounting Law no.82/1991, re-edited as following:

- legal persons conduct their accounting in distinct departments, run by an economic manager, chief accountant or some other person commissioned to do so. This person must have superior economic studies;
- accounting can be also done based on a contract with natural persons or legal persons that are authorized according to O.G. no.65/1994 regarding the management for the accounting expertise and authorized accountants.

The responsibility for an inadequate application of the accounting regulations is taken upon the economic manager, the chief accountant or other commissioners, together with the subordinate personnel. If the accounting process is led based on a contract with an authorized legal or natural person, member of the Chamber of Experts Accountants and Authorized Accountants of Romania, responsibility is taken by them, according to the law and the articles of the contract.

Getting back to the types of entities, in the specialized literature, patrimonial units in which we organize and conduct accounting, are divided as following:

- economic units;
- public institutions – state organisms created in order to conduct certain social-cultural activities, not carrying out productive activities;
- humanitarian organizations built upon the liberty of association or participation principle, and they carry out political, social-cultural, religious, and some economic activities. In this category we have: political parties, syndicates, professional associations, cults, charity associations, associations and foundations.

Objectifying, the non-refundable structural funds eligible beneficiaries could be: any farmer, legal or natural person, that carries out agricultural activities, and who operates on the country's boundaries, its' size is equal or greater than 2 UDE³⁶⁵ and the entity has to be registered at the Register of Farms/Agricultural Register. Practically, the categories of beneficiaries which can access funds are:

- Authorized Natural Person, according to the 300/2004 Law with its following modifications;
- Family Association with integral private capital, according to the 15/1990 Law, with its following modifications;
- Trading Companies, according to the 31/1990 Law, re-edited, meaning: Partnership Firms, Limited Partnership/Commandite, Joint-Stock Companies, Companies with Limited Abilities;

³⁶⁴ Accounting Law no. 82/1991 republished, Official Gazette, Pag. 454/2008.

³⁶⁵ Economic size unit (ESU) is the unit expressing the economic size of farm standard gross margin determined by the farm (Commission Decision. 85/377/EEC). Economic size unit value is 1.200 Euros. In relation to farm size have shown a previous subparagraph its way down, both nationally and also internationally.

- Trading Companies with integral private capital, according to the 15/1990 Law and its following modifications;
- Agricultural Cooperative Companies, according to the 1/2005 Law;
- Manufacturers Group, according to the 338/2005 Law, but only with the condition that investments are used for the purpose of the groups interests. Manufacturers Groups are economic organizations (legal persons with a lucrative purpose and economic management) that run on their own statute.
- Agricultural Cooperative, according to the 566/2004 Law.

Theoretically, all of the entities listed above can become structural funds beneficiaries. But practically, structural programs are presented using guides where all the possible beneficiaries are presented, for example: private entities (micro-enterprises, small and medium enterprises), public institutions (schools, local public authorities), etc.

The reflection of the receiving and use of the non-refundable finances³⁶⁶ in the accounting is done following the existing standards. This is because in Romania, book-keeping is organized according to standards emitted by authorities and not based on general principles and rules.

The economic agents that benefit from the financial contribution of the European Community are obliged to keep track of the received and used finances using distinct analytical accounts.

Once our country adhered to the European Union, we had to adopt the community's *acquis* in our financial and budgetary area. The normative act about the Financial Rules regarding the European Community's general budget, no.1605/2002 and the Detailed Standards of implementing no.2342/2002 represent a very important regulation concerning what the EU believes to be an honest work regarding the financial responsibility in the public area administration. Being applicable for the European Commission Budget, it automatically has legal effects when talking about managing the EU financed project, implemented by member countries. In Romania, these Financial Rules has been implemented starting 2003, following the approval of the new Public Finance Law, no.500/2002, setting out a new environment for elaborating and managing the budget, establishing the role and responsibilities of the credit sequencers and leaders of the accounting-finance departments, carrying out the public funds administrative control, in the context of applying the principle of transparency and healthy financial management, and especially the principle of efficiency and effectiveness. The Accounting Law no.82/1991 modified by the Public Finance Law no.500/2202 have created a legal frame for the development and improvement of the management and performance of the public accounting system in Romania, that also has to follow new European demands:

- managing and presenting the accounts based on the determined right principle (of commitments);
- applying the general international accounting principles when making the financial standings;
- developing accounting destined for the cost of the programs.

In order to accomplish these demands, Romania has already been helped by the EU through a twinning-light program, when Scottish experts have evaluated the current system and handed out important recommendations regarding the introduction of some vital elements for the commitments accounting: registering debtors and creditors according to accrual basis, reevaluation and amortization of immobile assets, building provisions. Some recommendations have already been materialized through The Governments' Ordinance no.81/2003 and its applicability standards, in public institutions, reevaluation of immobile assets already being carried-out. Its results have been included in the balance sheet of December 31st 2003, and

³⁶⁶ Order no. 875 of June 16, 2000 approving the specifications to reflect the accounting operations of receiving and using funds from the European Community financial contribution and co-related funds, Official Gazette 377/2000.

starting January 1st 2004 all public institutions calculate and register the amortization of immobile assets.

To accomplish its role, the state organizes a vast network of public institutions. According to the Public Finance Law, the area of public institutions includes: the Parliament, The Presidential Administration, the Ministries, other central and local bodies of the state administration and institutions under it. Public institutions present a number of characteristics reckless of the area of activity, management etc. :

- patrimonial units of the stat-at-law which carry out a political or executive activity, representing the power and state administration into society. Public institutions are bodies that compose, at a local or central level, the power apparatus and the state administration;

- the patrimonies of the public institutions are attributed to the public and private state patrimonies, or to local territorial administrative units. Public institutions built on an juridical paper inherit juridical personality needed for the patrimony administration and for taking commitments;

- as opposed to economic agents which create their patrimony based on subscribed and paid capital, public institutions do not include the economic category of joint stock. We cannot find joint stock in the patrimonial structures of a financial institution because they only have the quality of allotted patrimony administrators, whose proprietor is the state, represented by the Government and Local Committees. Public institutions do have a certain patrimony of material and pecuniary resources that they have to use respecting the legal standards and with maximum efficiency;

- managers of public institutions who are entitled to manage budgetary resources have the title of credit sequencers;

- expenditures of public institutions are financed under the form of budgetary credits. The use of budgetary credits has to be justified by the administrator at the end of every fiscal year;

- are not organized based on the principles of auto-management, because they receive monetary resources from the budget in order to accomplish their tasks, also having the obligation to pour to the budget all the tax incomes or other incomes obtained as a result of their activity. They have the right to partially retain these incomes in order to self-finance their activity;

- the public institutions objectives, provided by their statute aim the accomplishment of public service, but without aiming for profit. Public institutions are non-profit units that do not have lucrateness indicators;

- in order for public services to function, public institutions need permanent capital that they obtain through budgetary credits for capital expenditures. The development and modernization of this capital through investments is also done using budgetary resources.

- the financial planning for these units is done using a budget.

There are two forms in which public accounting can exist: current public accounting and centralized public accounting. Current public accounting is organized and carried out by each institution in order to correctly register al patrimonial operations. According to the re-edited Accounting Law, all public institutions whose administrators have the title of credit sequencers are obliged to keep the books. The administrator holds the responsibility for accounting.

Centralized public accounting or periodical accounting is carried out by centralizing the annual and periodical financial situations. This accounting type works for superior credit sequencers and fiscal bodies, during the period of financial standings presentations and embodies data already centralized, given by the current budgetary accounting. Accounting the operations regarding the non-refundable financial contribution from the European Community is done in Euros and in national currency, at the INFO-Euro currency. The INFO-Euro currency represents an exchange rate between Euro and a national currency; it is communicated by the European Central Bank and can be found on the European's Commission website. The INFO-Euro is used for registering the current month operation (n) it is the exchange rate from the penultimate working day of the

antecedent month (n-1). This exchange rate is used by all public institutions that carry out activities financed through community funds: agents and implementing authorities, final beneficiary institutions like: goods, service or liquidity. Monetary elements expressed in Euros: liquidities and bank deposits, claims and credits are reevaluated at least once every trimester, when doing the financial statements, using the INFO-Euro exchange rate from the penultimate working day of the month when the financial statements are carried out.

Territorial - administrative units that have contracted, law accordingly, loans for financing non-refundable projects, have carried out payments and then received non-refundable external funds, in order to reimburse those loans, will fill out Appendix 15 "The account of budget execution of foreign loans – Expenses", Appendix. 16 "The account of the budget execution of domestic credit - Expenditure payments from loans" and Appendix 18 „The account of public execution of external grants funds - Expenditures" for payments made from these funds, including repayment of loans. The payments from external non-refundable funds are registered on Appendix 3 and 4 "Cash-flow Status", when it is carried out by the Contracting and Payment Department. Grant payments from foreign funds, reported by public institutions are in Appendix 6 "The account of execution for the public institution – Expenses", Appendix 7 "The account of execution of the public budget – Expenses", Appendix 18 "The account of the budget implementation of reimbursable external funds - Expenses" will be agreed with the data records of agencies / authorities for implementation, ie those included in special situations the transmitted direction of the Ministry of Finance. Through the normative papers earlier mentioned, we are trying to level our public accounting to European Standards, without neglecting the two key aspects of the reform:

- professional development of ministries and other bodies of the central and local administration specialists, and forming the trainers from the National Administration Institute and the eight regional centers for professional training, and none the less of managers from public institutions;
- evaluating the necessary of software and hardware for all public institutions, in order for the accounting process to be entirely computer processed, with on-line reporting facilities.

This way, the accounting process will give away complete information regarding the patrimony and the income and expenditure budget execution for managers in the central and local administration. They can use this information to improve the assets and funds management.

Financial statements are documents through which information regarding the financial position is presented (assets, liabilities, patrimony). Also they reflect performances, changes in the patrimonial structure and the company's cash-flow.

In Romania, financial statements are carried out following models established by the state authority, the Ministry of Public Finance

Bigger entities have to work out the following components:

- balance;
- profit and loss account;
- changes in the patrimony;
- cash-flow;
- explanatory notes for the annual financial statements.

Small and medium entities have to work out the following components:

- short balance;
- changes in the patrimony;
- explanatory notes for the short annual financial statements.

Optionally, small and medium entities can carry out a brief for the patrimonial changes or/and the cash-flow.

Europeanization and internationalization are major phenomenon that leads the way for the Romanian accounting system evolution, in order to harmonize it with the European Directives and converge with the Accounting International Standards. The aim is to control the financial

integrity of the patrimony and its results, through material integrity control and just dimensioning. In order to characterize an entity's activity during a certain period of time, we have to centralize and synthesize it under the shape of general information from the accounting process, this being one of the accounting's objectives, as a main component of the economic-informational system. The seamless presentation of accounting data is imposed by need of a precise structural representation of the financial position, the financial performance and other information regarding the entity's activity during a fiscal year. This purpose is accomplished through synthetic documents under the form of financial statements.

In conclusion, in the case of funds beneficiaries, the objective of financial statements is to mirror correctly and faithfully all of the elements with detailing in explanatory notes, especially under a narrative form.

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LA BONNE GOUVERNANCE DANS LE DOMAINE FISCAL

Maria Zenovia Grigore

Universitatea Nicolae Titulescu București

Facultatea de Științe Economice

Andrei Diamandescu

Universitatea Nicolae Titulescu București

Facultatea de Științe Economice

The good governance in the tax area (i.e. more transparency, exchange of information at all levels, effective cross-border cooperation and fair tax competition) is the key element in rebuilding the global economy after the 2008 financial collapse.

This paper presents for consideration a series of steps to promote good governance in the tax area, entailing action both within and outside the European Union.

A better coordination of EU Member States' positions in their bilateral tax treaties with third countries and in international fora is necessary to ensure greater leverage in dealings with non-cooperative countries.

Keywords: fiscalité, bonne gouvernance, coopération fiscale, paradis fiscaux, évasion fiscale

The article's JEL code: H21; H26

1. Introduction

L'ouverture des frontières a facilité la libre circulation des capitaux mais aussi la fraude et l'évasion fiscales au sein de paradis fiscaux et centres financiers internationaux trop peu réglementés, qui refusent de reconnaître les principes de transparence et d'échange d'informations.

La crise économique et financière actuelle a accentué les préoccupations quant à la viabilité des systèmes fiscaux face à la mondialisation. La promotion de la bonne gouvernance dans le domaine fiscal est aujourd'hui reconnue comme la manière adéquate de répondre à ces préoccupations. L'Union européenne et ses partenaires ont un intérêt commun majeur à encourager la coopération fiscale et l'adoption de normes communes sur une base géographique aussi large que possible. Nombreuses initiatives visant la coopération internationale en matière fiscale ont été prises aux réunions européennes et mondiales comme:

- le Conseil Ecofin de 14 mai 2008³⁶⁷;
- le sommet du G-20³⁶⁸ en novembre 2008;
- le Conseil Ecofin de décembre 2008;
- le sommet du G-20 du 14 mars 2009;
- le Conseil européen des 19 et 20 mars 2009;
- le sommet du G-20 de Londres du 2 avril 2009,

³⁶⁷ La gouvernance dans le domaine fiscal a été définie pour la première fois dans les conclusions du Conseil Ecofin du 14 mai 2008 comme étant fondée sur les principes de transparence, d'échange d'informations et de concurrence fiscale loyale.

³⁶⁸ Le Groupe des 20 (ou G20) est un forum économique qui a été créé en 1999. Les membres du G20 sont représentés par les ministres des finances et les directeurs des banques centrales des 20 pays ou organisation suivants: Afrique du Sud, Allemagne, Arabie saoudite, Argentine, Australie, Brésil, Canada, Chine, Corée du Sud, États-Unis, France, Inde, Indonésie, Italie, Japon, Mexique, Royaume-Uni, Russie, Turquie et Union européenne.

- le sommet du G-20 de Pittsburgh du 24 et 25 septembre 2009.

Des conclusions de ces rencontres émerge la volonté de prendre des mesures à l'encontre des juridictions qui ne coopèrent pas, y compris les paradis fiscaux, en appliquant des sanctions visant à protéger les finances publiques et les systèmes financiers.

Les efforts d'amélioration de la coopération fiscale déployés au sein de l'Union européenne se fondent en grande partie sur les principes qui régissent depuis plusieurs années l'action de l'OCDE contre la concurrence fiscale dommageable. Le travail de l'OCDE dans ce domaine vise deux aspects.

D'une part, il s'agit de recenser, en vue de leur démantèlement, les régimes fiscaux préférentiels des 30 pays membres de l'OCDE, sur la base de critères similaires à ceux définis par le code de conduite de l'Union européenne dans le domaine de la fiscalité des entreprises.

D'autre part, l'OCDE a étendu son travail aux pays non-membres de l'Organisation, y compris un certain nombre de «paradis fiscaux»³⁶⁹, et obtenu, de la part de 35 de ces juridictions, un engagement politique en faveur de la mise en place d'une coopération loyale avec les membres de l'OCDE en ce qui concerne la transparence et l'échange d'informations dans le domaine fiscal.

La «Déclaration de Doha sur le financement du développement», adoptée à l'occasion de la conférence internationale de suivi sur le financement du développement [1], organisée par les Nations unies, contient un ferme engagement de la Commission européenne en faveur des réformes fiscales et appelle à consentir davantage d'efforts pour accroître les recettes fiscales en modernisant les systèmes fiscaux, en améliorant le recouvrement de l'impôt, en élargissant l'assiette fiscale et en luttant vigoureusement contre la fraude fiscale.

2. La nécessité de la bonne gouvernance dans le domaine fiscal

Parmi les facteurs qui plaident en faveur de l'amélioration de la coopération internationale au sein de l'Union européenne et à l'échelon international si l'on veut qu'elle soit efficace on peut distinguer:

- L'absence de bonne gouvernance dans le domaine fiscal encourage la fraude fiscale et l'évasion fiscale et grève lourdement les budgets nationaux et le système des ressources propres de l'Union européenne, d'un montant estimé par la presse économique entre 2 et 2,5% du PIB annuel de l'Union, soit entre 200 et 250 milliards d'euros.

- La mondialisation a compliqué la lutte contre la fraude fiscale à l'échelle internationale. Un grand nombre de multinationales se sont organisées pour tirer parti de l'évasion fiscale dans les diverses territoires où elles exercent leurs activités; la disparité des régimes fiscaux d'un territoire à l'autre favorise les entreprises de grande taille, d'envergure internationale ou de création ancienne au détriment des entreprises de petite taille, d'envergure nationale ou de création récente.

- Il est fréquent que les pays en développement, précisément en raison du manque de gouvernance dans le domaine fiscal, ne disposent pas de la légitimité ou de l'autorité nécessaire pour taxer leurs citoyens; dans la définition de sa politique de gouvernance dans le domaine fiscal, l'Union européenne doit tenir compte des problèmes particuliers auxquels se heurtent les pays en développement et qu'elle doit les aider à surmonter ces problèmes.

³⁶⁹ Dans le rapport de 1998 intitulé «Concurrence fiscale dommageable – un problème mondial.» L'OCDE retient quatre critères essentiels qui permettent de déterminer si une juridiction est un paradis fiscal: i) l'absence d'impôt ou le prélèvement d'impôts minimes uniquement; ii) le manque de transparence; iii) l'existence de dispositions législatives ou de pratiques administratives empêchant un véritable échange de renseignements avec d'autres pays sur les contribuables bénéficiant de l'absence ou de la faiblesse de l'imposition dans cette juridiction; iv) l'absence d'obligation d'exercer une activité substantielle.

- L'action conjointe du G20 et des Nations unies, ainsi que les efforts réalisés dans le cadre des initiatives dirigées par l'OCDE ont débouché sur quelques résultats prometteurs en matière de gouvernance dans le domaine fiscal, mais ces résultats restent insuffisants pour faire face aux défis que représentent les paradis fiscaux et les centres bancaires extraterritoriaux (offshore) et ils doivent être suivis d'actions déterminantes, efficaces et cohérentes.

- L'OCDE évalue actuellement le montant des capitaux privés présents dans les paradis fiscaux à près de 1 000 000 000 000 USD (mille milliards USD), soit un montant cinq fois plus élevé qu'il y a vingt ans; plus d'un million de sociétés, principalement des États-Unis et des États membres de l'Union européenne, ont leur siège social dans des pays abritant ces paradis fiscaux.

- Il est prouvé que la crise financière a été engendrée en partie par de nouvelles formes d'instruments financiers complexes et de produits dérivés placés, dans une large mesure, dans des fonds domiciliés dans des territoires caractérisés par le secret des opérations; la crise financière a mis en évidence les risques liés aux paradis fiscaux et les conséquences de l'absence de bonne gouvernance dans le domaine fiscal.

3. Coopération fiscale au sein de l'Union européenne

Le marché intérieur est régi par des règles communes, notamment en matière de droit des sociétés et de fiscalité [2], qui doivent permettre aux entreprises et aux particuliers de tirer un parti maximal de l'ouverture des frontières. Ces règles ont notamment permis de réduire les coûts liés au respect de la réglementation et d'encourager les investissements transfrontaliers.

La législation communautaire laisse aux États membres une grande latitude dans la conception de leurs systèmes de fiscalité directe, de sorte qu'ils puissent les adapter en fonction d'objectifs et d'impératifs nationaux. Toutefois, au cours de la dernière décennie, ils sont convenus de différents mécanismes permettant d'enrayer l'érosion des assiettes fiscales et d'éliminer les distorsions dans la répartition des investissements. Ils ont par là reconnu que, seules, les actions nationales et bilatérales ne peuvent résoudre qu'une partie des problèmes liés à l'érosion fiscale, et qu'une coopération à l'échelle de l'Union européenne est essentielle.

Sur le plan juridique, la bonne gouvernance a déjà trouvé matière à application au travers de directives existantes:

- la directive sur la coopération administrative [3], qui prévoit l'échange d'informations entre autorités fiscales dans le domaine de la fiscalité directe;

- la directive relative l'assistance mutuelle au recouvrement de créances fiscales [4], qui établit un système dans lequel un État membre peut demander l'assistance d'un autre État membre aux fins du recouvrement de créances relatives à des taxes, impôts, droits ou autres prélèvements;

- la directive sur la fiscalité de l'épargne [5], qui garantit, moyennant certaines dérogations temporaires pendant une période transitoire, l'échange automatique entre les États membres des informations détenues par les banques.

A côté de ces instruments législatifs relatifs à la coopération administrative, existe aussi un accord politique entre les États membres visant à supprimer, au travers du Code de conduite dans le domaine de la fiscalité des entreprises, des mesures fiscales dommageables [6].

Ce dispositif est également complété par la vigilance de la Commission européenne à détecter et démanteler tout régime fiscal constitutif d'une aide d'Etat, problématique bien connue au Grand-Duché de Luxembourg [7], [8].

Au sein de l'Union européenne, la première grande série d'actions concernant la généralisation de la gouvernance dans le domaine fiscal vise à moderniser l'arsenal législatif existant.

En novembre 2008, la Commission a déposé une proposition de réforme de la directive sur la fiscalité de l'épargne, dont le but est de combler les lacunes existantes et de mieux prévenir l'évasion fiscale. Cette proposition entend également supprimer les distorsions présentes sur le marché entre produits financiers équivalents et limiter les formalités administratives imposées aux agents payeurs. [9]

Quant aux directives sur la coopération administrative et l'assistance mutuelle en matière de recouvrement de créances, elles sont en cours d'examen par le Parlement européen, qui devrait rendre son avis début 2010. Les amendements aux propositions proposent explicitement de supprimer le recours au secret bancaire, lequel permet d'éviter l'échange d'informations à des fins fiscales entre les administrations fiscales des États membres, la coopération entre États membres aux impôts de toute nature et l'instauration de l'échange automatique d'informations comme règle générale. [10] [11]

Hormis ces trois propositions, le Conseil poursuit également ses travaux sur la base d'un programme de travail révisé sur le code de conduite relatif à la fiscalité des entreprises adopté en novembre 2008. Le groupe de travail a accepté de poursuivre ses travaux sur la lutte contre les abus, la transparence et l'échange d'informations dans le domaine de l'établissement des prix de cession interne ainsi que sur les relations avec les pays tiers. Au titre de ce code, qui s'applique tant aux États membres qu'à leurs territoires dépendants ou associés, plus de 400 mesures relatives à la fiscalité des entreprises ont été évaluées et plus de 100 d'entre elles, jugées dommageables, ont été abrogées ou modifiées.

4. Coopération fiscale internationale

Au niveau international, la Commission européenne cherche de conférer à la bonne gouvernance un champ d'application le plus large possible.

L'un des instruments auquel l'Union européenne peut avoir recours pour encourager la bonne gouvernance dans le domaine fiscal dans les pays tiers est de négocier avec eux des accords sur la fraude fiscale qui comportent une clause d'échange d'informations. La Commission a engagé la négociation d'un accord de ce genre avec le Liechtenstein, qui a abandonné sa position de refus de toute coopération pour adopter une attitude coopérative.

Les mesures d'incitation financières que prévoit le 10^e Fonds européen de développement pour une série de pays des Caraïbes et du Pacifique constituent également un bon moyen d'encourager l'adoption des principes de bonne gouvernance. La Commission européenne a décidé de ne venir plus en aide à des pays en développement qui ne disposent pas d'une législation fiscale guidée par les principes de transparence, d'échange d'informations et de concurrence fiscale loyale.

Enfin, la Commission européenne veut promouvoir une approche internationale commune entre États membres en matière de mesures anti-abus visant à combattre plus efficacement ceux des pays tiers qui ne se conformeraient pas à ces standards internationaux communément acceptés. Lors de son sommet du 2 avril 2009, le G20 a dressé la liste d'une série de mesures de rétorsion possibles: renforcement des critères de divulgation d'informations de la part des contribuables et des établissements financiers, retenue à la source, refus des déductions de certains frais, révision de la stratégie des conventions fiscales, révision, par les établissements financiers internationaux, de leurs stratégies d'investissement, révision des programmes d'aide bilatéraux. [12] À Pittsburgh (les 24 et 25 septembre 2009), les dirigeants du G20 ont déclaré que les mesures de rétorsion à l'encontre des paradis fiscaux devraient être appliquées à compter de mars 2010.

5. Propositions pour renforcer le principe de bonne gouvernance dans le domaine fiscal au sein de l'Union européenne et à l'échelle internationale

Pour encourager la bonne gouvernance dans le domaine fiscal, il faut à la fois améliorer celle-ci au sein de l'Union européenne et mener des actions ciblant les pays tiers.

On estime que les actions suivantes sont nécessaires:

- l'Union européenne doit examiner diverses formes de sanctions et d'incitations, comme par exemple: l'instauration d'un prélèvement spécial sur toutes les opérations en direction ou en provenance de territoires qui refusent de coopérer, l'absence de reconnaissance par l'Union du statut juridique des sociétés constituées sur des territoires qui refusent de coopérer ou

l'interdiction faite aux établissements financiers de l'Union de créer ou de conserver des filiales ou des succursales sur des territoires qui refusent de coopérer;

- la création d'un système d'incitation adéquat pour le recouvrement des créances fiscales transfrontalières afin d'augmenter le taux actuel de recouvrement, qui n'est que de 5 %, en attribuant une proportion équitable des créances fiscales à l'administration qui les a recouvrées pour le compte de l'État membre demandeur, d'une part, et à l'administration de l'État membre demandeur, d'autre part;

- l'Union européenne devrait prendre des mesures pour prévenir le recours abusif au principe de résidence dans le cadre de régimes de propriété et de domiciliation fictives par lesquels des sociétés écrans ou des sociétés holding sans aucune activité permettent à leurs propriétaires de ne pas être imposés dans le pays où ils sont domiciliés;

- l'Union européenne devrait adopter, lors de l'application des mesures de lutte contre les abus, une approche commune effective, loyale et fondée sur la notion de montage artificiel définie par la Cour de justice;

- l'Union européenne devrait mettre en place un cadre cohérent de bonne gouvernance dans le domaine fiscal applicable à la politique européenne de voisinage, à la politique d'élargissement et à la politique de coopération au développement [13]; il est nécessaire d'établir un lien entre, d'une part, le soutien financier de l'Union européenne et le degré d'accès aux marchés communautaires dont bénéficient certains pays et, d'autre part, le niveau de coopération qu'offrent ces pays en ce qui concerne les principes de la bonne gouvernance dans le domaine fiscal; l'Union européenne devrait prendre en considération aussi fournir de l'assistance technique nécessaire pour aider les pays concernés à respecter leurs engagements en matière de bonne gouvernance dans le domaine fiscal; si un pays le demande, l'assistance technique pourrait également concerner la conception d'un système fiscal efficace permettant à ce pays de mieux tirer parti des ressources dont il dispose;

- l'Union européenne devrait réviser les normes comptables actuelles pour accroître la transparence; la mise en place d'une assiette commune consolidée pour l'impôt des sociétés contribuerait à résoudre, au sein de l'Union européenne, les questions de double imposition et des prix de cession interne au sein des groupes consolidés;

- les États membres doivent coordonner leurs politiques fiscales afin de renforcer l'application des règles de lutte contre l'évasion fiscale; il importe de veiller à ce que, par leurs conventions fiscales bilatérales, les États membres ne créent pas de possibilités de contournement des directives communautaires ou de la législation fiscale d'autres États membres. Dans le même temps, l'existence d'obligations de bonne gouvernance dans les accords conclus entre l'Union européenne et les pays tiers confèrera aux États membres un pouvoir de négociation plus grand dans leurs pourparlers bilatéraux avec ces pays;

- les États membres devraient également définir une approche plus unifiée envers les pays tiers, selon que ceux-ci appliquent ou non les principes de la bonne gouvernance dans le domaine fiscal. Ainsi, un pays qui applique ces principes pourrait être retiré des «listes noires» nationales des États membres afin qu'il ne fasse plus l'objet de mesures anti-abus pour les pratiques fiscales concernées. À l'inverse, les juridictions qui ne mettent pas en œuvre de façon satisfaisante les aspects clés de bonne gouvernance dans le domaine fiscal appliqués par les États membres de l'Union européenne pourraient faire l'objet de mesures de rétorsion coordonnées. [14].

6. Conclusions

D'une manière générale, le cadre législatif et réglementaire de l'Union européenne en matière de coopération fiscale peut être jugé satisfaisant: des directives en matière de fiscalité de l'épargne, d'assistance mutuelle et de recouvrement des créances fiscales ont été adoptées ou sont en cours d'examen. Reste à savoir comment et avec quelle diligence les États membres mettront ces règles communautaires en application.

Il est important de promouvoir la bonne gouvernance dans le domaine fiscal à la fois en dehors et au sein de l'Union européenne, tant au niveau communautaire qu'à celui des États membres. Si l'on améliore la bonne gouvernance dans le domaine fiscal au sein de l'Union, les États membres en retireront des avantages et l'Union pourra plus facilement convaincre les autres juridictions d'établir avec elle une coopération administrative efficace. Les États membres devraient en conséquence adopter dès que possible les propositions de la Commission européenne relatives aux directives sur l'assistance mutuelle en matière de recouvrement des créances et sur la fiscalité de l'épargne, et continuer à accorder l'attention nécessaire au démantèlement des régimes fiscaux dommageables dans le domaine de la fiscalité directe.

Le renforcement de la cohérence et de la coordination des politiques au niveau de l'Union européenne permettra de promouvoir la bonne gouvernance dans le domaine fiscal sur une base géographique plus large. L'objectif de l'Union européenne est de faire en sorte que l'approfondissement des relations économiques entre l'Union et les juridictions partenaires s'accompagne d'un accord sur les principes de la bonne gouvernance dans le domaine fiscal, suivi, le cas échéant, d'accords de coopération en matière fiscale.

Tout en respectant pleinement le principe de subsidiarité, il est nécessaire d'assurer davantage de cohérence entre la position des différents États membres dans les organismes internationaux traitant la fiscalité et les principes de bonne gouvernance définis d'un commun accord, tels que ceux établis dans les conventions fiscales bilatérales avec les pays tiers et au sein des organismes internationaux. Il faudra pour cela mettre en place une coopération accrue au niveau de l'Union européenne afin de garantir que la dynamique engagée en faveur d'une coopération plus ouverte et constructive en matière fiscale se poursuive au niveau mondial.

En conclusion, on attire l'attention sur la nécessité de garantir une transposition rapide au niveau national des directives déjà adoptées, d'accélérer la procédure pour celles qui sont en cours d'examen, d'appliquer des politiques plus cohérentes et mieux coordonnées au niveau de l'Union européenne et enfin d'assurer une plus grande cohérence entre les positions des différents États membres et les principes établis en matière de bonne gouvernance.

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ANNUAL FINANCIAL STATEMENTS – A SOURCE FOR THE FINANCIAL DECISIONS OF INSOLVENT COMPANIES

Hada Tedor

"1 Decembrie 1918" University, Alba Iulia, Romania

Faculty of Science

The paper presents the importance of financial statements in determining the insolvency of a company. The first part of the article presents a case study and the main signals of bankruptcy: negative working capital, negative equity capitals, losses, etc. In the end of the paper we detail issues that are not observable and that are related to the actual management of the company.

Key words: working capital, working capital need, treasury, equity capitals, annual financial statements

JEL classification: G33

In Romania, the structure of annual financial statements was regulated by OMFP no. 94/2000 and 306/2000, then by OMFP no. 1752/2005 and recently by OMFP no. 3055/2009 and includes:

- the balance sheet;
- the short balance;
- the profit and loss account;
- the statement of changes in equity capital;
- the statement of cash flows;
- Notes.

Economically, it is useful for the economic agents to determine those indicators that can prevent insolvency based on the analysis of the data in the annual financial statements. The specialized literature presents for this purpose models like: the Z score recommended by E. Altman, the Canon Holder model, the model of William Beaver, the model of the Central Bank of France and the Cematt model. More recently, commercial banks have bankruptcy risk assessment methods, such as: the method of the Romanian Commercial Bank, the method of the Romanian Development Bank – Groupe Societe Generale, the method of Transilvania Bank, the method of Raiffeisen Bank, which are methods tailored for Romanian economy, with obvious results in the diagnosis of bankruptcy.

Although the causes that determine bankruptcy are varied, we believe that some have decisive influences in this regard, such as:

- the lack of order contracts after 1990;
- outdated technology;
- inadequate legislation for privatization;
- persistence of strikes;
- low productivity;
- property claims;
- inadequate price policies;
- Stock production; etc.

Steve Robinson in the book "Financial Management"³⁷⁰ shows the easily identifiable problems based on annual financial statements, such as:

- the massive increase of the credit account (debts);

³⁷⁰ Steve Robinson, *Financial Management*, Teora Publishing, Bucharest, 2005, p. 147

- the substantial increase in stock (inventory);
- reduction in liquidity;
- increasing the amounts borrowed;
- cutting back on future investments;
- Reduction in paid dividends.

Next, we will present the balance sheet structure of an economic agent³⁷¹ for two consecutive reporting periods. Therefore:

	N	-lei- N+1
The debit structure		
Total fixed assets, of which:	365408,0	238526,5
- intangible assets	-	-
- tangible assets, of which:	365310,0	238428,5
- freehold land	105451,2	-
- buildings	248743,0	235212,8
- plant and machinery	4998,2	2591,0
- motor vehicles	4109,7	624,7
- other fixed assets	-	-
- tangible assets in progress	2007,9	-
- financial assets	-98,0	-98,0
Total current assets, of which:	52289,2	33929,7
Inventory:	11638,7	
- raw materials	5744,7	
- semi-finished goods	5004,6	
- goods purchased for resale	35,0	
- packaging materials	854,4	
Other current assets, of which:	40650,5	33929,7
- clients and similar accounts	38182,4	33741,7
- other claims	1829,2	-
- investment papers	100,0	100,0
- bank accounts	7,2	13,0
- petty cash in lei	531,7	74,1
- other values	-	0,9
Suspense account	13699,2	-
TOTAL ASSET	431396,4	272456,2
		lei
The credit structure	N	N+1
Equity capitals, of which:	-208005,6	-1030585,5
- social capital	733701,2	595000,0
- uncovered loss	-	-939968,3
- loss	-943123,8	-685617,2
- other funds	1417,0	-
Long-term loans	147526,4	181565,7
Suppliers and similar accounts	43627,3	28047,7
Creditor clients	2289,2	1155,0

³⁷¹ Data are real

Other debts	445959,1	1092273,3
TOTAL LIABILITIES	431396,4	272456,2

Based on the comparative data of the two consecutive balances, the following can be highlighted:

- regarding intangible assets, freehold lands in the year N+1 was missing because lands were retroceded to their owners;
- the inventory was exploited, so in the year N+1 the company had no stock;
- clients and similar accounts dropped from 40650,5 lei to 33929,7 lei;
- suspense accounts have not occurred in the year N+1;
- from -208005,6 lei in the year N, equity capitals reached -1030585,5 lei, so the net asset is negative;
- long-term loans increased from 147526,4 lei to 181565,7 lei;
- unpaid supplied recorded a drop from 43627,3 lei to 28047,7 lei;
- other debts grew 2.5 times.

By calculating the net working capital with the help of the two known methods, results:

a) $NWC = \text{Permanent capital} - \text{Assets}$

b) $NWC = \text{Assets} - \text{Short-term debts}$

For the year N, we have:

a) $NWC_N = -208005,6 + 147526,4 - 365408,0 = -425887,2$

b) $NWC = 52289,2 + 13699,2 - (43627,3 + 2289,2 + 445959,1) = 65988,4 - 491875,6 = -425887,2$

For the year N+1, we have:

a) $NWC_{N+1} = -1030585,5 + 181565,7 - 238526,5 = -1087546,3$

b) $NWC_{N+1} = 33929,7 - 1121476 = -1087546,3$

The working capital in the year N, as well as in the year N+1, is negative and represents a signal that the company is in difficulty, and the working capital, as the main financing source of the current assets, can't finance these assets.

Next, we'll determine the company's treasury in the two analyzed years. In order to do this, we'll determine:

The need for working capital = Stocks + Claims – Operating debts, and it will result:

Year N: $11638,7 + 38182,4 + 1829,2 + 13699,2 - (43627,3 + 2289,2 + 445959,1) = 65349,5 - 491875,6 = -426526,1$

Year N+1: $WC_{Need} = 0 + 33741,7 - (28047,1 + 1155,0 + 1092273,3) = 33741,7 - 1121476 = -1087734,3$

The treasury has values in the two analyzed years:

Treasury = NetWC – WCNeed

Year N: $T = -425887,2 + 426526,1 = 638,9$

Treasury = Availability – Treasury credits = $100 + 7,2 + 531,7 = 638,9$

Year N+1: $T = -1087546,3 + 1087734,3 = 188,0$

$T = 100 + 13,0 + 74,1 + 0,9 = 188,0$

The values of the treasury in year N, as well as in year N+1, are low. The companies used drawn-in sources for financing, meaning delaying the payment of short-term debts.

Indicator	Year N	Year N+1
TOTAL operating revenue, of which:	-257463,7	125015,5
- revenues from sale of goods	8567,1	782,9
- sold production	423442,2	53479,6
- turnover	432009,3	54262,5

- stored production income	-689473,0	37503,0
- revenue from tangible assets production		33250
Operating expenses, of which:	670195,9	531739,8
- goods for resale	7470,9	726,2
- total material expenses	182126,2	66415,9
- third party services expenses	13244,6	22600,7
- taxes, duties and similar expenses	5341,3	340564,8
- total personnel expenses	111175,5	88763,2
- other operating expenses	394776	-
- adjustment expenses for fixed assets (depreciation)	311359,8	12669,0
Operating loss:	927659,6	406724,3
Total financial revenues, of which:	11,5	77264,4
- interest income	11,5	46,8
- other financial revenues	-	77217,6
Financial expenses, of which:	73892,1	71740,5
- interest expenses	73892,1	48335,5
- other financial expenses		23405,0
Financial profit		5523,9
Financial loss	73880,6	
Extraordinary revenues	59436,6	12951,5
Extraordinary expenses	1020,2	297368,3
Extraordinary profit	58416,4	-
Extraordinary loss		284416,8
Total revenues	-198015,6	215231,4
Total expenses	745108,2	900848,6
Total loss	943123,8	685617,2

By analyzing the data in the profit and loss account, the following will result:

- the operating revenues in the year N were negative due to the income from the stored production (debit balance);
- the operating revenues in the year N+1 were 125015,5 lei, being influenced by the revenues from the tangible asset production of 33250 lei;
- the operating expenses were higher than revenues in the two analyzed years;
- personnel expenses in the year N+1 were higher than the turnover, which were economically unjustified;
- operating losses were recorded in both years;
- the financial activity recorded loss in the year N, but brought financial profit in the year N+1;
- the extraordinary activity brought profit in year N, and extraordinary loss in the year N+1.

Overall, loss was achieved in both years.

Mihaela Onofrei, in the book "Financial Management"³⁷² shows that "managers must identify early the signs of deteriorating financial statements of the enterprise, such as:

³⁷² Mihaela Onofrei, *Financial Management*, C.H. Beck Publishing, 2006, p. 115

- achieving negative financial results;
- the existence of negative working capital;
- the inability to reimburse credits at maturity;
- the bankruptcy of suppliers and clients important for the enterprise;
- reduced availability or unavailability of a manager;
- the persistence of strikes.”

Steve Robinson³⁷³ shows that “they are problems difficult to identify”, so these “accounts do not reveal everything” and he goes on to mention the list of events that announce bankruptcy:

- accounting norms and practices – other than the ones that are standard – compared to the norms of the competition and with the norms existent in the concerned sector;
- fast increase of the sales volume, of the main accounts, of the working capital;
- the inability to reimburse credits at maturity;
- the inability to draw-up in time the financial reports and the account statements;
- combining the functions of the chairmen and chief executive, especially when these functions are associated with a large package of own shares;
- leading and charming personalities that are acting as managers of the company;
- frequent resignations from the managing board;
- sale of shares belonging to the company director (in the *Financial Times* magazine, for the companies listed in the UK), especially right before „closing” (seven weeks before announcing the financial results of the company);
- transition from asset acquisition to leasing;
- predatory behaviour of the management;
- unexplained transactions between the subsidiaries of a company.

We believe that since the company recorded negative operating revenues, negative working capital, losses and unjustified values in the year N, bankruptcy was imminent.

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³⁷³ Steve Robinson, *Financial Management*, Teora Publishing, Bucharest, 1999, p. 150

STATE BUDGET AND FISCAL POLICY INSTRUMENTS TO ACHIEVE ITS

Haralambie George Alin

Universitatea Petrol-Gaze Ploiești, Faculty Economic Science

This paper presents the tools for carrying out the fiscal budget in Romania. An effective fiscal policy involves increasing budget revenues and reduce their costs of collection. Public expenditure, taxes and debt are tools of fiscal policy to achieve economic stability budget. They are also presented the interdependencies between fiscal policy and budget.

Key words: budget, collecting, fiscal policy, fiscal efficiency, public revenues;

Introduction

Every state, regardless of size or level of economic development interfere in the economy by the agency of fiscal policy for securing his financial resources in order to fulfil his functions but also to impel the development of economic sectors and also to dishearten the fiscal fraud.

The mains (principals) instruments witch the state can use to intervine in the economy are in the majority of the countries untaxes and taxes, which the state collect through various ways from the tax payers.

In Romania, as in the majority of the countries, the role of taxes manifest on the financial plan, they are the main means of raising public financial resources, that are necessary for financing public expenditures needed for collectives requirements.

Fiscal policy is a very important component of the financial policy, which is responsible for the collecting of public financial resources like untaxes and taxes. One definition in this direction was that of Condor Ioan who consider that "fiscal policy include (involve, contain) the total (ensemble) principles regarding the establishing and collecting the untaxes, taxes and other public revenues, which characterize the state option concerning and taxes"³⁷⁴. Gheorghe Manolescu claims, also, that "fiscal policy is constituted within the framework of public authority activity of establishing and utilizing the resources needed for public consumption and for the supply of public goods and services"³⁷⁵. Through fiscal policy is established the volume and source of public revenues, the methods of take over who will be utilized, the objectives to be follow and also the possibilitys that can be used to achive all these goals.

From these definitions result that fiscal policy represent a mechanism of taking over a part of the revenues earn by the economic agents, households and enterprises, for raising of funds who are necessary for public expenditures. The bundle between taxes and public expenditures was pointed by Paul A Samuelson, who see fiscal policy like "a process consisting in manipulating taxes and public expenditures"³⁷⁶ saying also that these is influencing the general distribution of national product between consumption and investments.

The objectives of fiscal policy

The budgetary policy influence macroeconomic objectives-production fluctuation, of prices and that of unemployment, fact that require to tackle this policy in connection with the fiscal policy, because both of them are elaborated at the same time by the public authorities. The fiscal policy of a state is reflected yearly by his budget. Within the framework of fiscal policy the priority is the establishment on one hand of the total volume of expenditures, on the other hand of the way

³⁷⁴ Condor, I., Fiscal law, published by Lumina Lex Bucarest, 2002, pg. 71.

³⁷⁵ Manolescu Gh., Economic policy. Drafts, instruments, experiments, published by Economic, Bucarest, 1997, pg. 265.

³⁷⁶ Samuelson, P.A., Political economy, published by Teora, Bucarest, 2001, pg. 364.

in which they can be financed those expenditures: from fiscal sources or by contracting some loans, each of these ones generating different economic effects.

The rationality of the fiscal policy decisions require to respect the following principles of taxation: currency, equity, honesty, efficiency and the convenience of taxation.

It comes out that ascertained the increasing of public expenditures included in the over-all budget from year to year, the accomplishment of state functions requires the adoption of a unitary fiscal-budgetary policy, who suppose that public revenues and expenditures can be approach in a unitary manner.

The fiscal policy is strongly connected with the ability of public authorities to use taxation and public expenditures to influence the national economy.

The fiscal system, with all his implications and functionalities, can not function without the existence of the fiscal machine-the engine who put in motion the fiscal mechanism. He must answer some morals and ethics demands in order to make the fiscal burden fair and not overwhelming, therefore more reasonable.

In keeping with special literature a reasonable fiscal system must fulfil some functions like: rally public revenues, stimulating economic function, social and control function, stimulate saving and investments in the private sector.

On the social plan the fiscal policy is utilized for reduction of inequalities between revenues of taxpayers, the taxation for taxpayers with big revenues being heavyer. Simultaneously the unfortunate taxpayers are protected through the agency of tax exemption. These ones are granted in order personalize taxation, by realizing a connection between revenues and taxes.

The objectives of the fiscal policy are: regulate market position and relaunch of the economy, restructure economic sector and economic growth, improvement of productive sector. In order to achieve these goals, the state must reduce the fiscal burden simultaneously with a increase in public expenditures in a period economic crisis, while in a period of economic boom he must rise tax rates and also cut down expenses made from national budget.

The main problem of Romania fiscal policy in the area of revenues is finding a balance between the necessity of increasing revenues by raising rates as a principal source for covering expenditures, who are directioned towards to diminish poverty, and also the necessity of supporting business environment, who represent the principal factor for economic growth.

In this sense growing up revenues more rapidly than inflation rate and also the adjusting the fiscal burden at a level which is favourable for the development of business environment and investment capital will be an opportunity.

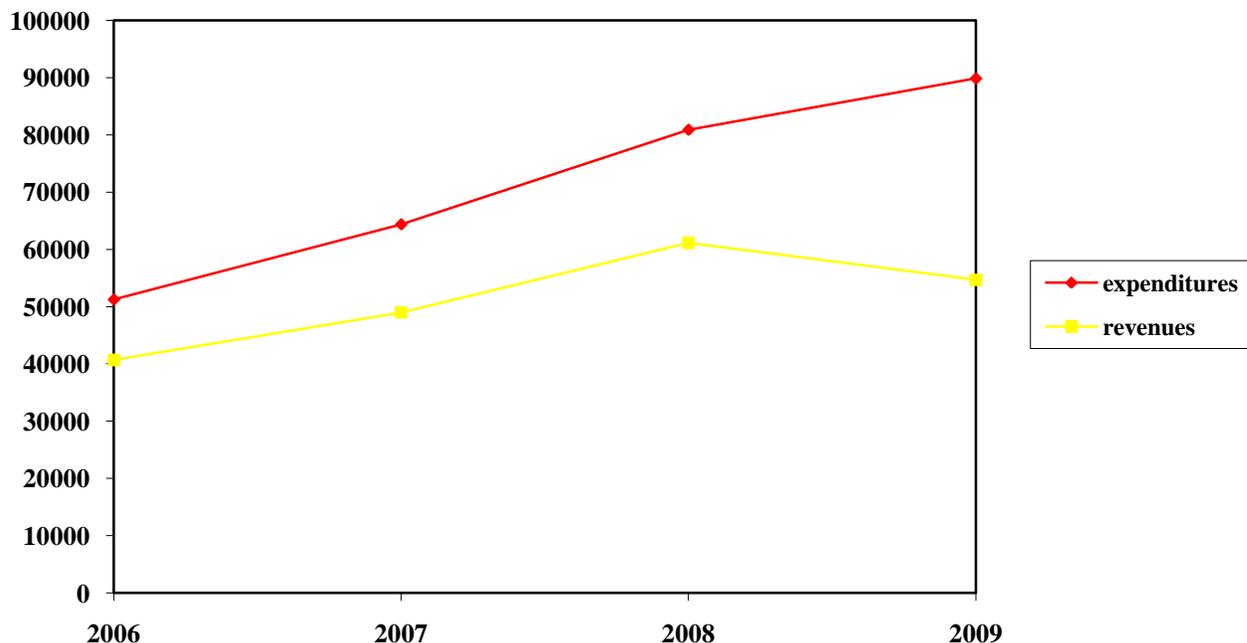
The method of analysis of the fiscal policy in Romania was based on the dates provided by Ministry of Public Finances.

The evolution of revenues and expenditures belonging to the national budget in the period 2006-2009

The revenues belonging to national budget increased between 2006-2008. In 2009 due to the economic crisis who affected Romania they drop significantly. By analysing the informations in the chart bellow we can observe that the public expenditure grew more rapidly than the revenues due to the poorly management of the public funds. One explication for the growth of revenues in the period 2006-2008 is the better gathering of fiscal revenues.

Figure 1. The evolution of revenues and expenditures belonging to the national budget in the period 2006-2009

The evolution of revenues and expenditures belonging to the national budget in the period 2006-2009



The data from below presents the execution of the state budget during the period 2006-2009.

Table 1. Revenues execution of the state budget

lei million

INDICATORS	2006	2007	2008	2009
REVENUES-TOTAL	40698,1	48984,6	61151,0	54678,4
1. Fiscal revenues	37900,1	44916,7	55133,6	48152,9
Tax on income, profit and capital earnings of which:	14122	14615,9	18563,2	15539,7
Tax on profit	7905,4	10528,8	13039,9	10617,1
Taxes and duties on goods and services of which:	23777,7	29332,8	35368,1	31789,8

Value added tax	13224	31243,2	40873,6	34322,4
Excise duties	9943,1	11207,8	12382,5	14272,1
Taxes on foreign trade and international transactions	2596,2	855,7	962,3	655,5
2. Insurance contributions	331	408,4	454,2	414,7
3. Non-fiscal revenues	2281,8	3113,5	3737,2	6352,3

Table 2. Expenditures execution of the state budget

INDICATORS	2006	2007	2008	2009
EXPENDITURES	51235,6	64373,5	80887,8	89851,7
Current expenditures	43118,7	58089,9	73131,3	84580,1
I. Staff expenditures	10174	13184,3	15834,4	15286,3
II. Goods and services	4322,7	3776,2	4605,3	4318,3
III. Interests	2120,2	2249,0	2942,0	5103,3
IV. Subsidies	5670,9	4997,8	5809,1	4966,3
V. Reserve funds		-	-	
VI. Transfers among general government units	5961,2	10997,4	13429,7	17873,8
VII. Other transfers	3892	9212,3	12825,1	13261,6
VIII. Social assistance	10050,3	11932,2	16085,1	18082,6
IX. Other expenditures	927,4	1740,7	1600,6	-344,1
Capital expenditures	5865,2	4164,9	5642,9	3171,0
X. Non-financial	5365,2	3825,1	5642,9	3066,0

assets				
XI. Financial assets.	500	-	-	105,0
Financial operations	2251,6	2118,6	2113,6	2502,9
XII. Loans	3,9	3,7	4,7	4,7
XIII. Credit refunds	2247,7	2114,9	2108,8	2498,2

Source of the dates; Ministry of Public Finances.

lei million

From the analysis of the dates from above we can observe that the fiscal revenues are holding a weight of over 90%, especially those who are proceeding from taxes and duties on goods and services (approximately 59% from the total revenues). Those who are proceeding from tax on income, profit and capital earnings represent approximately 30% from the total revenues, fact that shows the interest of the public authorities to let at the disposal of the private individuals and economic agents a bigger part from their revenues, in order to stimulate saving and investments in the private sector. This objective was attained by the introduction in the year 2005 of 16% unique quota taxation, thing that had led to a decrease of public revenues from tax on income, profit and capital earnings. But the introduction of profit minimum tax in the year 2009 was a mistake because a lot of economic agents closed down their business, fact that had repercussions on revenues attracted on the national budget from profit tax because they drop with 20%. Also we can see that the revenues from value added tax had diminished significantly because the people had to restrain their consumption of goods in this period of economic recession. The revenues from excise duties are significantly bigger from year to year because the exchange rate for euro/ron and the specific excise tax increased. The estimated revenues for 2010 are 66.654,3 million lei, much bigger than those of the year 2009 but the expenditures are 101.678,4 million lei with a budgetary deficit of 35.024,1 millions lei.

Upon close examination of the current expenditures we can observe that they grew every year. These ones are non-productive representing a definitive consumption of GDP. By opposite, capital expenditures (those ones who made for the development and modernization of public sector) diminished in this period of time. They are materialized in investments in the sphere of material or non-material production.

Measures taken by the state in order to reduce budget deficit

The state must take urgent actions in order to reduce current expenditures and also to increase capital expenditures who will generate further revenues, as a part of programme of reducing budget deficit. Some steps were made in this direction but there are a lots of thing to be made in the next years (for example a growth of the productive rate in the public sector).

The main objective for the fiscal policy during this period of time was maintaining budgetary deficit at a lower level by bettering gathering public revenues. There are still a lots of steps to be made in order to eradicate tax avoidance. First of all the fiscal authorities must render more frequent controls in order to uncover those persons who elude from payment their taxes to the budget. Another problem of fiscal policy is the frequent changes of fiscal legislation in force who made the taxpayer reluctant in opening a business.

The consequence of taxation pressure over the consumption, over production factors-labor and capital, represent an important element with a view to improving the tax system. By comparison with the others state from European Union, tax burden in Romania is much smaller. The fiscal rate IN Romania although it is smaller By comparison with the others state from European Union, cannot be appreciated without taking into consideration the level of GDP per person, who is smaller than that of others EU countries.

By observing the way in which the budgetary fiscal revenues evolved in the analysed period, both from the point of view of structures and weight of these, we can say that the fiscal policy promoted until the present day did not brought the stability needed for the development of a lasting and harmonious economic environment and none a real growth in the national budget revenues.

The state was forced to establish new taxes in order to cover the difference between growth of public expenses and that of public revenues who was smaller, by increasing tax burden.

Beginning with the year 2009, the budgetary policy is pursuing the correction of external and internal unbalances who has been let to amplify in the economy. This is a part of the macroeconomic program adopted in april 2009 as a response to the aid flow granted to Romania by the European Union, International Monetary Fund and others. In accordance with this program we forecast a budget deficit of 7% of GDP due to economic downturn. By reducing the country's budget deficit for 2010, and adopting a much more prudent fiscal policy, Romania would signal to the International Monetary Fund and foreign investors that the country was adjusting to the downturn in the external environment.

Conclusions

The state budget for the year 2010 is not realistic in the current condition of economic slowdown. The perspectives on the romanian economy on the short term are negative. Simultaneously the tightening of global credit lines will undoubtedly led to a decrease of the foreign capital invested in Romania, fact who will have repercusion over financing its current account deficit - which significantly adds to the risk of a depreciation of RON/EUR.

As to budgetary policy, government had one tough choices to make between raising budgetary revenues through tax increases or slashing expenditure (current expenditure) from national budget by mass dismissals from the public sector and by reducing public expenses with goods and services, finally the executive authority chose the second one who is very unpopular among the people. The preferred action from a macroeconomic standpoint is to cut non-productivity orientated spending. On the short time the adopted measure lead to unemployment, decrease of revenues as a result of some cancellations of pays rise who where given until decembre 2009.

In general, it does not seem particularly prudent to raise taxes in a period of slowing economic growth.

As a conclusion we can say that fiscal policy must be conceived like a combination between the stimulative elements and those restrictions in order to achive macroeconomic stability, materialized in the accomplishment of a lasting economic growth, in circumstance of deflation, of maintaining current account deficit in reasonable boundary who can be financed and that of consolidation foreign exchange reserves.

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COMPARABLE VALUATION METHOD – A NEW APPROACH. CASE STUDY: A ROMANIAN FLEXOGRAPHIC PRINTING FIRM

Juhász Jácint

Babeş-Bolyai University

Faculty of Economics and Business Management

Kovács Imola

Babeş-Bolyai University

Faculty of Economics and Business Management

Kovács Ildikó

Babeş-Bolyai University

Faculty of Economics and Business Management

This study presents the valuation scheme of a flexographic printing industry firm. The industry, the technology used and most importantly the firm being young ones, it is not possible to use the classical comparable valuation methods. The new approach in this matter is to use as benchmark financial ratios not those related to the price of the firm (as P/E, P/S, P/BV, P/CF, P/CAPEX), but those related to the structure of the income statement, financial and operating leverage using 13 Romanian and 6 Hungarian reference firms' data. Our main contribution to this line of research is to solve the problem of lack of reference data regarding the price, the benchmark companies not being listed on any stock exchange.

Keywords: mergers and acquisitions, corporate valuation, free cash flow, comparable valuation method, benchmarking

JEL codes: G31, G32, G34

Introduction

The purpose of the study is – from a theoretical point of view – to present how an acquisition target's value could be estimated with the help of a modified comparable valuation method the firm being part of a young industry, the classical financial ratios used in the comparable valuation methods not being available and – from a practical point of view – to estimate the theoretical price an acquirer might pay for our analyzed firm, a Romanian flexographic printing firm with a two year past. As stated by numerous financial analysts, valuing companies early in the life cycle is difficult, partly because of the absence of operating history and partly because most young firms do not make it through these early stages to success, this being the main reason for which we choose comparable valuation methods as a base for our valuation. We look for solutions that could offer us a way out from an apparent lack of benchmark data.

Damodaran (2009) enumerates a range of practices that come into play in the most common approach used to value young firms, which is the venture capital approach:

- Top line and bottom line, no detail:

It is difficult to estimate the details on cash flow and reinvestment for young companies. Consequently, many valuations of young companies focus on the top line (revenues) and the bottom line (earnings, and usually equity earnings), with little or no attention paid to either the intermediate items or the reinvestment requirements.

- Focus on the short term, rather than the long term:

The uncertainty we feel about the estimates that we make for young companies become even greater as we go further out in time. Many analysts use this as a rationale for cutting short the estimation period, using only three to five years of forecasts in the valuation.

- Mixing relative with intrinsic valuation:

To deal with the inability to estimate cash flows beyond short time periods, analysts who value young companies use relative valuation as a crutch. Thus, the value at the end of the forecast period is often estimated by applying an exit multiple to the expected revenues or earnings in that year and the value of that multiple is itself estimated by looking at what publicly traded companies in the business trade at right now.³⁷⁷

- Discount rate as the vehicle for all uncertainty:

The risks associated with investing in a young company include not only the traditional factors – earnings volatility and sensitivity to macroeconomic conditions, for example – but also the likelihood that the firm will not survive to make a run at commercial success. When valuing private businesses, analysts often hike up discount rates to reflect all of the concerns that they have about the firm, including the likelihood that the firm will not make it.

- Ad hoc and arbitrary adjustments for differences in equity claims:

Equity claims in young businesses can have different rights when it comes to cash flow and control and have varying degrees of illiquidity.

Our main goal is to value the company from an acquirer's point of view who, being in the same industry, can deal much easily with many of the difficulties enumerated reducing many of the risk factors and sources of uncertainty.³⁷⁸

Brief Review of the Empirical Literature on Benchmarking

Comparable valuation methods consist in the comparison of valuation multiples and operating metrics for a target company to those of different firms in a peer group. Peers may be grouped based on different criteria, such as industry, company size, or growth, this being the base of the benchmarking process.

The popularity of the multiple valuation methods can be attributed to their relative simplicity compared to other company valuation methods like discounted cash flow techniques. As we will show, we think that the two methods can be combined to achieve our goal, especially in case of a company which's stocks is not traded on any stock exchange and is part of a young industry whose companies are not listed on stock exchanges.

Several studies and surveys demonstrate that practitioners frequently use financial ratios or multiples for the valuation of companies (see Graham and Harvey, 2001, Manigart et al., 2000, Lie and Lie, 2002, Liu et al., 2002, Courteau, 2003, Asquith et al., 2005, Roosenboom, 2007, Fidanza, 2008, Mînjină, 2009). It also turns out to be surprisingly successful in comparative empirical studies by Kaplan and Ruback (1995) and Gilson et al. (2000).

In his study focusing on equity valuation using multiples, Fernandez's (2001) basic conclusion is that multiples almost always have a broad dispersion, which is why valuations performed using multiples may be highly debatable. However, Fernandez shows that multiples are useful in a second stage of any valuation: after performing the valuation using another method, a comparison with the multiples of comparable firms enables financial analysts to gauge the valuation performed and identify differences between the firm valued, and the firms it is compared with. These are the two approaches that we would like to merge in our valuation method: usage of financial ratios while utilizing another valuation method. Dittmann and Weiner (2006) investigate the which comparables selection method generates the most precise forecasts when valuing companies with the enterprise value to EBIT multiple, while Henschke and Homburg's study (2009) addresses the problem of differences between firms and the impact on valuations based on multiples. They investigate the extent to which industry-based multiples ignore additional firm-

³⁷⁷ This will be the base idea of our study, too.

³⁷⁸ Damodaran, A., 2009. Valuing Young, Start-up and Growth Companies: Estimation Issues and Valuation Challenges

specific information and develop measures for identifying peer groups that are not comparable with the target firm. They find that differences between firms lead to systematic errors in the value estimates of different multiples but that these errors can be predicted very accurately by comparing the financial ratios of the target firm with the financial ratios of its peer group. They show that when adequately controlling for differences between firms, valuation accuracy is improved substantially and all considered value drivers perform almost equally well. Mînjină's paper (2009) examines the valuation performances of seven multiples on a sample of Bucharest Stock Exchange-listed firms. Mînjină finds that accuracy levels of multiple valuations are generally lower than those obtained using the same methods on more developed capital markets.

Financial Analysis of the Target Company

Before analyzing the financial data concerning our firm, we have to choose the benchmark data that we are going to use as reference. We analyzed 13 Romanian and 6 Hungarian firms from the flexographic printing industry chosen partially taking into consideration the findings of Dittmann and Weiner (2006) and Henschke and Homburg (2009) being partly influenced by the available data.

Table 1: Simplified Income Statement of the analyzed firm (RON)

	2008	Jan.-July 2009
Operating revenue	2506587	2286148
Operating expenses	3369880	2750791
Suppliers	1646825	1592776
Employees	718482	488066
Services (including depreciation)	1004573	669949
Operating result	-863293	-464643
Financial revenue	37714	5616
Financial cost	641278	144825
Financial result	-603564	-139209
Income before income taxes	-1466857	-603852
Net income	-1466857	-603852

Source: The firm's official financial statements

The first striking observation is that the firm is in loss. In fact, one of the main problems in estimating a recently started business's price is typically the fact that most of these firms are not bringing any benefit to the equity owners in the first years of their existence. The gross margin is negative, while the benchmark data show positive values. The question that has to be answered is how we value a company in a similar situation.

The second also surprising fact that we can observe that not only the net income is negative, but also the operating result, the oddity of this situation being strengthened by the fact that we didn't find this situation at none of the benchmark firms we analyzed. In the next section our goal will be to solve this valuation problem.

Tabel 2: Financial ratios of the analyzed firm and benchmark averages in Romania and Hungary

Ratio	Hungary	Romania	Our Firm
Sales/Employees (RON)	350.000	280.000	105.000
Gross margin (%)	6,5%	0.5%	-26,35%
Operating margin (%)	11,5%	n.a.	-20%

An important measure of the efficiency of a firm is the sales/productive employees ratio. The problem is that while it is much easier to procure the total number of employees of a firm, it is rather difficult to do the same with the number of productive employees. But supposing that the proportion of the productive and non-productive employees does not vary substantially from one firm to another, we will calculate the ratio by dividing the total sales (operating revenue) by the total number of employees. The values of the ratios show large disparities especially between the analyzed firm and the benchmark ones: our firm's sales/employees ratio is one third of the benchmark data.

The problems that we can read out from the ratios calculated from the data found in the income statement plus a few technical data are:

- There is a 50% unused capacity in the firm – which explains the low value of sales/employee ratio and the negative value of the operating margin (the operating expenses including depreciation)
 - Either the material costs are too high, or the firm's price calculation method is incorrect – confirmed by the negative value of the operating margin
 - The benchmark data also show that the employee expenses divided by the total number of employees (average expense per employee) is much higher at our firm than in the case of the benchmark firms
 - The lease contract proposes a 6 year payback period, although the investment's payback period is higher, which causes financing problems on medium run
 - The benchmark data also show that the collection period at our firm is much higher

Methods of Optimization from the Acquirer's Point of View, Synergy Possibilities

Resulting from the problems enumerated above, we cannot predict future cash flows without optimizing the data affected. Otherwise the firm would not worth more than its equity which is negative by the time of the analysis – the only possibility would be to sell the data base and network of the clients of the firm – a small amount oppositely to the potential of the firm. We will make further calculations with the assumption that no enterprise would buy this firm to operate it as it operated before the acquisition. The optimization possibilities come from the benchmark data that we worked with also at the financial analysis of the target company - in order to make the most of this company from a financial point of view one should:

- Utilize to the maximum the capacity of the machines - the buyer should be in a lack of capacity (which would increase the Sales or Operating Revenues with 100%)
- Optimize the operating margin by introducing a new price calculation method and/or by reducing material costs
 - Introducing a new performance-based wage calculation method
 - Renegotiate the terms of the lease contract by prolonging the payback period or perform an equity infusion (the acquirer)
 - Shorten the collection period by introducing some discipline through a more complex commercial credit system using a pre-defined discount system for early cash collection and establishing clear procedures and default interests for those who exceed the expiration of the commercial credit

We can also enumerate a few synergy possibilities for the buyer:

- Joint logistics
- Joint administrative personnel
- Better territorial coverage
- Better knowledge of the technology

- Better sales opportunities

All these factors lead to a better cost management and higher revenue.

Calculation of the Free Cash Flow

In the course of the free cash flow (FCF) calculation we assumed that we can benefit from all of the optimization and synergy possibilities listed above and we assume that in the course of the next 6 years no substantial investment will be made. All the other maintenance costs are included in the operating expenses.

Table 3: FCF calculation

Indicator	2010	2011	2012	2013	2014	2015
Growth rate	56%	10%	7%	7%	5%	5%
Operating revenue	7406734	8110767	8678520	9286017	9750318	10237834
Operating expenses	7061682	7566360	8004684	8474815	8831479	9206813
Operating result	345051	544407	673836	811202	918839	1031020
Income tax without tax shield	0	0	0	129792	147014	164963
NOPLAT	345051	544407	673836	681409	771825	866057
Depreciation	689277	678272	667444	656788	646302	635983
Increase in net working capital	178200	165726	129729	138670	106315	111526
FCF	856128	1056953	1211550	1199527	1311812	1390515

Source: Authors' calculations

Estimation of the Discount Rate

We use the weighted average cost of capital (WACC) as discount rate, with an optimized debt-equity ratio. To estimate the expected rate of return of the shareholders we use the capital asset pricing model (CAPM). For the change in the WACC caused by the change in leverage throughout the years, we either use Miles and Ezzell's method, or, if we also want to include the operating leverage change too, we can use the numerous levered-unlevered beta corrections found on the market (Modigliani and Miller, Harris and Pringle, Damodaran, Myers, practitioners). For the first year of the forecasted period:

$$\text{CAPM: } E(r_e)_{2010} = E(r_f) + \beta * [E(r_m) - E(r_f)] = 6,5\%^{379} + 1,24 * (13\% - 6,5\%) = 14,56\%$$

$$\text{WACC} = r_e * E/V + r_D * (1 - T_c) * D/V = 14,56\% * 45\% + 10\%^{380} * (1 - 16\%) * 55\% = 11,172\%$$

Estimation of the Firm's Value – Results and Conclusion

Using the classical FCF derivation method we find that:

Table 3: FCF calculation

Indicator	2010	2011	2012	2013	2014	2015	2016
WACC	11,17%	11,30%	11,45%	11,70%	12,10%	12,40%	
Discounted FCF	770094	853229	875188	770544	741043	689569	
Terminal value							2453533
Firm value	7153198						
Debt value	4071000						
Addit.cap.requirement	716000						

³⁷⁹ National Bank of Romania's policy rate, www.bnro.ro

³⁸⁰ 5,5% in Euro

(equity infusion)

Equity value after the
merger

2366198

Source: Authors' calculations

Knowing that no method will determine a single price for the target; the outcome of the analysis will be a range of values: [2 000 000 – 2 700 000]. This is the approximate interval the price will move in – we tend to consider the lower limit more realistic because all the optimized data might not be possible to pursue.

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NATIONAL EXPERIENCES REGARDING CORPORATE GOVERNANCE – „PROPER PRACTICE” CODES

Kolozsi Lucia

Camera de Conturi Bihor

Durgheu Liliana

Camera de Conturi Bihor

This paper is about the principles of proper governance codes, which even though have blossomed in all parts of the world for more than a decade, the degree in which companies adopt the codes vary in different countries, and the decision to adopt a certain code does not automatically guarantee efficient corporate governance. The paper tries to identify the mechanisms needed for implementing the codes and that will lead to higher efficiency.

Key words: corporate governance, proper practice codes, efficient management

Cod JEL: G38

1.Introduction.

In 1978 the first country which issued a code of proper governance was the United States, the second country was Hong Kong in 1989, then the pace of issuance increased, especially after 1992 when the UK Cadbury Report was issued. By mid 2008, in 30 years, 64 countries have issued 196 separate codes of proper governance, some countries having more than one code of proper governance (The most notable being the United Kingdom and the United States with 25 codes each) others having only one code (such as Argentina or Austria) issuers of which are joint investors, employers associations, professional associations and governments, stock markets and their regulators³⁸¹. It seems that there is a link between the development of capital markets and the number of codes issued. Countries with capital markets not only larger but deeper, have more codes of proper governance, proper governance need increases with increasing numbers of public firms because agency problems occur between dispersed owners, and managers or between majority and minority shareholders. Spreading codes for proper governance in the world was aided by stimulating international entities such as the World Bank and Organization for Economic Cooperation and Development (OECD), which began to emphasize the need to improve corporate governance institutions in general and in particular to help countries to grow and develop.

2. General principles.

General principles of proper governance structure refers to: a balance between executive and non-executive directors, a clear division of responsibilities between the chairman and chief executive, need to provide timely and quality information to management, formal and transparent procedure for appointment of new executives, balanced and understandable financial reporting and internal control system to maintain a good quality.

On how the codes are implemented once are developed and adopted as a guiding principle of government has identified two mechanisms for implementing the code - mandatory or voluntary regulation. Classic examples of two alternative approaches to implement codes are law-for

³⁸¹ Aguilera,Ruth& Cuervo-Cazurra,A.(2009), *Codes of Proper governance*, în *An International Review*Vol 17, Issue3, p376-387

example, Sarbanes-Oxley Act of 2002, the U.S. and an approach “to comply or explain”-for example, the UK Combined Code in 2003. Although most of Proper governance Codes have similar problems, the specific content of codes for proper governance varies significantly across countries, by capturing the needs of different corporate governance systems. Implementation of codes increased over time, firms tend to adopt a growing percentage of codes recommendations despite their voluntary nature.

Although proper governance codes have been developed worldwide for more than a decade, the extents to which companies adopt codes vary across countries, and the decision to adopt a code does not give an automaticall guarantee of effective corporate governance. Thus in the UK British companies listed on London Stock Exchange met to a large extent Cadbury Report recommendations, the degree of compliance with the UK Combined Code is developing over time. Regarding the assessment of compliance with the provisions of the German Code of Proper governance for a significant proportion of companies complying with these provisions, almost half of them are already implementing the full German Code as the company’s guiding principle. Extending the analysis shows a high level of acceptance of recommendations of codes and a marked willingness to comply in the future, institutional environment and, in particular, capital market development resulting in large part the degree of monitoring compliance with the code, even if just for informal and legitimation.

3. Experiences regarding corporate governance.

All studies of proper governance stress the importance and growing interest shown for this area. Codes of proper governance became a central issue in politics and scientific research. To a fad that would disappear once the new ideas appear, codes of proper governance have increased relevance and continue to spread worldwide. Has also made a considerable progress on understanding the various code of proper governance worldwide, companies adopting codes, and code impact on performance.

From what was shown most codes tend to agree with the mechanisms that support more effective governance, and Board with independent members and the creation of committees, however, cross-national differences are significant. For example, the codes vary greatly because they are developed to address corporate governance issues that are specific to a particular country. Whereas such codes issued in different countries actually have different recommendations, comparing their adoption and effectiveness in improving corporate governance throughout the country faces severe limitations because it used different standards.

Another interesting aspect is that the issuers would outline codes; codes are issued by the stock exchange of countries, executives of associations, employers associations, investors and investor associations, professional associations or governments. These different types of issuers have different objectives and therefore codes that will create separate targets. Thus, recommendations on best practice Board considered the behavior largely dependent on the issuer. Similar applicability of proper governance vary dramatically as issuers, speaking directly to the debate between the effectiveness of regulations mild versus harsh legislation. The government and the stock exchanges have the power to impose penalties for non-compliance practices. In contrast, investors and investor associations have only the power to impose practices through shareholder activism at meetings, while other borrowers - associations of principals, professional associations and employers associations - have a limited ability to persuade companies to follow the recommendations codes.

It should not be neglected the importance of transnational institutions for the creation and dissemination of proper governance. Such transnational institutions like the World Bank and OECD have actively promoted proper governance by helping developing countries understand how to improve corporate governance practices. These trans-national issuers by promoting a common set of practice, regardless of country characteristics, may indirectly contribute to the

convergence of codes across national governance practices. In other words, it moves to a particular model of corporate governance (eg, Anglo-Saxon or Continental), but to a model of governance more generally global.

It must be noted that the recommendations contained in Codes of proper governance have evolved over time as some corporate governance issues are resolved other problems occur instead. This development problem that the codes treat was treated with revision of previous codes and new codes addressing governance issues new and different. This co-evolution of corporate governance issues and content codes emphasizes another source of differences across countries and codes developed in each country. Countries with sophisticated capital markets require more advanced codes recommendations, while countries with small capital markets probably require simpler code addressing basic problems.

Research concerns the causes of corporate failures after the crisis of the '80 in Britain, manifested by Sir Adrian Cadbury, have resulted in the Cadbury Report in 1992. Subsequently, other reports have come in support of Lord Sir Adrian Cadbury Report, outlining the idea of critical weaknesses that manifest themselves in top management. Cadbury Code, issued in 1992, established the first basic rules of running a company take the form of 19 recommendations to achieve increased efficiency while nondiscriminatory behavior to shareholders.

The Paul Ruttman report was published in 1993 that consider how to implement the recommendations of Cadbury, concluding that any stock exchange listed company should report on internal control.

Published standards of public life by Lord Nolan in 1994 reiterate the need for developing an ethical public sector; Nolan code representing a solid set of seven principles that should guide public life.

Richard Greenbury report in 1995 contained a code of proper practice wage determination and disclosure of directors, while establishing the need for a remuneration committee, to avoid poor performance and even establish compensation mechanisms for their enforcement. In the same year Ronnie Hampel report was to amend and improve certain references from Cadbury Report on the structure of boards, the role of director's nonexecutive role of shareholders.

Based on the recommendations provided by the Cadbury report and other observations on corporate governance, published in 1998 *the combined code* has become a mandatory requirement for listed companies' shares.

Charlie McCreedy launches the „*explain or apply principle*”, that companies are obliged to justify any deviation from corporate governance codes.

In October 1998 the finance ministries of member countries of the G7 called for transparency, quality, consistency and comparability of information on capital markets, bringing the Organization for Economic Cooperation and Development (OECD), in collaboration with the international regulatory bodies to complete by May 1999 drawing up a code of principles for sound management of firms. In 1999 the OECD published its corporate governance principles, recognized by the Financial Stability Forum as one in the 12 basic standards for sound financial systems. These principles formed an essential part of the Collection of Standards and Codes conducted by the World Bank and International Monetary Fund. International Organization of Securities Commissions with other private sector bodies as the International Corporate Governance Network (ICGN International Corporate Governance Network) has adopted these principles. In addition to many national codes on corporate governance principles have been a reference point. Revision of OECD principles made in 2004, was born from the need to adapt to economic and political change, following consultations with officials and non-OECD countries, members of various professional bodies and business representatives from trade unions and civil

society, additions being particularly information related to transparency and board responsibilities and remuneration of the administration board³⁸².

Corporate governance systems have specific features of developing economies how they apply their culture. Thus, if German corporate governance model is based on the internal control system is centered on the existence of strong shareholders, based on high concentration of capital, as manifested by shareholders that are linked by common corporate interests, while at the same time take part in both its management and control („insiders”), being focused on the banking system, banks exercising strong influence and control over the companies, in contrast to Anglo-Saxon model is characterized by dispersion of capital, the chief financier stock market, transparency of information, lack of involvement of public authorities in the economic environment, the significant role of accounting existence of a stable economic environment, high levels of liquidity, customary law system, common law.

Corporate governance system in North America is a traditional model that is based on three levels and two legal relationships: a legal relationship is established between shareholders and directors, under a contract of mandate (agency in common law) and the second is legal established between directors and managers, managers have the authority derived from that of administrators In this model, called model maximizing shareholder income, the entire company is focused on risk capital provider, which is also the residual income claimant. Shareholders select the board of the Company. Decision making system based on: Actions means a vote and elect management board decisions are assumed to maximize the value of shares held by shareholders. Share value is based on the present value of the projection of future dividends, the net profit derived. These models to Japanese corporate governance system is distinguished by its features, the main feature being that the groups of „keiretsu” - groups representing economic results from the combination of several companies through cross holdings (English cross equity) firms within the meaning representation Grouping the boards of other entities³⁸³, containing one or more central entities (eng.core members) class with small affiliated companies. Characteristic of these types of groups is given multidimensional cooperation between entities that are part of the pool. In this context frequently encounter dialing mechanisms for funding the banking entity in the group, or to transfer employees from the same landing value of the group, or the existence of an entity specializing in the marketing of products made in the group (specifically trade houses called Japanese „sogo susha”) observing the strong influence of Japanese culture.

Examination of issues of corporate governance convergence is both relevant and necessary, is interesting to study the principles that can justify, primarily Anglo-American model, with a shareholder orientation and the foreign financing and, secondly, the continental European model Japanese and characterized by a greater orientation toward policy makers and funding from the inside.

Convergence of corporate governance refers to the tendency of corporate governance models, specifically national or supranational, to merge their practices and theoretical perspectives. Complete convergence implies that national differences would disappear and eventually a universal model of corporate governance be adopted.

Although there argue that convergence is manifested by the Anglo-American model, these voices argue, would be superior to its alternatives, the specific failures of the Anglo-American corporate governance, corporate success in the party concerned, interior-oriented systems and economic

³⁸² OECD,(2004), *Principles Of Corporate Governance*, ediția revizuită, disponibil la <http://www.oecd.org.html>

³⁸³ Mușetescu, R.(2006) „Integrarea globală a piețelor financiare și impactul asupra guvernantei corporative a firmelor locale” *Jurnalul Economic*, p 73-90

development in regions outside the Anglo-American states that would be difficult to transfer to a private practice of corporate governance from one context to another and expect ca aceasta să funcționeze eficient. Also introducing mechanisms such as the U.S. takeover of management discipline in Germany or Japan would be extremely disruptive for managerial incentives and screening systems present there.

Although manifestations of convergence differences remain for decades, the trend is to consider globalization as a convergence of corporate governance. Arguments both pro and against convergence there certainly is that, in essence, although convergence would create the conditions for efficiency should be based on the need for diversity. Other factors outside the economic legal and they are in deeper social norms underlying various governance structures. Thus culture is beyond the law and economic systems, cultural diversity teaching against convergence. Model of corporate governance around the world have drawn as culture to give a much more accurate and useful. However, the idea that legal structures and economic rules that the Constitution corporate governance systems are the culture, and therefore justified the possibility that corporate governance models differ between cultures, could be related to cultural relativism. As far as cultural relativism claims that different values may be held by different groups, it involves imposing constraints on the values of a group to another group. This concept is closely related to the actions and arguments of moral relativism that works, however, at both individual, and group (cultural and / or national).

We can identify in corporate governance, above legal and economic structures, a set of values, attitudes and / or fundamental beliefs. Understanding this basic morality may therefore provide penetration into corporate governance structures, moral principles and philosophies that can be most easily identified with the most prominent models of corporate governance from the Anglo-American model, followed by continental and Japanese models.

Not be said that corporate governance failures necessarily follow these patterns in Anglo-American or European countries - there are too many differences between companies and the above theoretical discussion was limited to traditional extremes. Yet in some ways, the morality that underpins corporate governance can be seen now in successful companies. Although specific reference to corporate governance annual reports focus specifically on issues management, there are other aspects of these reports involve broader perspective on corporate governance.

We can conclude that business and morality are not always considered ordinary partners. Few would suggest, however, that business relations would be possible without some minimum of trust and fairness. Similarly, it is not unreasonable to argue that directors have certain moral obligations to those who provide funding, regardless of their legal requirements and enforcement capacities. In turn, the corporation may be seen as a mechanism that contributed significantly to society in the past and has the potential to continue to do so, all over the world. Despite differences in approaches to both theoretical and the practical application of corporate governance in different jurisdictions, there is a certain extent a common morality of corporate governance. Successful operation of the corporations is generally considered beneficial because it provides different socio-economic „goods”. The four „virtues” of corporate governance responsibility, accountability, clarity and transparency are accepted as characteristics of good corporate governance not only in the 30 OECD countries, but in others as well.

A closer examination of the principles that support corporate governance patterns prevailing Anglo-American and the Continental European / Japanese suggests that differences in the relationship between corporations and society. Differences in underlying models of corporate governance lead to the question whether it is appropriate consider the convergence of these models.

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EFFECTIVE TAX BURDEN BORNE BY COMPANIES: A REVIEW AND A NEW METHODOLOGY

Lazăr Sebastian

„Al. I. Cuza” University of Iași

Faculty of Economics and Business Administration

Measuring the effective tax burden of companies was appealing to many famous economists. The present paper makes a review of the methodology used in assessing the tax burden of companies, and starting from this point, proposes a new framework based on micro backward-looking methodology, which extends the fiscal variables taken into account by considering the tax savings generated by alternative ways of personnel remuneration such various vouchers granted to employers. This line of research is in accordance with the extension of tax incentives granted to companies that lower the fiscal burden, but are not taken into consideration when computing the effective tax rate borne by companies. Some partial results of the research show that the magnitude of such tax incentives can be quite significant, but the research has to be extended to a larger sample of firms.

Keywords: effective tax burden, micro backward-looking methodology, alternative ways of personnel remuneration

JEL codes: H22, H25

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Effective tax burden: a review

The problem of tax incidence on corporations is one of large interest in the academic world, having its beginnings in the works of Modigliani and Miller. Later, important contributions were made by Hall and Jorgenson, Harberger, Stiglitz, King, DeAngelo and Masulis, Auerbach, Poterba, Devereux, Shah, Summers, Desai and many others. An excellent review can be found in Graham, John R.³⁸⁴. Key areas of interest focused on the incidence of taxation on financial structure (Modigliani & Miller, Stiglitz, DeAngelo & Masulis), the enterprise value (Auerbach), the cost and return on investment (Hall & Jorgenson, Summers), the location of enterprises and investment (Devereux, Shah), the fiscal adjustment and financial results (Desai), etc. One can notice a tendency to extend the tax variables taken into account: if the initial research aimed at taking into account only corporate income tax, later the research area was expanded by including the dividend tax, capital gains tax, in pursuing the integration of corporate income tax and personal income tax, and thus determine the tax incidence both on companies level and investors level. Also, the diversification of fiscal techniques resulted in taking into consideration various tax incentives such investment tax credit.

In line with these developments, in the context of globalization in recent years, research conducted worldwide focused on determination of effective tax rates of companies, which often is very different than statutory rate set by the existing legal framework. Enterprises have become increasingly concerned to maximize available tax benefits, and decreasing tax liabilities through legal means of payment (tax sheltering).

³⁸⁴ Graham, John R. - A Review of Taxes and Corporate Finance, *Foundations and Trends in Finance*, Vol 1, No. 7 (2006).

Currently, there are two major orientations to determine the average effective tax rate borne by companies:

The first orientation is based on data from financial reports (so-called micro backward-looking methodology), in which effective tax rate is determined as the ratio between tax liabilities and income (profits) current. Important contributions were made by Collins and Shackelford³⁸⁵, Buijink, W., Janssen, B., Schols, Y.³⁸⁶ and Nicodème, G.³⁸⁷.

Collins, J.H. and D.A. Shackelford (1995) manage to classify countries surveyed in decreasing order of the tax burden borne by companies in the following order: Japan, UK, USA and Canada. They also show their evolution over time of these effective tax rates, at the confluence of the reduction in statutory tax rates and increase the tax base.

The study of Buijink, W., Janssen, B., Schols, Y. (2002) is among the first ones based on the consolidated financial information of EU companies that try to capture their real tax burden. They see the difference between statutory tax rate and effective rate as an indicator of fiscal facilities that benefit enterprises. They calculated three types of effective tax rates: tax / taxable income, tax / net turnover, tax - deferred tax / taxable income. Their conclusions are: tax facilities differ substantially among EU countries and the differences between effective tax rates among member states are greater than those between statutory rates.

Gaetan Nicodème (2007) compared effective tax rates for 11 EU countries (EU 15 less Greece, Luxembourg, Ireland and UK), USA and Japan. He uses the unconsolidated financial information to better capture the specific national tax framework and expand the number of companies included in survey. The conclusions he reached may be summarized as follows: in Europe, the effective tax rates, calculated after Martinez-Mongay (2000)³⁸⁸, as the ratio between tax and gross operating profit are no higher than those the U.S. and Japan; over the period of the 90's, although increased, the effective tax rates in Europe remained significantly below those of two other major economic powers. In Europe, countries with the highest taxation are Germany, Italy, Denmark and the Netherlands, while in Austria and Sweden (surprisingly) the tax burden of companies is lower. Also, energy and water sector, transportation and communication enjoy an easy fiscal charge, while trade is charged more heavily.

The second orientation is based on neoclassical investment theory, where the average effective tax rate depends on effective marginal tax rate and capital cost (user cost of capital - see Hall and Jorgenson) - so-called micro forward-looking methodology. It aims to assess effective tax burden supported by investment projects, based on a methodology initiated by King and Fullerton³⁸⁹ and further developed by Devereux and Griffith³⁹⁰. Recent developments of this methodology takes into account restrictions imposed by tax

³⁸⁵ Collins, J.H. and D.A. Shackelford (1995) - Corporate Domicile and Average Effective Tax Rates: The Cases of Canada, Japan, the UK and USA, *International Tax and Public Finance*, Vol 2, 55-83.

³⁸⁶ Buijink, W., Janssen, B., Schols, Y. (2002) - Evidence of the effect of domicile on corporate average effective tax rates in the European Union, *Journal of International Accounting, Auditing and Taxation*, 11, 115-130.

³⁸⁷ Nicodème, G. (2007) - Comparing Effective Corporate Tax Rates, *Frontiers in Finance and Economics*, Volume 4 (2007), Issue 2, 102-131.

³⁸⁸ Martinez-Mongay, C. - The ECFIN Effective Tax Rates, Properties and Comparisons with Other Tax Indicators, *Economic Paper*, No 146, European Commission.

³⁸⁹ King, MA and D. Fullerton (1984) - *The Taxation of Income from Capital*, Chicago: University of Chicago Press.

³⁹⁰ Devereux, Michael P. and Rachel Griffith (1999) - *The Taxation of Discrete Investment Choices*, Revision 2 - The Institute For Fiscal Studies *Working Paper Series* No. W98/16.

authorities in some countries to not affect the net result with tax savings realized by the enterprise as a result of various facilities that can benefit (Polito, Vito, 2009³⁹¹).

Research conducted worldwide is based heavily on this methodology. Even European Commission³⁹².

The study of Oestereicher, Andreas, Timo Reister and Christoph Spengel (2009)³⁹³, based on a powerful research tool called European Tax Analyzer - ETA - developed by the research team at ZEW (Center for European Economic Research) Mannheim, contains Romania's situation in terms of effective average tax burden of Romanian companies. According to the methodology Devereux & Griffith, Romania ranks 4 in Europe, both in large enterprises, and small and medium size enterprises. But the study did not consider social contributions, which, in our opinion, would be likely to fundamentally change the conclusions.

The new methodology regarding effective tax burden

The methodology proposed consists in determining effective tax rates by taking into account tax incentives and tax savings generated by various instruments such alternative personnel remuneration. The same company may have different financial ratios in the absence/presence of these tax incentives/savings, and this is likely to lead to further clarification on the incidence of fiscal variables on financial management of enterprises. At this point, it should be noted that researches undertaken so far *not quantify the alternative ways of personnel remuneration in determining the overall effective tax rate of enterprises*. The effective tax rate we propose is based on micro backward-looking methodology and is computed as a *ratio between taxes paid by companies and gross operating profit*. When sizing the taxes borne by companies we consider tax savings generated by alternative personnel remuneration. Basically, we will compute the effective tax rates in these two ways and will try to identify the differences between them and the impact of such tax incentives on overall performances of companies. The decision of a company to pay its employers using alternative forms such different kind of vouchers bears a strong tax incentive, as these vouchers can not borne any social contributions payments. Thus, the effective tax rate is smaller than that of a company who decides to pay its employers in cash.

$$ETR_1 = \frac{\text{Taxes}}{\text{Gross_operating_profit}}$$

$$ETR_2 = \frac{\text{Taxes} - \text{Tax_savings}}{\text{Gross_operating_profit}}$$

The tax savings generated by alternative personnel remuneration (such meal vouchers) have to be computed. The general belief says that this form of remuneration is negligible,

³⁹¹ Polito, Vito (2009) - Measuring the Effective Tax Burden in the Real World, *Fiscal Studies*, Volume 30, Number 2, June 2009, pp 247-278 (32), Blackwell Publishing).

³⁹² Commission of the European Communities (2001) - Company Taxation in the Internal Market, available at

http://ec.europa.eu/taxation_customs/resources/documents/company_tax_study_en.pdf.

³⁹³ Oestereicher, Andreas, Timo Reister and Christoph Spengel (2009), Common Corporate Tax Base (CCTB) and Effective Tax burdens in the EU Member States, *ZEW Discussion Paper*, No. 09-026, Mannheim, available at <ftp://ftp.zew.de/pub/zew-docs/dp/dp09026.pdf> and later in *World Tax Journal*, 46-66).

but we will show that its magnitude is underestimated, and the effects on the overall performance of a company may be quite significant. We use gross operating profit as it is more relevant for company's core activities. The tax savings incurred by meal vouchers remuneration are depicted in the following formula:

$$TS = c_g MV, \text{ where,}$$

c_g = global social contributions rate;

MV = meal vouchers granted to employers.

In principle, data concerning meal vouchers granted to employers are available in the financial reports of listed companies. Social contributions borne by companies include those for pensions, unemployment, medical services, work accidents and occupational diseases, vacations and indemnities, and for payment of wage claims. The rates usually vary on annual basis depending on fiscal legislation.

In order to compute the effective tax rates in the two variants depicted above, we will use the financial data for Aerostar company for fiscal years 2007 and 2008.

Table no. 1. Relevant financial data for Aerostar company during 2007 and 2008

		2007	2008
1	Gross operating profit (RON)	10,021,848	6,666,747
2	Corporate income tax (RON)	771,691	1,581,534
3	Other taxes (RON)	1,068,799	1,062,281
4	Social contributions (RON)	11,121,992	12,047,148
5	Meal vouchers (RON)	2,737,340	2,855,417
6	Global social contributions rate (RON)	31.6%	29.35%
7	Tax savings (RON)	864,999.44	838,064.88
8	$ETR_1 (2+3)/1$	18.36%	39.66%
9	$ETR_2 (2+3-7)/1$	9.73%	27.62%
10	Tax savings/Gross operating profit (7/1)	8.63%	12.57%

Source of data: S.C. Aerostar S.A. Financial Reports available at <http://www.aerostar.ro/financiar.php?PHPSESSID=a6deb4c8d97d80f06a5a67108a2b29fb;>

One can notice the differences between the two effective tax rates, which are quite significant (from 18.36% to 9.73% in 2007, respectively from 39.66% to 27.62% in 2008). Moreover, if the company did not choose to pay the employers using vouchers, its gross operating profit would have been lower by 8.63 percents and 12.57 percents respectively. So, using such alternative personnel remunerations schemes determines an increase in gross operating profit, as the company capitalizes the tax savings generated by such instruments.

This is only one example that illustrates this new methodology that we proposed. To be relevant, the study must be extended by taking into consideration a sample of companies for which data are available. Generally, listed companies provide such data, so, this may be a good starting point. Unfortunately, there is no source of data that can provide all-in-one information related to tax incentives granted to companies in various forms, and, by consequence, such a study will have to surpass the difficulty of getting the necessary data.

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EXCISES HARMONIZATION IN THE CONTEXT OF ECONOMIC CRISIS IN ROMANIA

Mara Eugenia Ramona

Babes-Bolyai University Cluj-Napoca

Faculty of Economics Science and Business Administration

Roiban Iosif

Babes-Bolyai University Cluj-Napoca

Faculty of Economics Science and Business Administration

Chirculescu Maria Felicia

Constantin Brâncuși University of Târgu Jiu

Faculty of Economics Science

This article tries to present the major aspects concerning the excise harmonization in the context of economic crisis in Romania. The paper realizes an analysis of the harmonization steps in the European space underlining the current situation when the revenues from excises represent a valuable source of financing the public expenditures. In Romania the harmonization process is not accomplished entirely, but the last increasing of the excises are due to this process.

Keywords: excise duty, tax harmonization, tax revenues

Cod JEL: H23, H3, G18.

Introduction

Excise duty is an indirect tax, a consumption tax payable on certain categories of goods including alcoholic beverages, gasoline, tobacco products, coffee, electricity and certain other items. The tax is payable on import and sales of locally produced items on the domestic market and is set as fixed euros amount per unit ("specific excises") or as a percentage of a specified taxable base (ad-valorem tax). Excise taxes have an important role in the budgetary and fiscal policy of every government because are used not only for obtaining the public revenues, but also for other purposes like to discourage consumption of specific commodities; taxes on alcoholic beverages and tobacco products are the obvious examples. Tobacco taxes can be considered as instruments for adjusting externalities through increasing the price by an amount that corresponds to the measured externalities. The same situation can be considered for the energy excises when the negative externalities- pollution- can be reduced through the revenues obtained from this excises. The issue of tax harmonization is a continue process for all EU member states. Even if the excise duty revenues have only 3.1% of GDP and 10% of the total revenues in the 2009 in Romania, the importance and the consequences of excises are considerable for our economy. In the European Union countries the highest share of excises revenues in gross domestic product is in Bulgaria 5.8 % of GDP and for EU the average is 2.5 %.

First issue is excise harmonization, a continuously process for Romanian fiscal system. According to the harmonization process in Romania, we have few directions for realizing excises harmonization:

- a minimum tax rate;
- taxation object: establishing the categories of goods and services imposed with excise;
- collecting procedures for transport, depositing and commercializing the goods imposed with excises.

Why is so important the harmonization process of excises? The answer is: because of the consequences and the major impact of this process from economic and social perspectives. The

major consequence is price increasing, not only for the products imposed with excises, but also for many other categories of goods whose price includes indirectly excises. For instance, fuels excises can be considered inflationary, because conduct to a generalized price increase. On the other hand excises on alcoholic drinks and tobacco are used for protecting the population health. The impact of increasing these excises is not always reducing the harmful consumption. But, instead increasing excises has a major impact of tax evasion. For instance, for cigarettes the excise rate was 64euros/1000 cigarettes and now is 74 euros and because of this excise increase many economic agents prefer to commercialize the cigarettes without paying the excise duty. Another consequence of excise harmonization is removing the luxury excises starting with this year 2010. How proper is this measure for our budget in this period of economic crisis when the budgetary expenditures cannot be covered because of the lack of fiscal revenues? For these arguments our research tries to evaluate the current situation of excises in Romania comparative with other states member of EU with similar harmonization process.

Harmonization process

The main objective of excises harmonization was to establish minimum rates of taxes for avoiding price distortions in the European Union. The aim of the state is to reduce consumption especially referring to the environment protection (e.g. from energetic products and electricity in the area of excise taxes) or the negative externalities (e.g. medical costs of smokers) which are not included in the price of product. Only in the case of zero elasticity of supply and demand it is possible to reduce overconsumption. In this case excise taxes increase the effectivity of tax system.

Another problem is regressivity of excise taxes. Consumption of products, which are liable to excise taxes at taxpayer with the increase of his income, reduces it. Taxpayers with low incomes face relatively higher tax burden. Moreover, it is proved that the consumption of tobacco and alcohol is relatively higher at poor people or countries.

In the European Union space excises harmonization represents a special issues imposed by the follow reasons:

- even if excises are not general consumption taxes like VAT, are applied on fuels. This category of goods represents in the now days an essential raw material necessary for realizing any products, thus we have excises indirectly in almost of the goods. For this reason an increasing or a decreasing of excise tax rate produces chain effects in the prices and can leads to some intercommunity distortions between EU countries;
- the role of excises in tax competition is significant because this category of taxes can induce the propensity of the member states for the reduced tax rates.

So, in this context we have the first measure to excise harmonization in 1993, in the EU quite late, because the excises have a reduced role comparing with VAT in the budgetary revenues. In relation to internal market a number of directives were adopting in this field. All the systems of excise duties have been implemented in the EU as a part of the internal market since 1st January 1993.

Excises harmonization is based on the follow instruments: object harmonization, tax base harmonization, tax rates coordination and fiscal procedures harmonization. The next table illustrates this level of excises harmonization and the main results for European Union.

Table no. 1

Harmonization level	Explications	Results
Tax object	Defining the products imposed: alcoholic beverages, manufactured tobacco products and energy products (motor fuels and heating fuels, such as petrol and gasoline, electricity, natural gas, coal and coke).	The members states have the right to impose excises on the other products, but only if this excises not imply custom duties procedures. But this kind of excises is discouraged because the receipts are very low.
Taxation base	Defining the taxation base and establishing the exemptions.	The taxation base was established as the maximum retail selling price for cigarettes, Plato degree for beer, hectoliters for alcohol. The exemptions are mentioned for every category, for instance for the energy products used as raw materials.
Tax rates	Even if minimum tax rates were introduced in 1993, there are may variation (for ex. for cigarettes we have a variation factor from 4 to 1 between the countries with minimum and maximum tax rates for excises) ³⁹⁴ .	For some countries was established a schedule for tax rates increase, is the situation of Romania also. The maximum tax rate for excise cigarettes is in Ireland 260 Euros/1000 cigarettes and minimum is in Poland only 64 Euros.
Fiscal procedures	The taxable event is generally the production and the import in EU of excisable goods. The tax liability is suspended until the moment of consumption.	Thus was established fiscal warehouse regime under national fiscal authorities.

EU legislation in the area of excise duties on these products was mainly adopted in the context of the establishment of the Internal Market on 1 January 1993, which involved the abolition of controls of a fiscal nature at internal borders between Member States. This legislation, which has been further developed since, can be divided into three main categories according to the European Commission:

- The structure of the tax to be applied to a particular group of products. The structure of taxation means the definition of the product categories, the way in which the excise duty is calculated (e.g. per hl; per degree alcohol; per 1000 pieces, etc.), the scope of possible exemptions, etc.
- The minimum rates of duty that Member States have to respect for each type of product. Above those minimum rates, Member States can freely fix their own rate levels.
- General provisions that apply across the product categories. These provisions concern in particular the production, storage and movement between Member States of excise products.

³⁹⁴ Negrescu D., Comănescu A., (2007), *Fiscal Harmonisation Trends in the European Union. Challenges for Romania*, Study no. 5, Project SPOS 2007 – Strategy and Policies Studies, European Institute of Romania, București

The initial idea was to harmonize both the structure and the tax rates of excise duties system. The harmonization efforts were (as well as in case of the value added tax harmonization) transferred rather to the structural field and only the minimum tax rates were set.

Analogically to VAT, the principle of destination was selected for the excise duties – goods subjected to excise duties are taxed in the country of consumption so that there would be no market deformation (principle of origin with existence of different tax rates does not ensure the tax neutrality). With effect from 1st January 1993 tax base harmonization is ensured by the uniform custom tariff and since the same date the minimum tax rates has been set.

Excise duties harmonization in the EU is based on three groups of directives³⁹⁵:

- **horizontal directive: directive no. 92/12/EEC**, which serves as general regulation for the production, holding and transport of products subjected to excise duty;
- **structural directive** – related to harmonization of structure of excise duties; is structuralizing excise duties into excise duty on mineral oils, alcohols and alcoholic beverages and tobacco;
- **four directives on approximation of tax rates of** above introduced excise duties.

Current situation of excises in Romania

Excise duty is a consumption tax payable on certain categories of goods including alcoholic beverages, gasoline, tobacco products, coffee, electricity and certain other items, considered luxury products, but excluded from taxation starting with this year. The tax is payable on import and sales of locally produced items on the domestic market and is set as fixed EUR amount per unit or as a percentage of a specified taxable base. The excise duties in respect to the main categories of goods are given in EUR in the table below:

Table no. 2

CATEGORY OF GOODS	EXCISE DUTY RATES FOR 2010
Alcoholic products	Up to EUR 750 per hl
Cigarettes	EUR 48.5/1000 cigarettes +22% of the declared maximum retail price= EUR 74.01/1000 cigarettes
Car fuels	EUR 347- EUR547 per ton
Electricity	EUR 0.5 or EUR 1/MWh
Coffee	EUR 153- EUR 900 per ton

Taxpayers are normally required to submit monthly tax returns and pay the excise duties for excisable goods by the 25th of the following month, with certain exceptions. In case of imported goods, the related excise duty, if applicable, should be paid at the time of making import declaration at customs.

The fiscal warehouse regime allows the production, transformation and/or storage of products subject to harmonized excise duties (e.g., beer, wines, other fermented beverages, intermediary

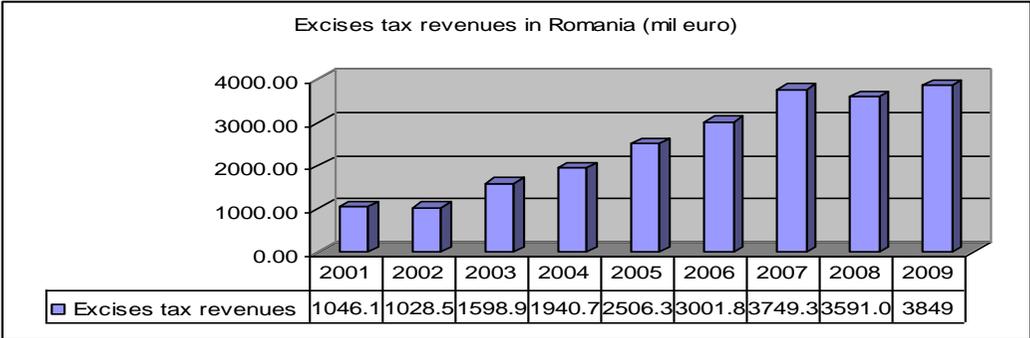
³⁹⁵ European Commission, http://ec.europa.eu/taxation_customs/taxation/excise_duties/

products, ethyl alcohol, tobacco products, and mineral oils) without the payment of related excise duties. Generally, the fiscal warehouse regime cannot be used for retail sale of such products. The Fiscal Code allows production (and storage) of electricity and natural gas outside fiscal warehouses. In certain condition, the excisable goods could be moved under an excise duty suspension regime within the territory of the Community. The movement of the excisable goods under the suspension of excise duty must be covered by an administrative document and be supervised by national authorities. For this purposes, a computerized system for monitoring movements of the harmonized excisable goods under suspension excise duty within the Community, named EMCS (Excise Movement and Control System) will be implemented starting with 1 April 2010. Starting with 2010 non-harmonized excise taxes – consumption levies on luxury products – are removed, except for those charged on coffee.

Methodology and results of excises analysis in Romania

Our analysis starts with the evolution of tax receipts from excises, beginning with 2001 until 2009. The absolute data reflect an upward trend until 2008, when the Romania has to face to economic crisis, but the trend is resumed in 2009.

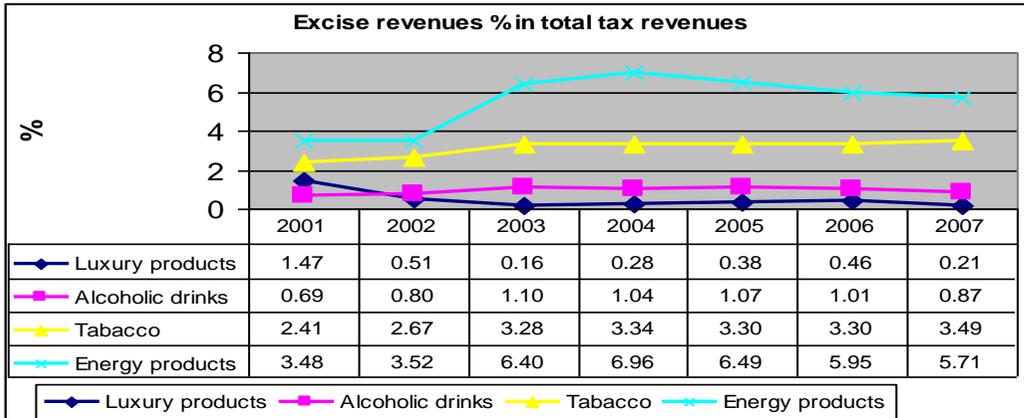
Figure 1



Source: The author’s calculation based on the Eurostat and Finance Minister Data

The structural analysis of excise tax receipts is more important because reveals the major categories of goods which provides revenues for the budget. In the next figure is a structural evolution based on the classification of excises: harmonized excises applied of three categories of goods: alcoholic drinks, tobacco, energy products and non-harmonized excises for luxury products. For all harmonized excises the receipts as % of total revenues have upward trends from 2001 until 2007.

Figure 2

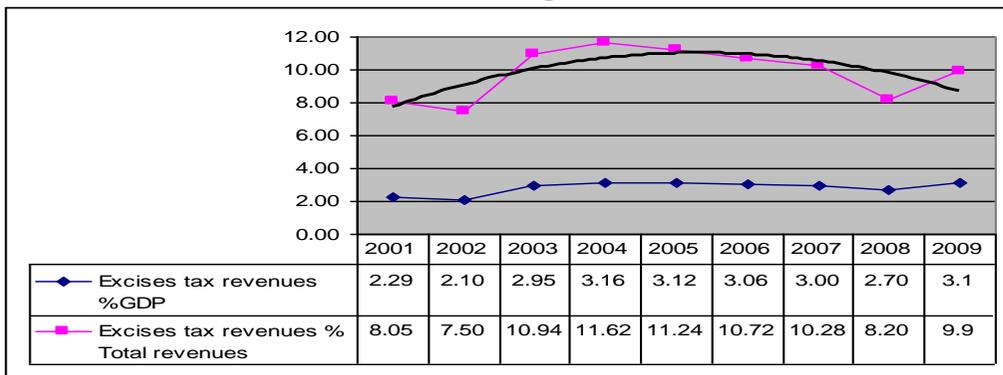


Source: The author's calculation based on the Eurostat and Finance Minister Data

Only the excises on luxury goods have decreased from 1.47% of the total revenues to 0.21%, reflecting the lower importance in financing the public expenditures. This trend is explained by increasing the tax evasion in the case of luxury goods. Removing this luxury excises means a small decrease of tax receipts, but in the economic crisis every source of revenues is important. More than that luxury excises are a good mean to realize the fiscal equity and are not regressive like a possible increasing of VAT rate.

Excises for energy products are a reliable source of revenues, more than a half of the excises receipts are from this category, almost 6% of the total revenues. These excises also have the greatest inflationary impact reflected in the price increasing for the majority of goods.

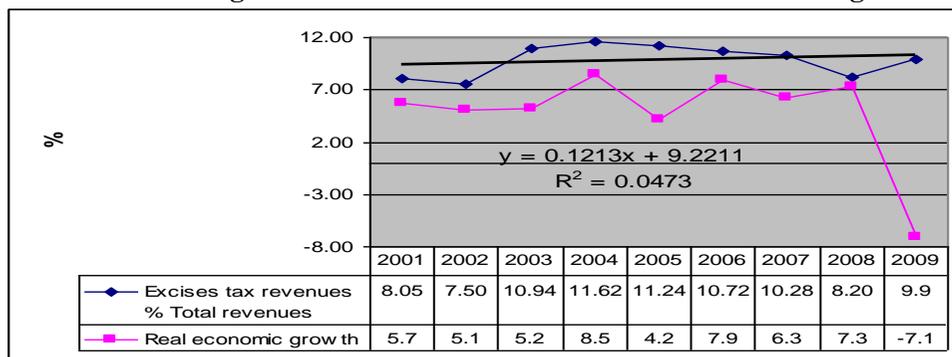
Figure 3



Source: The author's calculation based on the Eurostat and Finance Minister Data

Evolution of excise tax revenues as % of GDP varies from 2.3 % in 2001 to 3.1 in 2009 with slight variations, with an important decrease in 2008. The impact of economic crisis had an important decrease of all tax revenues, especially in the case of VAT and corporate taxes.

Figure 4 Correlation between excises and economic growth



We try to verify the correlation between the economy evolution and excises receipts for 2001-2009 in Romania. But from the previously figure we have a low correlation between economic growth and excises, this low correlation is explained through the fact that excises revenues are a stable source of public budget financing, because are imposed on the goods with inelastic demand and for this reason the evolution of economy has a reduced impact of excise receipts.

Conclusion

Removing excises for luxury goods is not a proper decision for this period of economic crisis, when countries like Greece increase these excises for obtaining many revenues for financing the budget deficit. The decision to scrap the excise on luxury goods occurs at a time when some tax advisers suggested the authorities an extra charge on luxury products such as expensive buildings and cars, in order to collect more money to the budget strapped by the crisis. On the other hand, the harmonization process has to be accomplished in conformity with EU requirements.

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REASONS ABOUT THE CONCILIATION OF NET ACCOUNTING RESULT WITH FISCALITY

Morar Ioan Dan
University of Oradea
Faculty of Economics

The determination of the result of fiscal exercise supposes the utilization of accounting information just like they are offered by financial situations elaborated at the end of the yearly financial exercise. The net accounting result is adjusted such as Fiscal Code asks to be, on the account of non-deductible fiscally expenses and of scot free incomes. In this context the harmonization of fiscal settlements with the accounting ones supposes the joining of knowledge and techniques specific to these two domains.

The accounting information lies at the basis of the establishing the net accounting result and, finally, of the fiscal result. The net accounting result represents the difference between incomes and expenses at the end of financial exercise, inclusively the expenses with the taxbenefit, actually, represents the final balance of the account of benefit and loses.

Fiscal law does not totally know the expenses that sanctioned the accounting result, so that this will be adjusted according to the fiscal law with so-called non-deductible expenses and with untaxed incomes. In this context contability is a source of information for fiscality, and on the other side, these two have on their basis different principles and rules.

Each payer, juridical persons, but also authorized physical persons, elaborate financial situations and fiscal declarations, more than that, they are obliged by the operative legislation for those two domains. Thus, according to the point 12 of Methodological norms of application of Law no. 571/ 2003 regarding Fiscal Code, approved by Government Decision no. 44/ 2004, incomes and expenses that are considered in the establishing the untaxed benefit are those registered in contability according to the accounting settlements stipulated in Contability's Law no. 82 / 1991, republished, with further modifications and completions, as well as any other elements similar to incomes and expenses, from which are deduced untaxed incomes and are added non-deductible expenses, according to the stipulations of article 21 of Fiscal Code.

The basis of this relation is bound up directly with the calculation of taxed benefit, as taxed basis for tax benefit. As it is known the legislation that correspond to tax benefit, as well as in general, modifies itself at short periods of time, while the accounting settlements have a more reduced dynamics.

As fiscal legislation differs in simple adjustments from the accounting one, the instrument of adjustment – conciliation is fiscal declaration, by which accounting result is adjusted to the level of fiscal law's demands.

Contability, on its turn, offers a conciliation solution between those two results by the application of IAS 12 – Tax benefit. This norm presents the modality of reconciliation between accounting benefit and the fiscal one, the used instrument being the tax on adjourned benefit, also for intermediary reports IAS 34 is applied – Intermediary financial report.

It is known that accounting result is determined by closing the incomes and expenses accounts, as a result of recognitions in the exercise's result according to the operative accounting settlements.

But as a rule, fiscal result differs from the accounting one and in these cases for establishing the tax benefit it is necessary to process the information from the accounting evidence by elaborating an account of fiscal evidence in which will be included all the adjustments made on the accounting result in establishing the tax benefit and inclusively of owed tax benefit.

For establishing the adjourned tax benefit, the economic agent has to recognize a credit or a debt, in conditions in which it is possible that the retrieving or the discount of the accounting value of a debt to determine the effectuation of some bigger or less future payments regarding the current tax benefit, than it would normally be their value if such a retrieving or discount would not have fiscal consequences.

The conciliation contability – fiscality in the context of this standard supposes a certain treatment regarding the bodily and non-bodily immobilizations, financial immobilizations, stocks, depreciations and provisions, own capitals, interest expenses, incomes from the rate of exchange differences, registered in the contability of current tax benefit and of the adjourned one and some others of the same kind bounded up with the active and passive patrimonial entities.

The main aim of this scientific approach in this domain is to discover and to delimitate the generating connections of organizational potential and of efficiency between taxes that form the actual fiscal system and the connections between the components of fiscal system and between this and payers.

We consider that a special importance in the adjustment of accounting result, has the interpretation of non-deductible and partly non-deductible expenses. Thus, the protocol expenses are deductible according to a quota of 2% applied upon the difference that results from the total of taxed incomes and the total of the expenses added to taxed incomes, others than the protocol expenses and expenses with tax benefit, expenses on official trip pays accorded to employers for official trips in Romania and abroad, it is deductible according to a quota of 2,5 times the legal level established for public situations. Social expenses are deductible according to a quota of 2% applied on the value of expenses with staff salaries, perquisites, in the bounds established by the speciality organs of central administration, expenses representing meal tickets, accorded by employers, are deductible depending on the limit established by annual budgetary law.

Also, the made expenses, in the name of an employee to the schemes of optional pensions, in the limit of a sum representing the equivalent in RON of 200 EURO in a fiscal year for each participant, expenses with the premiums of voluntary health insurance, are deductible in the limit of a sum representing the equivalent in RON of 200 EURO in a fiscal year for each participant.

Other expensive partially deductible are those for functioning, entertaining and repairing of the job dwellings, expenses of functioning, entertaining and repairing an added premises in the own dwelling of a physical person, used for personal purpose, deductible in the limit that corresponds to the surfaces put at the society's disposal in the base of contracts made between parts, expenses of functioning, entertaining and repairing of the cars used by the leaders and managers of juridical persons, deductible reduced at the most one car to a physical person with such responsibilities.

More expenses are not deductible in their totality as registered expenses and which sanctioned the result of the exercise, such as expenses on tax benefit, inclusively those representing differences from previous years or from last year, as well as paid taxes abroad.

Are non-deductible taxes with restraint at source paid in the name of physical and juridical persons which are not resident for the incomes realized in Romania. Expenses on adjourned tax profit, registered by payer, are also non-deductible.

Expenses with the goods as stocks established absent in financial administration or degraded and non-imputable, inclusively the tax on corresponding added value, expense with the non-repaid value of bodily actives which are not in the administration or are destroyed, for which have not been made insurance contracts, also it is not a deductible fiscally expense, inclusively the tax on corresponding added value. The expense with the non-repaid value of bodily actives which are absent in administration or destroyed, that surpluses to the retrieved value on the basis of insurance contracts that were made, inclusively the tax on corresponding added value, depending on the case, it is not deductible fiscally.

Expenses representing losses of value of participation titles, as a result of the social capital's value reduction at the commercial society at which are owned the titles or as a result of quotation's modification on exchanging market, are not deductible expenses at the calculation of taxed benefit, because beforehand they had been deductible and thus the deductivity would double and fiscal result would be falsified. The expenses representing the value of participation titles, transactioned or cessioned, do not come under the incidence of these stipulations.

In the case of sales of the participation titles, taxed benefit is determined as difference between the value obtained from the sale and the nominal value in case of 1st sale or the acquisition price or fiscal value defined according to art. 27 of Fiscal Code.

At the removal from financial administration of the participation titles it can be used one of the methods used for removal from financial administration of the stocks.

In order to deduct the expenses with the services of management, consulting, assistance or other services it has to be accomplished in the same time more conditions, namely, services have to be efficiently performed, to be executed on the base of a contract which to contain data concerning the performants, the execution dates, the explanation of made services, as well as the prices, respectively the total value of the contract and the separation of this kind of expenses to be made on the whole period of contract progress or on the period of realization of contract's objective; the effective performance of services is justified by works situations, reports reception, work reports, market studies or any other corresponding materials.

For the services of management, consulting and technical assistance performed by those persons that are not resident, but are affiliated to payer, at the analysis of transaction for establishing the expenses' deductivity, we have to refer to the involved parts, to the nature of performed services, to the recognition elements of expenses and incomes on the basis of explanatory documents which to certify the performance of these services.

Other expenses, such as those with interest and with exchanging differences or those with repayment suppose a more special treatment and Fiscal Code gives the proper attention to these expenses, namely: expenses with interest are totally deductible in case in which the capital obligation extent is less or equal to three. The capital obligation extent is established as report between the borrowed capital with term of repayment after an year and own capital, as average of the values extant at the beginning of the year and at the end of the period for which is established the tax benefit. By borrowed capital we understand all the credits and loans with term of repayment after an year.

If the capital obligation extent is above three, the expenses with interest and with net loss from the currency differences are not deductible.

In the case in which expenses with currency differences of the payer outrun the incomes from currency differences, this difference will be considered as an expense with interest.

For the deduction of expenses with currency differences are taken into considerations those corresponding to credits that compete for establishing the capital obligation extent.

In the case of credits obtained from other states, the deductible interests are limited to the level of reference interest of National Romanian Bank, adequate to the last month of the quarter, for credits in RON and the level of rate interest of 9 % for credits in foreign currency.

The deduction of repayment expenses is limited depending on repayment system.

Expenses adequate to acquisition, producing, building, installing or bettering of repaid fixed means are recovering from fiscal viewpoint by the deduction of repayment.

The deduction of expenses with provisions' setting up supposes a consideration from two parts, namely, firstly as a deductible expense or a non-deductible one for the part that does not respect the deduction conditions and secondly are considered as reserves for the protected objective.

Expenses with the added value tax for the given free or for sales under the market price are not deductible and in the same time it puts a special issue from fiscal viewpoint, namely, the added value tax is a consumption tax that is not included into the goods' price, but it only consorts it,

and still the means of taxes` administration encroach upon the general procedures and rules specific to some well – individualized taxes.

The consumption taxes are now included into the goods` price , an abnormality at least as significant as the exemption from added value taxes without a deduction right , which also is included into prices although the general rule does not suppose that.

The adjustment of net accounting result with the stipulations of fiscal laws represents one of the issues of conciliation between contability and fiscality, a large enough problem regarding the proportion of the operations specific to payers , but also to fiscal organs bound to the elaboration of fiscal declaration regarding the tax benefit and to their processing and control.

The relation contability – fiscality would be simpler and easier to conciliate if the fiscal legislation would be simpler and would prove a bigger independence than the accounting evidence.

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FINANCIAL RATIO ANALYSIS USED IN THE IT ENTERPRISES

Moscviciov Andrei

*Faculty of Economics and Business Administration
Babes-Bolyai University, Cluj-Napoca, Romania*

Batrancea Ioan

*Faculty of Economics and Business Administration
Babes-Bolyai University, Cluj-Napoca, Romania*

Batrancea Maria

*Faculty of Economics
Bogdan Voda University, Cluj-Napoca, Romania*

Batrancea Larissa

*Faculty of Business
Babes-Bolyai University, Cluj-Napoca, Romania*

In the present paper the authors show the modality of analysing the IT entities using Du Pont method.

Key words: Return On Equity, Return On Assets, Leverage

Cod JEL: G32

1. Introduction

Ratio analysis is the method or process by which the relationship of items or group of items in the financial statement are computed, determined and presented. Ratio analysis can be used both in trend and static analysis. There are several ratios at the disposal of an analyst but their group of ratio he would prefer depends on the purpose and the objective of analysis.

A ratio “is one figure express in terms of another figure. It is a mathematical yardstick that measures the relationship two figures, which are related to each other and mutually interdependent.”³⁹⁶ As accounting ratio is an expression relating two figures or accounts or two sets of account heads or group contain in the financial statements.

Ratio is work out to analyze the following aspects of business organization such as: solvency, stability, profitability etc. In the next figure is a depiction of the ratio analysis relationships with specific aspects of business organization.

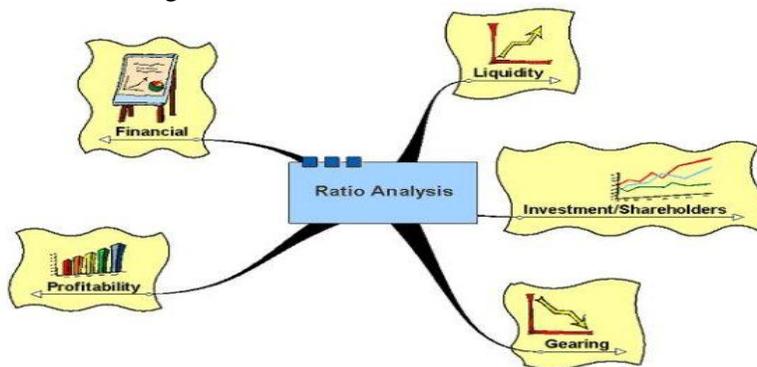


Figure 0. Ratio Analysis

(Source: <http://pakistanmba.jimdo.com/>)

³⁹⁶ <http://pakistanmba.jimdo.com/>

In interpreting the ratio of a particular firm, the analyst cannot reach any fruitful conclusion unless the calculated ratio is compared with some predetermined standard.

2. Case study

Our research is based on the financial information for the I.R.I.S. Group (Belgium), Sybase (USA), Access Commerce (France), BMC Software (USA), Sopheon (Netherlands), Keyware Technologies (Belgium), Lectra (France), Linedata Services (France), Esker (France) and Dassault Systems (France).

All the companies presented in this essay are listed to the New York Stock Exchange, under the technology industry, software and computer service sector.

Financial ratios are usually used to evaluate five aspects of operating performance and financial condition: return on investment, liquidity, profitability, activity and financial leverage. We have applied these ratios to the software cluster, based on financial reports.

In this study we present the financial analysis ratios based on Du Pont System.

The returns on investment ratios give us a “bottom line” on the performance of the cluster, but don’t tell us anything about the “why” behind this performance. For an understanding of the “why”, a method that is useful in examining the source of performance is the Du Pont System³⁹⁷. The Du Pont System is a method of breaking down return ratios into their components to determine which areas are responsible for a firm’s performance.

$$ROA = \frac{EBIT}{TotalAssets} = \frac{EBIT}{Sales} * \frac{Sales}{TotalAssets} = ROS * AssetTurnover.$$

Return on sales (ROS) or operating profit margin, indicates the percentage of each sales euro represented by operating income. Asset turnover indicates the number of sales euro produced by each euro invested in operating assets. In the next table is a depiction of the ROA, ROS and asset turnover for the five years of the analysis.

Year	ROA	ROS	Asset Turnover
2004	6,48	11.45	0.5655
2005	4,92	8.53	0.5766
2006	6,66	11.69	0.5701
2007	7,71	14.27	0.5405
2008	8,85	15.61	0.5671

Table 0-1 Return on Asset’s Components

We can see that although the asset turnover increased from 2004 to 2008 (from 0.5655 to 0.5671), ROS increased (from 11,45% to 15,61%) and the ROA increased a lot (from 6,48% to 8,85%).

The return on assets ratio that uses net income can be broken down into its components in a

similar manner: $ROA = \frac{NetIncome}{Sales} * \frac{Sales}{TotalAssets} = Net\ Profit\ Margin * AssetTurnover.$

We can relate the basic earning power ratio to the return on assets, recognizing that:³⁹⁸

Net Income=Earnings Before Tax*(1-Tax Rate).

It results that:

$NetIncome = EBIT * \frac{EarningsBeforeTax}{EBIT} * (1 - TaxRate).$ Therefore, we can say that:

Net Income=EBIT*Equity’s Share of Earnings*Tax Retention%.

³⁹⁷ This method of analyzing return ratios in terms of profit margin and turnover ratios, referred to as the Du Pont System, is credited to the E.I. Du Pont Corporation, whose management developed a system of breaking down return ratios into their components. This is due to American Management Association, *Executive Committee Control Charts*, AMA Management Bulletin No. 6, 1960, p. 22

³⁹⁸ Frank J. Fabozzi, Pamela P. Peterson, **Financial Management and Analysis**, Second Edition, John Wiley & Sons, Inc., Hoboken, New Jersey, 2003, p. 727

Going back to ROA, we will obtain the following expression:

$$ROA = \frac{EBIT}{Sales} * \frac{Sales}{TotalAssets} * \frac{EarningsBeforeTax}{EBIT} * (1 - TaxRate).$$

Therefore, we can say that:

$$ROA = ROS * Asset\ Turnover * Equity's\ Share\ of\ Earnings * Tax\ Retention.$$

The breakdown of a return-on-equity ratio requires a bit more decomposition:

$$ROE = \frac{NetIncome}{Shareholders' Equity} \text{ and } ROA = \frac{NetIncome}{TotalAssets}.$$

It results that:

$$ROE = ROA * \frac{TotalAssets}{Shareholders' Equity}.$$

The ratio of total assets to shareholders' equity is referred to as the equity multiplier. The equity multiplier, therefore, captures the effects of how a company finances its assets, referred to as its financial leverage.

$$ROE = ROA * (Equity\ Multiplier\ or\ Financial\ Leverage).$$

$$ROE = \frac{NetIncome}{Sales} * \frac{Sales}{TotalAssets} * \frac{TotalAssets}{Shareholders' Equity}.$$

It results that:

$$ROE = Net\ profit\ Margin * Asset\ Turnover * Equity\ Multiplier.$$

Applying this break down (of ROE) to the software cluster, it results the next table:

Year	ROE	Net Profit Margin	Asset Turnover	Financial Leverage or Equity Multiplier
2004	8,74	8.46	0.5655	1.8275
2005	7,59	6.77	0.5766	1.9436
2006	11,27	9.38	0.5701	2.1058
2007	11,84	9.90	0.5405	2.2134
2008	15,50	12.28	0.5671	2.2269

Table 0-2 Return on Equity's Components

Considering the above mentioned break down on, we calculated ROE by using its components, to determine which areas are responsible for the increase/decrease of ROE.

We see that although the asset turnover increased (from 56,55% in 2004 to 56,71% in 2008) and although the use of financial leverage increased also (from 1,82 in 2004 to 2,22 in 2008), net profit margin also increased (from 8,46% in 2005 to 12,28% in 2008), and the return on equity also increased from 8,74% in 2005 to 15,50% in 2008).

3. Conclusions

Looking at the calculated financial ratios, in conjunction with industry and economic data, we can make judgments about past and future financial performance and condition.

On the other hand, the Du Pont system breaks down return ratios into their profit margin and activity ratios, allowing us to analyze changes in return on investments.

These ratios are related closely to a firm's operating cycle, which tells us how long it takes a firm to turn its investment in current assets back into cash.

Profitability ratios tell us how well a firm manages its assets, typically in terms of the proportion of revenues that are left over after expenses.

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AGRICULTURAL INSURANCES – MEANS OF DEVELOPPING THE ROMANIAN AGRICULTURE AMONG THE E.U. COUNTRIES

Nan Anca

Babeş-Bolyai University, Faculty of Economics and Business Administration, Cluj-Napoca

Borza Georgiana

Babeş-Bolyai University, Faculty of Economics and Business Administration, Cluj-Napoca

The experience of the developed countries has shown that it is completely delusional to try and create a modern agriculture without the powerful development of agricultural insurances.

Agriculture has always been one of the most important economic branches in Romania, as it has the highest value of all European countries by GDP (8-12%). This field represents an important direction in the economic development, especially due to the high potential of the agricultural development in the E.U. countries.

The present paper tries to illustrate the potential of agricultural insurances, their necessity, the general presentation of the domestic agricultural insurance market and that of the European Union's as well as the search for viable solutions of development in agriculture by the aid of insurances.

Keywords: agricultural insurances, agriculture, the European Union.

JEL Classification: G22, G19, Q14.

1. Introduction

Agricultural insurances are an important means of developing the Romanian agriculture among the EU countries. The reasons are the following: according to statistics, of the entire Romania territory of 23,8 million hectares the Romanian agricultural area is 14,7 million hectares (61,7%) out which only 9,4 million hectares are agricultural areas utilized for farming. Romania is the seventh European country in terms of agricultural area (after Spain, France, Great Britain, Germany, Italy, Poland) and the fifth in terms of agricultural area utilized for farming (after Spain, France, Germany and Poland)³⁹⁹. This makes the problem of rural development of great national and international relevance, as it also focuses on our country's huge economic potential among the EU member states.

In this context, Romania can become a strong competitor on the European Market if it knows how to use its resources and the EU financial support. Furthermore, the developed countries have proved that a successful agriculture cannot exist without a strong development of agricultural insurances, which are still not given the right status, though lately they have been granted more attention than usually.

2. The necessity of agricultural insurances

Insurances represent an element of reducing the economic uncertainty and a means of resuming the temporarily suspended activity. Insurances do not reduce the variety risks, but people are better prepared to face them. In the context of a free, undirected economy, any personal investment is exposed to risks and uncertainty; especially in agriculture where, due to specific problems regarding the production process – the large output cycle, the slow turning of capital, the rate of profit which is much lower compared to other economic branches – a strong protection of investments is required.

Agricultural insurances are extremely useful, because risks appear due to uncontrollable climatic changes. Hence, a modern agriculture with insurance services develops as farmers begin to change their way of thinking and understand that insurance means protecting themselves and

³⁹⁹ General view on Romania's agriculture and rural development, <http://www.madr.ro>.

most of all, protecting their agricultural investment. In our country, agricultural producers have restricted access to insuring their production, mainly because of the lack of financial possibilities to pay the insurance premium. In this case, insurances are accessible only to (trading) companies or to experienced economic agents. The bigger the natural disasters in the past years, the greater the necessity of insurance is, especially if we take into account the negative effect and the caused damages in economy.

3. Tapping the potential of agricultural insurance

The potential of agricultural insurances is high even if at present this type of business gives modest outputs. It will start to develop when agricultural producers become aware of the dangers their agricultural holding might be in and of the need of insurances to help them resume their temporarily suspended activity.

We may say that the Romanian market for agricultural insurances is emerging, and may become very successful in the industry of insurances. This market requires fair products adapted to the farmers' needs and possibilities, products that should represent a balance between the price of the policy, paid by the insurant, and the higher and higher risk in the crop, paid by the insurer. Although our country has some exceptional primary agricultural resources, due to both climatic conditions and to the agricultural area utilized for farming which is far more extended than in the European Community, the agriculture sector is still one of the most unprivileged fields.

If at present only 17% of the agricultural area utilized for farming is part of a form of insurance, and the average percentage in the European Community is approximately 65-70% of the insured potential, it is apparent that in Romania there is still a part of 48-53% (to meet the standards of the European Economic Community countries) of the insurable potential likely to be taken into consideration for insuring. The success of the rapid development of the agricultural insurance sector is mainly determined by the legislative coherence in the field of agriculture and, last but not least, by the ability of the insurance companies to offer insurance products of high quality and to treat their clients as partners of a shared, profitable business for both parties⁴⁰⁰.

4. The Romanian agricultural insurances

By means of an efficient development of rural areas, it is essential that the insurance industry should be responsible with the farmers' protection and with reducing costs from public money. The acceleration of agricultural crises, as a result of more and more frequent climatic changes in Romania (mainly the excessive drought, floods in extensive areas, strong storms) is the primary cause of all loss in the Romanian agriculture. The lack of investments in this field, the insecurity of the country's awarding grants to the agricultural producers, as well as the refusal of the insurance companies to comprise in the portfolio insurance such catastrophic risks as droughts and floods have led to a major deadlock in agriculture.

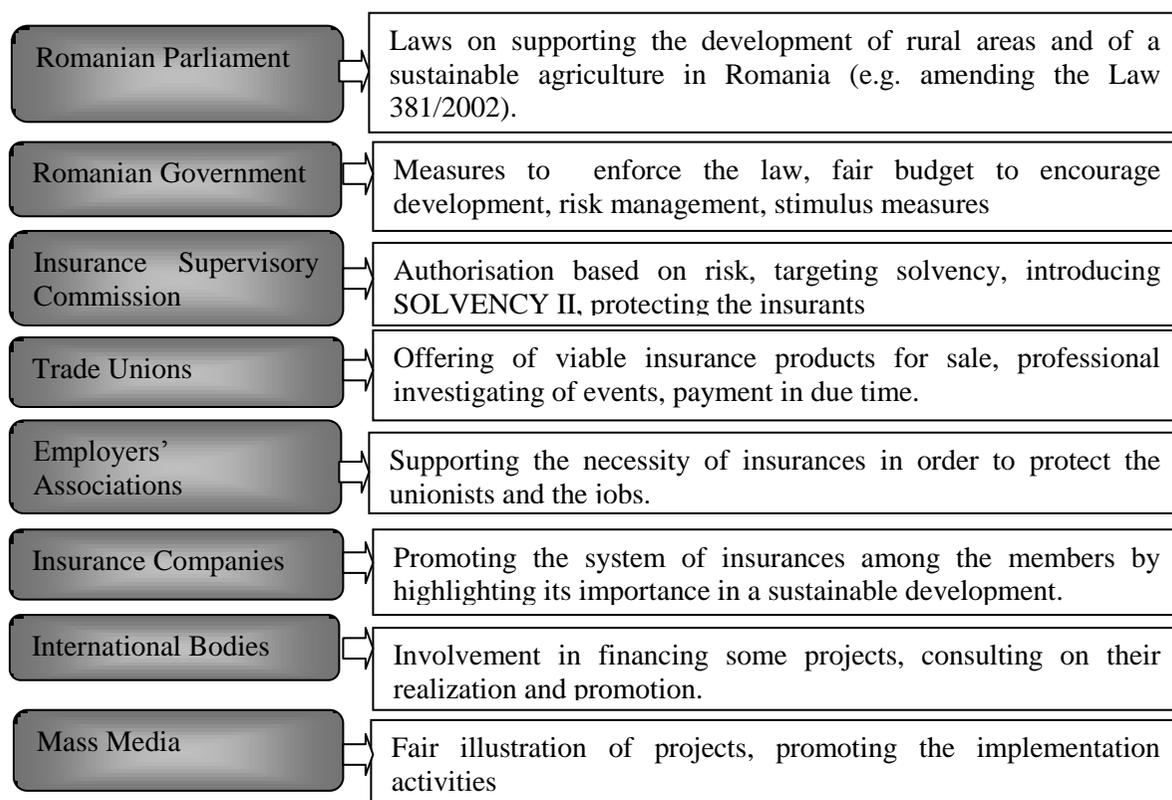
Romania is a great agricultural power; it is the world's sixth country with an exceptional potential, and we must try to fully exploit it⁴⁰¹. The new European context requires an active system of insuring the farming, especially if we consider the fact that Romania is four times less insured than the European standards state.

In order for the insurance system in the rural areas to be successful, one must apply the following:

⁴⁰⁰ Ionete Andreea, *Interviu cu Anghel Burghilă*, <http://www.iasig.ro>, (2008).

⁴⁰¹ Eremia C., *Protejarea producătorului agricol prin asigurare*, *Lumea Satului*, no. 21, (2008).

Figure no 1: Who has to be involved in the insurance system of a professional rural area?



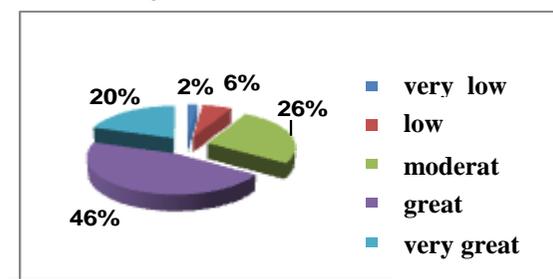
Source: Ciobotaru P.N., *Managementul riscurilor în agricultură*, <http://www.xprimm.ro>, (2009).

One question that may arise is if enforcing a complex program of transferring the financial risks is a solution to bring the economic sector afloat.

Thus, the Government should take part in improving legislation on agricultural insurances as well as in paying compensations; it should create secure and stable conditions in order to help improve the activity in this branch of the national economy. It is necessary that, regardless the conditions, the producers should preserve the ability to resume the production activity and to ensure constant market supply with foodstuffs. Locally, regionally and nationally, the food market should not be put at risk. It is also important that the role of the associations of producers in the development and efficient working of an agricultural insurance system in rural areas increase⁴⁰².

Opinion Poll...

Graphic no.1: To what extent are insurances a solution in supporting the development of the Romanian agricultural sector?



According to Sergiu Costache's consumer survey 'To what extent are insurances a solution in supporting the development of the Romanian agricultural sector?' published in The National Conference of Agricultural Insurances in march 2009, most of the people who have taken the survey consider that insurances are a

⁴⁰² Tabără V., *Cu natura nu te joci...*, Lumea Satului, Nr. 7,(2009).

solution for developing the national agricultural sector.

Source: Costache S., *Sondaj de opinie*, <http://www.xprimm.ro>, (2009).

5. A European perspective on agricultural insurances

In the European Union countries, the Government directly supports the sector of agricultural insurances by giving 50-80% of the insurance premiums related to natural risks. As for the major risks whose effects lead to important losses of agricultural productions on a large scale, the Government should take responsibility in supporting the farmers with the help of a specially created and administered fund. Such funds are: The National Solidarity Fund in Italy, The National Agricultural Disaster Guarantee Fund in France and The National Insurance Fund in Agriculture in Spain.

In the European Union countries, the governments give compensations by paying huge amounts of money for the insurance funds, which could not have been definitely paid by the private sector (insurance/reinsurance companies). Farmers are granted access to these funds only if they buy the insurance policy related to the natural risks that take place on confined areas. It is important that, by supporting the farmers' insurance policies, the government should bring its contribution to the stabilization of the production, as well as to the farmers' incomes and to the functionality of the insurance system of the rural areas' activities.

Spain is the country with the best developed agricultural insurance system in Europe, and most of the risks that might lead to a declining output are covered by insurance. The government, the farmers' associations and the insurers have agreed on the fact that a system of insurance for farmers, determined by a specific law, is the best solution to the management of the agricultural catastrophic losses.

France, Italy, Austria and Luxemburg also have a viable insurance system, and the loss of production is covered by insurance for most risks. The generally accepted solution is that of a basic insurance, for hail, to which a supplement for insuring the output is added; this supplement is partially paid by the government and it is useful for the most important risks that are characteristics to each and every one of the above-mentioned countries.

In Portugal and Sweden, as well as in most of the Central and Eastern European countries such as Bulgaria, the Czech Republic, Hungary, Romania, Slovakia and Slovenia, there is a basic insurance to which one can supplementary add, if available, an insurance for combined risks. This means that only hail and a small number of natural risks are covered by insurance.

There are also other countries in which the insurance for hail or other types of insurance for single risk are the only ones available. On markets as Belgium, Germany, Holland or Great Britain, the demand for other types of agricultural insurances is almost inexistent. Furthermore, there are no public subsidy formulae for agricultural insurances.

North-European countries are generally characterizes by a low level of demand for agricultural insurances, but solutions are still given in some countries: one example is 'the Corp Compensation Scheme' in Finland, whose role is to compensate for production losses caused by catastrophic natural risks.

A particular case is that of the systems in Greece and Cyprus, where there is a public system of agricultural compulsory insurance.

If the specialists' forecasts will prove to be true, in 2050 the European countries will have a different agricultural profit, which will lead to a different risk management scheme and, implicitly, to the need of adapting the insurance systems⁴⁰³.

⁴⁰³Ghetu, Daniela, "Agricultura asigurărilor. Sisteme de asigurări agricole din Uniunea Europeană", in PRIMM Asigurari & Pensi, no. 8 (2008), p. 16-19.

Unlike the European Union market, agricultural insurances in our countries are cheaper and not so common. In Italy, more than 905 of the agricultural area is insured, while in our country only 1 million out of 9 million hectares is insured.

In Italy, there is a tradition that people do not even sign the policy. They take out a multiannual policy for 5-10 years and when the policy expires, the insured's duty is to send the insurer a note in which he states that he agrees to renew the policy and the sum he pays to do so.

There is a big difference so as to the taxes. If in Italy the value of the insurance is no less than 6% of the entire insured money, in Spain it is 7%, in Holland, more than 9%, in Romania there are companies that do it for 0,8-0,9%. The average is 2,5%.

The insurers explain the low taxes by stating that some companies have bidden for very low prices so as to enter the market. But the insureds have become accustomed with these taxes and look for the best offer. Yet, the important agricultural insurance companies do not accept negotiations of this type, although the risk of not fulfilling the target is high⁴⁰⁴.

6. Promoting agricultural insurances

With a view to have a competitive agriculture and insurance system there are two categories of solutions: some that depend on the insurance companies and some that depend on the regulatory authorities in the domain, here referring to the Insurance Supervisory Commission and the Minister of Agriculture.

Some of the measures that could stimulate the development of agricultural insurances are:

- one of the measures is the granting of at least 50% of the insurance premium;
- improving existing legislation in this field, because it has a particular feature that needs special attention (e.g. by amending Law 381/2002);
 - paying for the losses in due time, so that the farmers could resume their temporarily suspended activity;
 - the need of reconsidering the product offer by the insurers and adapting them to the farmers' needs and possibilities;
 - reorganizing the insurance system by means of a public-private partnership or other methods such as the Ministry's imposing of minimum taxes, based on risk management, or the companies' taking over of catastrophic risks, taking into account the country's involvement in creating a fund that would cover these risks or a reinsurance company for agriculture.

7. Conclusions

Agricultural insurances play a significant role in stimulating agricultural investments and stabilizing the agricultural farmers' incomes. Granting the insurance premiums may be a starting point in a sustainable development of both the agricultural insurance sector and the Romanian agriculture.

The potential of agricultural insurances is high even if at present this type of business gives modest outputs. It will start to develop when agricultural producers become aware of the dangers their agricultural holding might be in and of the need of insurances to help them resume their temporarily suspended activity. Thus, we have to highlight the development of the energy crop insurances (for instance, rapeseed).

Agricultural insurances are influenced by the division of the real property, the creation of a large number of private producers whose output is non-productive, the abandoning of farms and the lack of financial support from the Government and the banks. Moreover, the lack of high technology, of financial support for agricultural producers, as well as the poor information on

⁴⁰⁴ European funds will give an impulse to agricultural insurances, <http://www.asigurari.ro>, (2008).

insurance given to the farmers are the main obstacles in developing the agriculture and the agricultural insurance market.

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FOREIGN INVESTMENT INFLUENCE ON OWNERSHIP AND CONTROL IN JAPANESE FIRMS

Nistor Ioan Alin

“Babes-Bolyai” University, Cluj-Napoca

Faculty of Business

Corporate equity structure, whether is in a market-based system like US or a bank-based system like Japan is prone to changes due to foreign investment. Protection from outside investors varies greatly around these systems. Where protection is good, market-based systems flourish. These systems have certain advantages as they appear to foster innovation and to encourage the release of capital from declining industries. Bank-based systems may be better suited to established industries. These systems also help protect individuals from direct exposure to stock market risk. But, no matter the system, agency problems are inevitable. The paper looks at the past changes of the Japanese corporate ownership composition under the influence of foreign investment.

Keywords: Economic Systems, Capital and Ownership Structure, Corporate Governance

JEL Classification: G32, P51

Who owns a corporation? In the US or UK, we would just answer „stockholders”. Some stockholders have more influence than others, but simply because they own more shares. In other countries ownership is more complex. US have a market based system because it has large stock and bond markets. Japan has a bank-based system because most debt financing comes from banks. Japanese households bear relatively little equity risk. Most of their savings go into bank accounts. The role of banks goes far beyond just lending money. They are tied-up in an extensive cross-shareholding within group companies.

Protection from outside investors varies greatly around the world. Where protection is good, market-based systems flourish. These systems have certain advantages as they appear to foster innovation and to encourage the release of capital from declining industries. Bank-based systems may be better suited to established industries. These systems also help protect individuals from direct exposure to stock market risk. No matter of the system, agency problems are inevitable. That is why we can never expect managers to give 100% weight to shareholders’ interest and none to their own. Laws and regulations can specify what managers can’t do but can’t tell them what they should do. Once managers have discretion, they will consider their self interest as well as investors’ interest.

Corporate governance systems vary around the world. These differences result from different legal systems, systems of corporate finance and corporate ownership as well as divergent norms around the firm’s responsibilities to its various stakeholders. (Dore 2000). While much research has considered how these differences originated and why they persist (Hall and Soskice 2001, Jackson 2002), less research has considered what happens when different systems of corporate governance come into direct contact. These different systems of corporate governance came into direct contact in Japan. Perhaps the latest example would be the acquisition of the Lehman Brothers brokerage operations by Nomura in 2008.

Foreign ownership of shares of Japanese firms increased from about 10.5% in 1996 to 28% in 2007 and then dropped to 23.6% in 2009 (TSE 2010). This increase in foreign ownership came as shareholders, primarily banks and insurance companies – slowly sold their shares as a response to financial crisis and changing of accounting standards. While financial institutions held 41.1% of all shares in 1996, by 2009, their share ownership had dropped to 32.4% (TSE 2009).

This change in ownership brought two very different notions of corporate governance into direct conflict. In Japan, shareholders tend to be stakeholders with long term interest in the firm, in addition to the expected return on their equity investment. Banks, for example, held shares as part of a broader relationship of managing financial transactions and supplying loans. Corporations held shares of their suppliers and buyers. These interconnected and complementary sets of relationships supported the fundamental attributes of the corporate Japanese system.

Foreign portfolio investors, on the other hand, had very different interests. They stood apart from the Japanese corporate relational system and had less interest in ongoing business relationships with Japanese firms. These foreign portfolio investors were familiar with the shareholders movements from USA and Europe.

Trends in foreign investment in Japan

From 1996 to 2008, the percentage of publicly listed Japanese shares held by foreigners have continuously increased from 10.5% in 1996 to 28% in 2007, then to drop to 23.6% by 2009. The increase in foreign share ownership in Japan reflected a larger worldwide trend. Foreign ownership of listed French firms increased from approximately 12% to 42.3%, while ownership of shares in the UK by foreigners increased from about 17.2% to 36.3% in the 2007. These numbers indicate that this increase in foreign investment was not limited to Japan, but was a worldwide phenomenon. One of the reasons could be the rise of the institutional investors, especially pensions funds. (P. Druker 1997). This trend accelerated as the money managed by institutions increased and as pensions became more willing to invest their funds in equity.

In the 1990s, US investors invested 94% of their assets domestically, while UK investors kept 82% of their assets in the UK (Useem 1998). Slowly moving into the 2000 years, institutional investors began to move their money abroad, as investors were looking to diversify their portfolios across currencies and economies.

The leading foreign investors in Japan were American and European, especially UK funds (Shirota 2002). Most foreigners were institutional investors. In 2009, only 0.5% of foreign investors in Japanese publicly listed equities were individual investors. (TSE 2009).

Foreign direct investment, where foreign investors take a large and strategic stake in a Japanese firm or set up their own operations, received much publicity. Among the one that received the most attention was the Renault's purchase of a controlling stake in Nissan. Signed in 1999, the Renault-Nissan Alliance has built a unique business model that has created significant value for both companies. These investments made by foreign funds had effect on corporate governance and other economic and financial reforms.

A study made by the American Chamber of Commerce in Japan indicated that foreign direct investment in Japan, defined as strategic investment with the intention of transferring management resources and know-how, was quite low in an international comparison. In 2006, foreign direct investment in Japan was 1.1% of GDP, while that in the UK was 32.4%, Germany was 22.4% and US 27.9%.

Composition of Ownership

To further explore the identities and objectives of foreign stockholders we examined the ownership of the Tokyo Stock Exchange First Section non-financial firms in 2008. In 11 firms, foreigners had controlling stakes of over 50%, while foreigners owned over 33.3% of an additional 34 firms (this is the level that allows for veto rights over board decisions). In a substantial number of firms, foreign ownership was over 10%. We identified cases in which the purpose of the foreign shareholder could be classified as strategic. These were cases in which a foreign corporation (not a bank or investment fund) was one of the top 10 shareholder and the investment was for strategic, rather than portfolio purposes. Especially in auto and pharma

sectors, foreign investors could be considered strategic. These leaves a substantial number of large and well-known firms of whose shares 30% or more were in the hands of foreign portfolio investors, including Sony or Canon, table 1.

Foreign investors had very different interest from the majority of Japanese investors. They had different set of obligations to their beneficiaries than Japanese funds. The US pensions had clear obligations of fiduciary duty mandated by law, as well as the UK funds. Furthermore, in most cases foreign investors were investing purely for return on investment, where Japanese investors were often wrapped in a web of other ties and obligations with the firms whose shares they held, and their own affiliated banks and corporations. Japanese institutional investors tended to be closely linked to banks or to corporations that had other interests in the firms that they were investing (Hiraki 2003).

Table 1: Share ownership by Market Value (All Listed Companies) %

Year	Govt.	Financial Institutions								Business Corp.	Securities Corp.	Individuals	Foreigners
		Financial Institutions Total	City & Regional banks	Trust Banks			Life Insurance Co.	Non-life Insurance Co.	Other Fin. Institutions				
				Trust Banks	Investment Trusts	Annuity Trusts							
1996	0.3	41.1	15.1	10.3	2.2	1.8	11.1	3.6	1.0	27.2	1.4	19.5	10.5
1997	0.2	41.9	15.1	11.2	2.0	2.4	11.1	3.6	0.9	25.6	1.0	19.4	11.9
1998	0.2	42.1	14.8	12.4	1.6	3.8	10.6	3.5	0.9	24.6	0.7	19.0	13.4
1999	0.2	41.0	13.7	13.5	1.4	4.7	9.9	3.2	0.8	25.2	0.6	18.9	14.1
2000	0.1	36.5	11.3	13.6	2.2	5.0	8.1	2.6	0.9	26.0	0.8	18.0	18.6
2001	0.2	39.1	10.1	17.4	2.8	5.5	8.2	2.7	0.7	21.8	0.7	19.4	18.8
2002	0.2	39.4	8.7	19.9	3.3	6.0	7.5	2.7	0.7	21.8	0.7	19.7	18.3
2003	0.2	39.1	7.7	21.4	4.0	5.8	6.7	2.6	0.7	21.5	0.9	20.6	17.7
2004	0.2	34.5	5.9	19.6	3.7	4.5	5.7	2.4	0.9	21.8	1.2	20.5	21.8
2005	0.2	32.7	5.3	18.8	3.9	4.0	5.4	2.2	1.0	21.9	1.2	20.3	23.7
2006	0.2	31.6	4.7	18.4	4.4	3.6	5.3	2.1	1.0	21.1	1.4	19.1	26.7
2007	0.3	31.1	4.6	17.9	4.7	3.5	5.4	2.2	1.0	20.7	1.8	18.1	28.0
2008	0.4	30.9	4.7	17.5	4.9	3.5	5.5	2.2	1.0	21.3	1.6	18.2	27.6
2009	0.4	32.4	4.9	19.0	5.1	3.6	5.4	2.1	1.0	22.4	1.0	20.1	23.6

Source: TSE 2010 Statistical Highlights

Institutional investors, such as trust banks, tended to have close equity relationships with banks, and would vote according to the interest of its affiliated bank, which was likely to have close lending relationship with the firm. A corporate pension fund might hold shares in an important business partner of the corporation and would not dare to press too hard as a shareholder. Thus, Japanese domestic institutional investors were part of a system of close relationships that went beyond shareholding stakes and thus were unlikely to demand the same level of returns, as an investor that was looking only at the return on investment, table 2.

Table 2. Share ownership by type of investor

Share ownership (100 mil Yen)					
	Year 2008		Year 2009		
	Value	%	Value	%	
Total	4,002.313	100.0	2,601.532	100	
Govt & Local Govt.	15.646	0.4	11.356	0.4	
Financial Institutions	1,237.432	30.9	843.415	32.4	
	City & Regional Banks	189.341	4.7	127.247	4.9
	Trust Banks	702.372	17.5	495.578	19.0
	(Investment Trust)	195.035	4.9	132.129	5.1
	(Annuity Trust)	140.545	3.5	92.918	3.6
	Life Insurance Co	219.017	5.5	140.579	5.4
	Non-life Insurance Co	88.531	2.2	55.159	2.1
	Other Financial Inst.	38.168	1.0	24.849	1.0
	Business Corporations	851.372	21.3	583.890	22.4
	Securities Companies	62.214	1.6	26.803	1.0
	Individuals & Others	729.476	18.2	522.095	20.1
	Foreigners	1,106.171	27.6	613.971	23.6

Source: TSE 2010 Statistical Highlights

Foreign investors in Japan could influence firms to adopt their desired corporate governance practices through exit – the threat of selling their shares – and through formal and informal exercise of voice – exercising voting rights and making their opinions known through less formal channels. The threat of exit, as well as more informal channels, exercise of voice, provided more effective ways of influence. Foreigners were less likely to wield influence through exercising voting rights, though this had begun to change in the 2000s.

Corporate governance practices

For the past 8 years, the Japan Corporate Governance Index Research Institute surveyed Tokyo Stock Exchange First Section firms in their corporate governance practices. Based on these surveys, the JCGIndex measures how close a firm's governance adheres to Anglo-American standards. Practices evaluated include how a firm sets its performance objectives, accountability of the CEO, structure of the board of directors (size, independence, responsibilities), compensation system, management of subsidiaries, internal audit and control, and disclosure and transparency.

The JCGIndex ranges from 0 to 100. A firm that would receive 100 points, would have a significant number of independent directors on its board, and a board that had adopted a committee structure (of audit, compensation, and nominating committees dominated by independent directors). The firm would set its performance goals based on matrices valued by shareholder (return on invested capital) and the CEO would be accountable for achieving these goals, table 3.

Firms that scored higher on the JCGIndex tended to have larger percentages of foreign ownership. Another important aspect would be that firms that scored high in board structure and function, had higher levels of foreign ownership than low scoring firms. Firms that received high scores on this component had relatively high levels of board independence as measured by presence of independent directors, criteria for board appointments and the ability and authority of the board to monitor the CEO.

Table 3. JCGIndex Japan 2008

Category	Mean/Total	Achievement rate
----------	------------	------------------

	possible points	(mean/total possible points)
Corporate objectives and CEO responsibility	10.6/28	37.9% (36.9%)
Structure and function of the board of directors	10.7/25	42.8% (36.9%)
Management system	17.2/27	63.7% (61.7%)
Transparency and communication with shareholders	13.4/20	67.0% (67.3%)

Source: JCGR Corporate Governance Survey 2008 Final Report (at the date when this article was written, the 2009 Survey was not yet released)

These correlations between the JCGindex and its various subcomponents and foreign ownership demonstrate an association, but not causation. In other words, it is not clear from these results whether foreign investors gravitated to firms that were closer to an Anglo-American ideal of governance. We can only presume that corporate governance issues were a key focus of questions by foreign investors, suggesting that at least some of the causation was due to foreign investors pressuring firms to change.

Conclusion

We examined the foreign portfolio investors and their effect on corporate governance in Japanese firms and observed that:

- Foreign portfolio ownership of Japanese equity increased significantly
- Foreign investors were advocates of Anglo-American style corporate governance
- Foreign investors influenced Japanese firms both through exit and voice. Their propensity to buy and sell shares gave them strong influence over share price in general and made exit a particular threat to firms.
- There has been a clear relationship between foreign investors and practices related to corporate governance

Though it is impossible to establish a definitive direction of causation between foreign ownership and corporate governance practices, it is clear that the increase in foreign ownership was linked to the transformation of corporate governance practices in Japan since the early 1990s. Whether foreigners actually influenced firms to change their governance practices or firms changed their governance practices to attract more foreign investors, increased board independence, disclosure and transparency, downsizing and asset divestiture occurred in response to an increase in foreign portfolio investment in Japan.

While the research presented suggested that foreign investors are associated with a shift towards Anglo-American governance practices in Japan, this does not mean that there is likely to be wholesale convergence and that Japan is on course to be exactly like the US. How much is Japanese corporate governance going to change is hard to tell, there are several scenarios, but for sure we will see changes in the years to come.

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IMPACT OF FINANCIAL CRISIS ON CONSTRUCTION FIRM'S COST OF CAPITAL

Nistor Ioan

Babes-Bolyai University, Faculty of Economics and Business Administration

Ulici (Ciupac-Ulici) Maria⁴⁰⁵

Babes-Bolyai University, Faculty of Economics and Business Administration

Schiau (Macavei) Laura Liana

Babes-Bolyai University, Faculty of Economics and Business Administration

The average cost of debt is negatively related with size, tangibility, firm growth, the leverage ratio, and the ratio of long- to short-term debt and positively to profitability. We find that the recent international crisis did have a significant impact on the set of firms in our sample, but affected the way in which leverage and the interest to debt ratio relate to firm fundamentals. In this article, we want to study the impact of financial crisis on the cost of capital using a sample of construction companies.

Keywords: asset pricing cost of capital, financial crisis, CAPM

Cod JEL: G12, G01, G14

1. Introduction

An appealing feature of the subprime crisis for research purposes is that it stands as a purely exogenous shock on the corporate sector, the crisis had its origin in the U.S. housing sector. In inquiring about the influence of financing factors on real investments, it is extremely difficult to disentangle supply and demand forces. For instance, a given observed contraction in real assets may be forced by the withdrawal of lending flows by their suppliers or to a voluntary corporate decision to stay aside from the credit market after the reevaluation of expected cash flows in the midst of an economic downturn. Even an exogenous credit supply shock like the one taking place since 2007-2008 may have reshaped the demand for funds in response to a widespread wave of pessimism.

The problems on the international financial markets affected the construction industry, which was heavily dependent on banking credit. Non-residential construction, which accounts for half of the construction output, was strongly hit, while residential decreased only slightly in 2009 and civil engineering, which depends on public funding, was the only one maintaining above the line.

The construction sector in Romania climbed 6.9% in december 2009, in comparison to a month before, recording the biggest leap in the European Union. The total decrease in 2009 year in comparison to the last year was 15.1%. In chart no. 1, we present the evolution of constructions during 2005-2009.

⁴⁰⁵ *Investing in people!*

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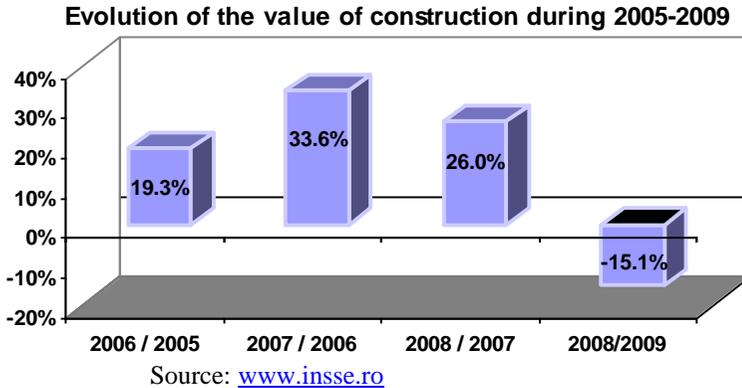
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Chart no. 1



Since december 2008, however, construction dropped 7.1%, Romania ranking 8 in the EU. In november, Romania recorded the third decline in the construction sector in the EU – 18.9% - in comparison with the same months of 2008. Apart from Romania, the only EU country to record a growth in the construction sector was Spain – 6.2%. The biggest declines were recorded in Slovakia (-11.3%), Slovenia (-8.1%) and Bulgaria (-7.9%).

2. Methodology research

We propose to study the impact of financial crisis on the cost of capital. We choose the construction sector (construction of buildings and civil engineering), because it is one of the most affected sectors of the economy. The sample includes ten companies, which are listed on Bucharest Stock Exchange: Impact Developer & Contractor S.A. (IMP), Cominco S.A. Bucuresti (COBS), Comnord S.A. Bucuresti (COSC), Concefa S.A. Sibiu (COFI), Constructii Bihor S.A. Oradea (COBJ), Imotrust S.A. Arad (ARCV), Socot S.A. Tg. Mures (SCTO), S.C. Transilvania Constructii S.A. (COTR), Compania Energopetrol S.A. (ENP), Condmag S.A. (COMI).

To determine the cost of capital, we use the capital assets pricing model (CAPM) and weighted average cost of capital (WACC).

2.1 Cost of equity

The cost of equity can be defined as the minimum rate of return that a company must earn on the equity-financed portion of its investments in order to leave unchanged the market price of its stock. Most companies use the Capital Asset Pricing Model (CAPM) to calculate their cost of equity capital. In the CAPM definition, the cost of equity is equal to the return on risk-free securities plus the company's systematic risk (beta) multiplied by the market risk premium:

$$\overline{R_a} = R_f + \beta_a * (\overline{R_M} - R_f);$$

Where:

$$R_f = \text{Risk free rate}$$

$$\beta_a = \text{Beta of the security}$$

$$\overline{R_M} = \text{Expected market return}$$

$$R_f - \overline{R_M} = \text{Premium risk}$$

The general idea behind CAPM is that investors need to be compensated in two ways: time value of money and risk. The time value of money is represented by the risk-free rate in the formula and compensates the investors for placing money in any investment over a period of time. The other half of the formula represents risk and calculates the amount of compensation the investor needs for taking on additional risk. This is calculated by taking a risk measure (beta) that compares the returns of the asset to the market over a period of time and to the market premium risk.

The CAPM says that the expected return of a security or a portfolio equals the rate on a risk-free security plus a risk premium. If this expected return does not meet or beat the required return, then the investment should not be undertaken. The security market line plots the results of the CAPM for all different risks (betas).

Beta coefficient is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta is the tendency of a security's returns to respond to swings in the market. A beta of 1 indicates that the security's price will move with the market. A beta of less than 1 means that the security will be less volatile than the market. A beta of greater than 1 indicates that the security's price will be more volatile than the market. For example, if a stock's beta is 1.2, it's theoretically 20% more volatile than the market. Many utilities stocks have a beta of less than 1, offering the possibility of a higher rate of return, but also posing more risk. The formula for the beta of an asset within a portfolio is:

$$\beta = \frac{Cov(R_a, R_M)}{Var(R_M)} ;$$

Where:

R_a = the rate return of the asset

R_M = the rate return of the market.

Risk-free rate is the amount obtained from investing in securities considered free from credit risk, such as government bonds from developed countries. The interest rate of U.S. Treasury Bills is frequently used as a proxy for the risk-free rate.

The equity market risk premium represents the returns investors expect to compensate them for taking extra risk by investing in the stock market over and above the risk-free rate. In other words, it is the difference between the risk-free rate and the market rate. It is a highly contentious figure. Many commentators argue that it has gone up due to the notion that holding shares has become more risky.

2.2 Weighted Average Cost of Capital

Weighted Average Cost of Capital is an average representing the expected return on all of a company's securities. Each source of capital, such as stocks, bonds, and other debt, is assigned a required rate of return, and then these required rates of return are weighted in proportion to the share each source of capital contributes to the company's capital structure. The resulting rate is what the firm would use as a minimum for evaluating a capital project or investment:

$$WACC = \frac{E}{V} * Re + \frac{D}{V} * Rd * (1 - Tc) ;$$

Where:

Re = cost of equity

Rd = cost of debt

E = market value of firm's equity

D = market value of firm's debt

$$V = E + D$$

Tc = corporate tax rate

The WACC of a firm increases as the beta and rate of return on equity increases, as an increase in WACC notes a decrease in valuation and a higher risk.

Broadly speaking, a company's assets are financed by either debt or equity. WACC is the average of the costs of these sources of financing, each of which is weighted by its respective use in the given situation. By taking a weighted average, we can see how much interest the company has to pay for every dollar it finances. A firm's WACC is the overall required return on the firm as a whole and, as such, it is often used internally by company directors to determine the economic feasibility of expansionary opportunities and mergers. It is the appropriate discount rate to use for cash flows with risk that is similar to that of the overall firm.

Compared to cost of equity, cost of debt is fairly straightforward to calculate. The rate applied to determine the cost of debt (Rd) should be the current market rate the company is paying on its debt. If the company is not paying market rates, an appropriate market rate payable by the company should be estimated. The measure can also give investors an idea as to the riskiness of the company compared to others, because riskier companies generally have a higher cost of debt. As companies benefit from the tax deductions available on interest paid, the net cost of the debt is actually the interest paid less the tax savings resulting from the tax-deductible interest payment. Therefore, the after-tax cost of debt is $R_d (1 - \text{corporate tax rate})$.

3. Data and estimation

The sample of ten companies is studied during the period 2005-2009. We select the companies whose stock price increased significantly, respectively they had a significant market capitalization and volume of transactions on the Bucharest Stock Exchange, during the analyzed period.

For the coefficient Beta, we use the daily stock return prices of the analyzed companies and the daily returns of BET index during 2002-2009. The Beta coefficient is determined individually for each year. Thus for 2005, we consider daily stock return from 2002-2005. We consider the daily stock return from 2003-2006 for the beta coefficient from 2006. We kept this method of calculation for all five years. Table nr.1 lists the beta coefficient values during 2005-2009.

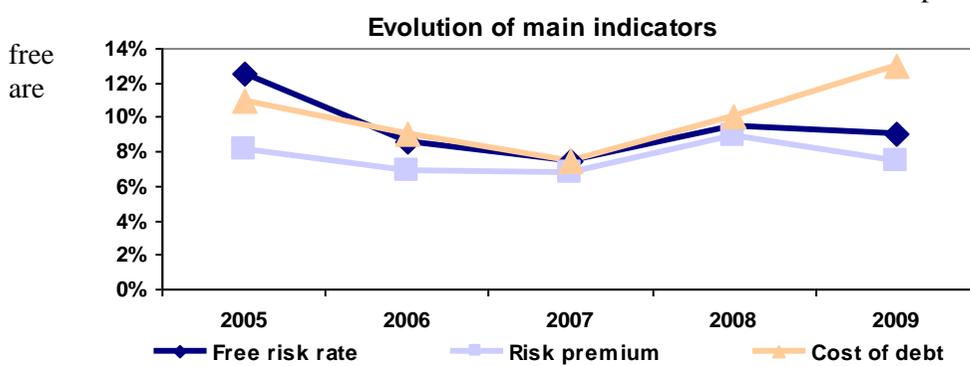
Table no. 1

Evolution of coefficient BETA					
Tiker	2005	2006	2007	2008	2009
IMP	0.610	0.592	0.709	1.048	-1.671
COBS	0.032	0.297	0.382	0.613	0.679
COSC	-0.164	0.085	0.195	0.571	0.735
COFI	0.048	-0.067	0.331	0.694	1.032
COBJ	-0.003	0.020	-0.080	-0.042	0.057
ARCV	0.063	0.067	0.102	0.527	1.062
SCTO	0.001	0.018	0.530	0.538	0.686
COTR	0.101	-0.957	-1.039	-0.326	-0.320
ENP	0.783	0.789	0.779	0.755	0.261
COMI	0.275	0.386	0.381	0.822	0.942

Source: Author's calculations

Chart no. 2 contains values of the indicators that we need to use for the Capital Assets Pricing Model. The

risk rates taken from National Bank of Romania.



The risk premiums and cost of debt are obtained from Moody`s reports.

Chart no. 2

Source: <http://pages.stern.nyu.edu>, www.reuters.com, www.bnr.ro

Using the CAPM and the data from the previous two tables we obtained the cost of equity for the companies from our sample. In table no. 2 we show the obtained values. We can see the strong impact of the financial crisis on the cost of equity. In 2006, its value decreased from the previous year, but from 2007 year to 2009 year, resumed its upward trend.

Table no. 2

Cost of equity					
Tiker	2005	2006	2007	2008	2009
IMP	17.49%	12.71%	12.34%	18.83%	-3.48%
COBS	12.76%	10.66%	10.10%	14.95%	14.07%
COSC	11.16%	9.19%	8.83%	14.59%	14.49%
COFI	12.89%	8.14%	9.75%	15.68%	16.71%
COBJ	12.47%	8.74%	6.95%	9.12%	9.42%
ARCV	13.02%	9.06%	8.20%	14.19%	16.93%
SCTO	12.51%	8.73%	11.11%	14.29%	14.13%
COTR	13.33%	1.96%	0.41%	6.60%	6.61%
ENP	18.91%	14.08%	12.81%	16.22%	10.95%
COMI	14.75%	11.28%	10.10%	16.81%	16.04%

Source: Author`s calculations

We obtained the percentage of equity and debt on total capital from the financial statements of the analyzed period. Finally, using weighted average cost of capital model and the information obtained in previous tables, we highlighted the value of the cost of capital. The values obtained are shown in table number 3.

Table no. 3

Weighted average cost of capital					
Tiker	2005	2006	2007	2008	2009
IMP	14.28%	10.63%	10.36%	15.12%	1.99%
COBS	11.56%	9.50%	8.36%	11.54%	13.41%
COSC	11.05%	9.08%	8.28%	12.34%	13.89%
COFI	11.62%	8.71%	8.26%	11.85%	14.28%
COBJ	11.92%	8.84%	7.14%	9.42%	10.75%
ARCV	12.69%	9.06%	7.94%	12.22%	14.75%
SCTO	11.53%	8.87%	9.15%	11.78%	13.48%
COTR	12.07%	5.96%	4.08%	7.30%	7.67%
ENP	16.55%	11.80%	10.06%	12.16%	12.33%
COMI	12.71%	9.83%	8.89%	14.10%	14.88%

Source: Author`s calculations

During 2005-2007, the cost of capital decreased significantly from 25% (Comnord S.A.) to 66% (Transilvania Constructii). In this period the construction sector had a favorable environment.

In 2008, the value of construction and assembly works in Romania increased by 34% nominally (26% in real terms), to RON 83bn (€22.5bn). The fastest growing segment was non-residential, which increased by 37%. The situation is due to the fact that Romania, a country with a very rapidly developing economy, needed mainly non-residential buildings, such as office space for services and industrial buildings. Structural works are by far the ones covering the largest share of costs of a construction project, followed by installation and equipment and site preparations. The smallest shares are held by finishings and rental of construction equipment.

The cost of capital increased, during 2007-2008, from 21% (Compania Energopetrol) to 79% (Transilvania Constructii) due to the appearance of the financial crisis. The crisis had a negative effect on the cost of equity, stock returns and private physical investment. In 2009, we can see that the growth is not so big, it is from 1% (Compania Energopetrol) to 21% (Imotrust Arad, Concefa Sibiu).

The value of the cost of capital for Impact Developer company is small, because its stock price decreased significantly during 2007-2009 (its value was under the nominal value of the stock).

4. Conclusions

Increasingly more companies found that loans can not be consider a certainty. It seems that more restrictive lending standards and rising interest rates are "new rule" not only on international markets, but also in Romania. A feature of Romanian companies is that they rely primarily on financial banks institutions, calling rarely to publicly traded bonds. As the liquidity crisis continues to limit available funds on international capital markets, the ability of banks to provide capital is affected.

The cost of debt constitutes a key transmission channel from macroeconomic shocks to the corporate sector, with a direct bearing on firms' growth and probability of default, a better understanding of its drivers should be welcome.

Construction was the most important factor of the strong economic growth of Romania over the past several years. However, the problems on the international financial markets affected the construction industry.

The segment which will continue to grow in 2010 is civil engineering. As Romania will face a falloff in GDP in 2009, the government will want to overcome its effects by increasing public spending, and infrastructure is a top destination for state-funded investments. For that, the funding coming mainly from the EU has to be unblocked, by improving and simplifying procedures which have been dragging investments in infrastructure – particularly in the case of road construction, which accounts for roughly half of the civil engineering construction output. Additionally, civil engineering construction can benefit from the lower prices of construction materials compared to the past few years.

We propose for next studies to use a bigger sample and to study the impact of crisis on companies cost of capital by the methods of Godfrey and Espinosa (1996), Erb, Harvey and Viskanta (1996), Damodaran (1998) and Estrada (2000).

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FISCAL FEDERALISM AND FISCAL DECENTRALIZATION IN AN ENLARGED EUROPEAN UNION

Oprea Florin

„Alexandru Ioan Cuza” University of Iași

Faculty of Economics and Business Administration

Fiscal competition and tax harmonisation are two of the main current issues in the enlarged European Union. Achieving these goals and thus improving the EU economic governance is partially dependent by the way we understand and practice the so-called fiscal federalism and fiscal decentralization at the national and European level. Our paper aims to emphasize the similitude and differences between fiscal federalism and fiscal decentralization and revealing the way in which the functioning of the European Union is affected by them.

Keywords: fiscal federalism, fiscal decentralization, financial autonomy

JEL Code: H77

The Legal Content of Fiscal Federalism and Fiscal Decentralization

The matter of fiscal federalism is not new, but its complexity and its special implications upon the functionality of public budgetary systems, and implicitly upon the mobilization and the judicious use of public financial resources, determine its being brought to attention in many contemporary works regarding the European integration process. As concept, fiscal federalism is often related to fiscal decentralization and sometimes even considered similar to it, although the two notions appear as different due to their own formulation. Thus, decentralization would mean, as its name itself suggests, the fact that power naturally belongs to the centre, which decides to transfer it to the lower levels, for reasons related to a better management of local interests or at least more adequate to the preferences of the members of the local community. On the other hand, fiscal federalism would imply the pre-existence of competence sharing in what concerns the mobilization of public revenue, (fiscal) decentralization not being necessary any longer, at least at first sight. In other words, the federal system of power structuring is intrinsically based on a larger decentralization than the unitary state system of organization. Such a view is false, because practice shows that there are very decentralized unitary states (e.g. Denmark, The Netherlands), as well as very centralized federal states (Austria). Because decentralization (fiscal, implicitly) is inherently possible and present, just as centralization, in any state community, the problem that arises is to differentiate it from federalism (implicitly fiscal). In what concerns us, we believe that the main differentiating element of the two notions is the legal and not the economic content. Thus, the federal organization of certain states is, as the case may be, either the product of the tradition of state organization or the result of applying certain requirements for making the management of public sector problems more efficient. Federalism, as a (constitutional) state organization method, supposes an allocation in essence of (public) political power by delimiting it on several levels, ensuring its constitutional and decisional sanction for each of the entities forming the state, by means of their own Constitution and their own decisional bodies, even in what concerns the ability to legislate (at the level of each federal state). One may notice, in these conditions, that, within the federal type of state organization, it becomes essential the fact that the constitutive states are independent, as the decision-making autonomy of the main government levels (federal and federated) is sanctioned by means of the fundamental document, simultaneously and differently allotted both at the central level and at the level of the constitutive states of the federation and protected from any possible decision-making conflicts by

means of the bicameral structure of the Parliaments. Actually, while federalism is a constitutional way of organizing public power, which affects both the legislative power and the executive and judicial ones, decentralization is a (main) way of exercising power, which only applies to the executive power.

The Economic Content of Fiscal Federalism and Fiscal Decentralization

However, in what concerns the economic approach, what is essential for the federal organization of public power (the presence of a separate Constitution at the level of each federated state) loses its significance, the important thing being the fact that each government level has its own competence in managing and providing public services, which is essentially something in common with decentralization, as a principle of exercising the executive power. In these conditions, fiscal federalism is defined as a set of principles which stand at the basis of delimiting revenue sources and budget expenditures between the central level and the inferior government levels, sometimes even without taking into account the type of state organization. This set of principles, which may be applied to the relationships between the components of the public budget system on the revenue side, whatever the form of organization of public power from the point of view of state structure, leads to the practical implementation of what we call “fiscal decentralization”, manifesting, in practice, in the form of a general (normative) framework that this requirement takes. It is this framework, through its concrete implementation in the European states, which individually start to promote it because of the necessity to satisfy certain “national” internal requirements, that may determine, in the context of the European integration process, a series of undesirable dysfunctions (distorted competition, fiscal evasion, limited fiscal harmonization, etc.). These potential negative effects are first a result of the fact that the principles under discussion are applicable or applied differently in each state, with differences noted especially between the unitary and the federal states, as they are not able to represent a “universal recipe”. Although “universalization” of the set of principles considered to be the content of fiscal federalism (in the sense of them being universally recognized) may be found in the related literature and in practice, each of these principles involves a certain degree of relativity, in the sense that it has to be connected to the requirements and the actual reality in each state. Moreover, one and the same principle may be interpreted and applied more or less nuanced, thus leading to a particular way of promoting fiscal decentralization. For example, the subsidiarity principle applied to the mobilization of budget revenues or the principle of assuring a certain level of local autonomy involve judgements that are subjective in their nature, regarding the extent and the beneficial effects of allowing competences to the local government level, thus leading to different manners of applying subsidiarity and to different interpretations of the degree of local autonomy. On the other hand, the theoretical foundations of fiscal federalism and its applicability are still submitted to observations and reconsiderations, sometimes even by those who put them forward (Richard Musgrave, Charles M. Tiebout, W.E. Oates), “a second generation” of fiscal federalism being invoked.

Fiscal Federalism at National and European Level

Beyond the conceptual differences that we presented, the economic content of the two notions is relatively close, referring to delineating the competences of central and local authorities related to their “rights” regarding the mobilization of public revenues and their use, and, according to some, “the big challenge is to ensure a transparent financing system for sub-national administrations”⁴⁰⁶. We notice that, according to such a view, what is considered to be essential to fiscal federalism is the relationship between public authorities on different levels, which

⁴⁰⁶ Moşteanu, T., Iacob, M., *Fiscal Federalism*, Theoretical and Applied Economics, 2007, vol. 11, p. 21, <http://econpapers.repec.org/>

consists in financially involving the one at the superior level in order to support, if necessary, the authorities at the inferior levels. From this point of view, an analogy may be made between “internal” and “international” fiscal federalism, the latter concerning the relationship between national and supranational authorities or international organizations (in international finances). Judged by appearances, such a manner of practising financial relations would not be related to fiscal federalism, because the latter has a legal (constitutional) basis which lends it a regular and compulsory character, while the involvement of the international organizations has an optional, incidental character, involving both the request from the national authorities and the acceptance of the international organization. However, we notice that phenomena such as global warming or world security, which concern all nations, not only some of them, objectively determine a joint, even unitary, approach to solving such needs, by means of common supranational institutions or organizations. This phenomenon, related to such mutations as globalization or the European integration, gives rise to the need to establish separate revenue sources for supranational authorities, able to ensure the resolution of the problems in their competence, which sets the basis for building a system typical for “fiscal federalism”. In the specific context of the European Union organization and functioning, some claim that the establishment of a European tax system is just a matter of time⁴⁰⁷. A convincing example in this respect is considered to be the action mechanism specific to the European Union, in which the common institutions manage problems for the benefit of all Member-States, thus taking over financial resources to its own budget from the resources of the states involved, in the context in which many of the tax-related decisions are harmonized by means of normative documents issued at this level. Although the prevailing view is that total relinquishment of fiscal authority is not something that can be taken into consideration, the decisions regarding taxation (especially indirect) are at least partially in the competence of the Union, which is exactly what forms the core of fiscal federalism. The existence of a system in which the competences regarding the management of certain problems are attributed to national and European-level authorities on a differentiated or complementary basis, combined with the presence of a taxation and intergovernmental grant framework can only be qualified as fiscal federalism. However, in the related literature there are also some studies that dispute the presence and the applicability of fiscal federalism in the European Union, either in the larger context of multilevel governance finances⁴⁰⁸, or considering that it exceeds the conventional framework of fiscal federalism by being exceedingly decentralized⁴⁰⁹. The argument they put forward is that, in attributing the functions to the different government levels (in this case, to national and European-level authorities), the reasons specific to fiscal federalism (such as macroeconomic stabilization, which central authorities must have in view) are subject to a different interpretation, in the sense that only the monetary policy may be decided at the supranational level and not the fiscal policy. The argument may be considered valid, but it must be approached in a cautious manner. It must be noticed that the authors in question themselves mention as a premise for the analysis that fiscal federalism is not a set of universally applicable rules, but rather a set of benchmarks to follow (on a differentiated basis, o.n.) in delimiting the competences related to the management, taxation and spending of the financial resources thus mobilized. As a result, we believe that the analogy between “internal” and “international” fiscal federalism subsists, with the note that in the latter case the implementation method is different. The different manner of promoting fiscal federalism at the supranational level has an explanation which is as simple as it is convincing: as long as the relationships of public power are differently

⁴⁰⁷ Moșteanu, T., Iacob, M., *Fiscal Federalism*, Theoretical and Applied Economics, 2007, vol. 11, p. 21, <http://econpapers.repec.org/>.

⁴⁰⁸ Oates, W., *Fiscal Federalism and European Union: Some Reflections*, Societa Italiana di Economia Pubblica, 2002, <http://www.unipv.it/websiep/wp/132.pdf>, p. 2

⁴⁰⁹ Eichgreen, B., *Saving Europe's Automatic Stabilisers*, in Baimbridge, M., s.a., *The Impact of the Euro - Debating Britain's Future*, Macmillan, London, 2000.

legally sanctioned at the internal level and at the level of international cooperation, the attribution of the competences of taxation, spending or management of public matters outlined based on these relationships will be, in its turn, different. It is without doubt that the attribution of some competences, such as macroeconomic stabilization or the redistribution of revenues meant to prevent poverty or to protect those with low income, to the supranational (European) level may have weaker effects than the management of these aspects by the national government levels, but this does not affect the core of fiscal federalism. Moreover, the rules applicable to fiscal federalism promote subsidiarity, which requires that a certain task be attributed to the government level closest to the place (level) where the problem has arisen, on condition that the management of the problem in question cannot be better dealt with at a superior level (in order to avoid distortions). In other words, if the distinctiveness of the relations between the European Union and its Member-States requires that certain aspects such as those mentioned above be managed by the national authorities, we are talking about fiscal federalism.

In the context of the European integration process, taking into account the characteristics of the political and administrative organization of this entity compared with the known composite forms of state or with the unitary states, until not long ago, the prevailing view was that, at least from the point of view of budgetary revenues (in effect, of taxation), the transfer of the decision-making process in this respect to the Union level would be a forbidden and inadequate assignment of “sovereignty”, considering that as long as taxes are the main support (from a financial point of view) of the sovereign manifestation of states, no member-nation would be willing to give up such rights. However, it can be noted that, if the presence into a functional association in the genre of the European Union is desired, whatever (legal, constitutional) qualification we may confer to it as a form of organization, it is first necessary that all the parties involved take on a relative “loss” from the point of view of decision-making power, because the minimum consensus necessary to any such association in order for it to function in good conditions may not be otherwise gained. In our case, it can be noted that generous objectives such as ensuring free circulation, undistorted competition, a high living standard, at similar levels in the member countries, are accepted on a large scale, but it is not always admitted that reaching them involves a joint action of the Member-States, conceived for reasons of coherence and unity of action at the supranational level, of the Union. In other words, just as the Member-States, especially the unitary states, ensure their functionality and compatibility between the different interest and government levels by means of a minimum degree of centralization (reduced by decentralization, local autonomy, subsidiarity), the European Union is able to efficiently reach its shared objectives in a similar way. This opinion is also confirmed in practice (at least partially in what concerns the Member-States), due to the use of the single currency, and the unity of the monetary policy designed and promoted by the European Central Bank⁴¹⁰.

Taking into account the previously set forth arguments, we believe that the opinion expressed by the majority of those interested in the matters related to the working of the European Union in the sense that sovereignty cannot be relinquished, especially at the fiscal level, must be reconsidered. A first argument is that the decision-making right in certain areas at the European level lacks efficiency as long as there aren't any efficient implementation instruments. An eloquent example in this regard may be the evolution of the last years in what concerns the budget deficit, in some of the Member-States of the European Union, ironically and almost paradoxically exactly those considered as the initiators of the rule regarding the 3% limit on the budget deficit. States such as France, Italy or Germany are recording budget deficits that exceed this limit, at the same time with a breach of the rule regarding the maximum indebtedness level of 60% of the GDP (in the case of Italy, over 100% in 2007), which, according to the rules, would lead to these countries

⁴¹⁰ Oates, W., *Fiscal competition and European Union: contrasting perspectives*, Regional Science and Urban Economics, no. 31, 2001, pp. 133-45.

facing financial sanctions. Faced with such a situation, the countries in question proposed as a method of resolution, without asking for the rule to be removed, that the causes of the deficit be separately analyzed for each state. For example, Germany invoked the use of 4% of the GDP for the necessities of reunification, at the same time proposing that the contributions to the Community budget may not be taken into consideration, and President Chirac put forward the productive character of certain expenditures which would justify their being taken out of the calculation when determining the budget deficit (“the research and development expenditures of today ... are the riches of tomorrow”). In these conditions, it can be noted that the lack of an efficient instrument of constraining the actions of the national authorities may give rise to dysfunctions at the Union level, being necessary to attribute extended competences to this level. In the case of direct taxation of income, although we agree with the idea that macroeconomic stabilization for 27 countries simultaneously at the Union level would not necessarily be more efficient than the separate action, at the national level, we have to remark that, in the present conditions, there is a fiscal competition which may lead to distortions in allocating resources. The single rate implemented by some European states, without any restriction, is generating differences that may have negative effects. Although it is not entirely necessary that the European Union implement the so-called „European taxes”, as there are problems mainly related to recording and evaluating the taxable matter, determining the tax value, levying or keeping track of and collecting tax claims, it is obviously necessary to harmonize taxation bases or direct tax rates. Two mentions must be made: harmonizing does not automatically mean “standardizing” (in the sense of setting the same taxation rate at the level of all the states, but only setting ranges between which these rates may vary), and harmonizing taxation rates without harmonizing taxation bases (for example, the unitary setting of the elements that stand at the basis of calculating the taxable profit) would strip the entire action of its efficiency. This statement has its origin in ascertaining that economic and budgetary systems are not based, in their functionality, solely on related decisions of a subjective, administrative nature, but have at their basis the so-called system of incorporated stabilizers, which first includes the taxes applied by the Member-States. Their reaction to the economic context may be a beneficial one as long as, in their position, the reasons they started from took into consideration the future implications on other Member-States (taking into account, first, the action of economic operators in the context of free circulation). Moreover, we believe that the indispensability of establishing a system such as fiscal federalism within the European Union derives from accepted economical reasons, knowing that the fiscal policy (in its narrow meaning, of tax policy) and the monetary policy must be considered related parts of the general, economic and social policy of a state entity; their positive effect can only be ensured as long as the measures devised and promoted for each of the two areas are harmonized and lead to (or support) similar results and are not opposed, annihilating each other’s desired effects. In this respect, the free practice, by the Member-States, in the absence of a constraint which is possible under a fiscal federalism type of organization, of expansionist fiscal policies may lead to inflationist effects, thus harming the effectiveness of targeting inflation through the European monetary policy.

From another perspective, that of understanding taxes (beside public expenditures) as a means of achieving solidarity between the members of the entity in question, we notice that in what concerns the European Union, tax is not yet perceived as such an instrument, interstate solidarity being rather limited, still⁴¹¹. As a matter of fact, in most cases, redistribution of resources within the European Union is discussed only from the perspective of the expenditures supported by the Union budget, without the necessary reference to related resources and the implications of their collection based on the product generated in the Member-States, the matter

⁴¹¹ Collignon, S., *The European Republic – Reflections on the Political Economy of a Future Constitution*, London, 2003, pp. 104-105

of the resources of the Union budget being the object of separate discussions. The positions expressed in this regard are often contradictory: on the one hand, they say that the Union does not have any competences related to direct taxation (especially of income); on the other hand, they require that financial resources be attributed through the system of supranational transfers. Such opinions are also favoured by the fact that, in the context of the absence of disruptive phenomena (at least until now, when the financial crisis is settling in more and more), which would require that more attention be paid to (macro)economic adjustment and stabilization, the European Union as well as the Member-States have channelled their attention primarily to the aspect of the redistribution of resources (for example, by means of the structural funds, which have economic and social cohesion as a purpose).

Conclusions

In conclusion, we think that fiscal federalism cannot be considered in any way a phenomenon incompatible with the European organization or an inhibiting factor for it. It must necessarily be designed and promoted at this level, without it being understood that it should be applied in its conventional formula, which is not allowed by the characteristic itself of the political and administrative organization of the European Union. Centralization becomes an absolutely necessary trend in the Union, but it must be carefully applied and must not be in any way interpreted as a possibility or a potential danger of “levelling” the Member-States of the Union, by excessively reducing or erasing national differences. The management of asymmetries in the economic and social development at the Union level, as well as of the transfer of undesirable effects from some states to others in the context of free circulation (especially of workers and capitals), requires, in an absolutely rational and necessary manner, that the European Union takes on extended competences and that the Member-States recognize to a larger extent the importance of interstate solidarity and joint action.

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PRIVATE EQUITY – CHALLENGE OR A CHANCE?

Radu Ioana

Babes Bolyai University, Cluj Napoca

Faculty of Economic Sciences and Business Administration

Nistor Ioan

Babes Bolyai University, Cluj Napoca

Faculty of Economic Sciences and Business Administration

The purpose of this study is to present the advantages and the opportunities of the private equity funds impact on the Romanian economy, and also identifies the economic disadvantages that can derive from applied strategies. For this reason we can consider private equity as a challenge and a chance at the same time, because beginning with choosing the investment domain, sector, company and the investment strategies the private equity funds can drive to performance for the investee companies, and implicit can have an important impact on the business environment and not in the least to the entire economy.

Keywords: private equity, involvement, economic and social implications, investment cycle, divestment;

JEL classification: G24, G34, E44

1. Introduction

Given that financing of a company in need of capital can't be realised by own sources, bank loans or on behalf of "the 3 F's" (Family, Friends or Fools), new forms of financing have been created such as account funding through venture capital funds and/or private equity.

In the current economic context, the private equity industry has become a solution of solving the lack of liquidity for various companies because this industry plays an active role on the entire market that can have an major impact on rehabilitating the states economies which have been affected by the financial crisis.

This industry is considered an alternative source of financing for companies that are target for investment funds and also represents a good way of investing on long term, during all stages of the business – from start-up strategies to expansion or replacement strategies. Beside this, private equity financing has become more attractive because these funds have and may provide financial resources for companies in need of large amount of money. This funds have the necessary amounts on behalf of the advantageous strategies applied on the exit, that have provided substantial benefits for up to several times the amount originally invested.

This situation has been considered as an alternative in the context that banks (the most used financing sources till nowadays) have increased the costs of borrowed capital and have roughen the borrowing conditions as a derived response to the actual lack of liquidity on the economy.

2. Private equity advantages

In the actual economic context, the industry of private equity is considered to play an active role in the rehabilitation of the economies affected by the financial crisis, by providing important sources of liquidity in the economy that cannot be obtained through in debt. Private equity is to be a long term investment during all stages of business - starting with initiative strategies up to corporate restructuring strategies.

Through time, has been set that the private equity backed companies have obtained several benefits, such as:

- Retrieving cash from selling a stake of the company to an investment fund, cash in need to accelerate the development of the company. Thus, in addition to bank loans, another option is to attract financing for companies in the ownership of a private equity fund.

- Once a company has been absorbed by the fund and becomes a portfolio company, investment funds bring along professionalization, new practices, new people and market experience.

Considering the recent evolution of the private equity industry, this financing form has created a particularly environment around it. It has been said that because of this, economy has been entered into „private equity era” (Stoica V, Corbu I, 2006), situation that has several advantages, such as:

- Industrial structure is renewed rapidly due to technological progress which shortens the life cycle of products and consequently the life cycle of investments;

- Medium and long term loans can not meet new industry requirements which give rise to very high financial risks;

- Frameworks and company employees want to be more empowered and to participate actively in increasing the capital firm.

3. Private equity actions – Case of Sicomed - Zentiva

In representing the efficiency of the involvement of investment funds in the companies targeted, this article will continue with the Sicomed Bucharest company case study and the observation of the financial indicators in relation to the evolution of the employees.

Table 1 - Financial data and employee evolution for Sicomed – Zentiva 1999-2008

Indicator	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
-RON-										
Turnover	6155164 5	7936937 0	10104600 0	12745544 1	14580000 0	17534766 4	19231316 4	24209661 8	19399664 0	21850584 8
Net Profit	8776403	1859978 0	13264000	13063000	18100000	19486464	15997222	23074860	4258101	23184647
No of employees	na	na	na	2000	1670	1140	918	1012	821	738
Period before SCD taking over from the private equity	SCD private equity take-over period		The period of the Fund involvement and the restructuring of the merged company				Fund Exit and the taken from SCD - Zentiva	The company's reorganization under the Sicomed – Zentiva's merger		

Source: www.zentiva.com, www.mfinante.ro

Considering the involvement of fund investment in the company we can say that: both entities can benefit from - the fund as a result of leaving it at a momentum can multiply their initial investment several times and the company which benefits from the investment fund, receives a major influx of cash on account of the amounts invested, amounts that can ensure the recovery and / or development of the business.

Actually, if we refer to the situation after the fund had exit from Sicomed, followed by the takeover by Zentiva, Czech Republic, another company in the same line of business, Sicomed has received:

- Restructuring – starting with the restructuring and the redevelopment of the technological infrastructure and the working environment up to the management and staff restructuring;

- Replacement of the production lines with some new ones, modern and which fulfill the latest requirements as far as manufacturing conditions are concerned, which are associated with specific production of medicines;

- Development of new production lines, due to changes in the portfolio of products that are designed to be completed by the Romanian company;

- Introduction of new principles of organizational culture;

Besides these positive aspects, undoubtedly negative sides appeared that have resulted on account of the impossibility of full integration of the old society Sicomed in the standards and the Fund's investment strategies and also into the acquiring company. These aspects can be observed in the reduction of the number of staff employed after 2000, the year of the involvement of the fund.

4. Private Equity Involvement during the Investing Process and Exit time

On one hand, it has been observed that the companies have registered a growth of financial wealth, in terms of high turnarounds, high profits and a better financial position on market, the implementation of new technologies, etc, a situation that is comparable with all the benefits that can derive from a positive involvement of a private equity fund.

Analyzing the related data on the economic impact of private equity industry (PE thereafter), namely the data from *PricewaterhouseCoopers (PwC)* report on the Economic and Social Impact of the private equity funds we intend to verify if the conclusions presented on the reviewed report are common with the real situation of Romanian PE backed companies.

The PWC report sustains that private equity industry has a positive influence on the economy, it contributes to revitalization and restructuring of the existing industrial companies and it consists in financial support and growth potential. For this reason, the private equity industry has become an important pillar of the global economy.

At European level, following the involvement of these funds in the economy, there have been significant increases related to the rate of employment in the sectors covered by these funds, as it follows:

Table 2 - The increase of employment in Europe by sector of activity

<i>The number of employees in companies funded by private equity & venture capital investment</i>	<i>% of increases</i>
Biotechnology	+46,9%
Medical services and pharmaceuticals	+46,3%
Electronics and telecommunications	+38%
Industry	+25,2%
Production of goods for consumption	3,9%
The average employment	+30,5%

Source: Processing by PWC Report on the Economic and Social Impact of the private equity funds

The research report, provided by Technical University of Munich in November 2005, has demonstrated the contribution of investment funds such as Private Equity and Venture Capital on the labor market. Thus, from an empirical study examining the number of new jobs created over the period 2000-2004 showed that were created over 1 million funded companies hiring in Europe, including over 430 000 jobs were created in companies financed by buyouts, and about 630 000 jobs were created among companies backed by venture capital infusions.

Furthermore, the employment rate in the analyzed period, 2000-2004, it was increased with an average of 5.4%. Specifically, it was increased 8 times over the average increase of employment in Europe (0.7%)

In these circumstances, it was the found that private equity firms create more jobs than listed companies (a 5.5% annual growth in Europe between 2001-2004, compared with average annual growth of 0.7% for countries EU), or, most often improves the performance of portfolio companies. Beside all this, the profitability of the portfolio is sometimes higher than similar companies listed, which, ultimately, helps millions of people who contribute to pension funds that represent the largest category of institutional investors.

Therefore, since the PWC report presents the positive aspects of the private equity economic impact, we can assume that as well, can be expected negative aspect. Beginning with this assumption, the study attempts to identify the effects of the private equity involvement in the Romania`s economy by observing this aspects on a private equity backed company (i.e. Sicomed - Zentiva).

In the case of Sicomed the turnover`s growing evolution, presented in the figure 1, with an average of 21% per year (in real terms a growth of 3% over the inflation rate) demonstrates the positive involvement of the fund in the investee company, a company that has benefit of restructuring strategies (organizational, managerial, technological, etc).

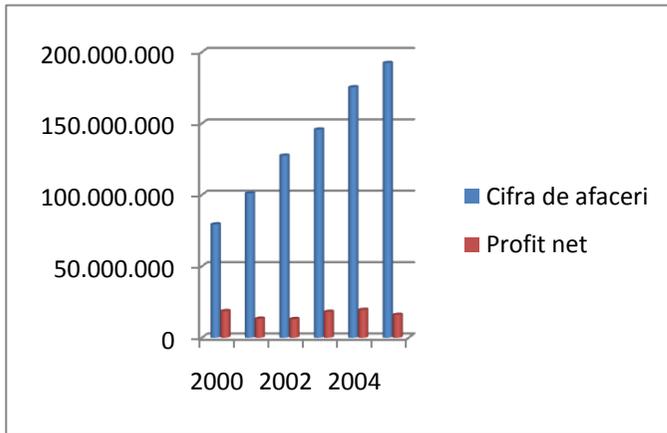


Figure 1. The turnover`s and profit`s evolution from investment (2000) up to divestment of the fund (2005) – case of Sicomed - Zentiva

On the other hand, from a social point of view, the Romanian companies that have been embedded in a fund portfolio, have registered an unfavorable influence among the number of employees, although private equity funds have developed a number of advantages on business investment and restructuring.

In other words, these funds have acted only in terms of economic efficiency of these companies on short and medium term, instead the human factor became the one that required restructuring. On account of the restructurement of the company following the management change, some production lines are altered and the funds were put into position of reducing the number of employees through layoffs since the funds involvement (through operations like takeover or buyout). In the following figure it can be observed the evolution of the number of employees while the funds involvement (from 2000 to 2005) and after the Sicomed acquisition of Zentiva in 2005.

During the involvement of the investment fund, starting with 2000 were dismissed over 50% of employees to over 2,000 employees reading in 2005 when it reached a total of 918 employees. All these staff reductions were justified by the management by the need for a restructuring plan in the Romanian company Sicomed Bucharest. In compensation, all the layoffs were redeemed by the inclusion in a social project organized by the company and named "Advice and assistance for reintegration" of over 1 million EUR. The employees included in this restructuring program have obtained a financial redemption - they had to choose between the receipt of four compensatory wages or inclusion in this project for six months, while receiving a monthly salary and professional services capabilities assessment, training courses, setting job interviews, offering legal advice and financial consultances for starting new for businesses.

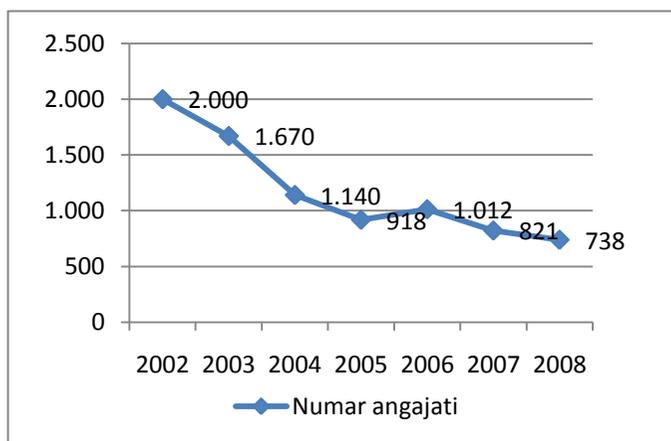


Figure 2 - The employees evolution for Sicomed & Zentiva between 2000-2008

As you can see in figure 2, throughout the involvement of the fund, the number of employees was reduced from year to year, with an average decrease of about 22% per year. The largest number of redundancies being made in 2004, at a rate of decrease in the number of employees with over 31%.

After 2005, with Zentiva's involvement in Sicomed activities, as the beginning of any company, the first year (2006) was marked by the recording of a growth in the number of employees. Employability was at the level of 10.24% higher than in 2005. However, in the coming years, 2007 and 2008 the restructuring continued, with rates of redundancy of 18.87% and 10.11%. Also, in 2007 the reducing of the number of employees took place that is from 1012 (2006) to 821 employees at the end of 2007, change that was realized with proper wage compensation for redundants.

Some personnel changes were made also for reviewing and modifying the market wage level at the standards of group Zentiva - changes that have increased staff costs by over 30% in 2007, which led to the redundancies.

Throughout those 4 years since the formation Sicomed-Zentiva were made redundant 200 people, the current number of employees was only 738 people in the recent report of the company.

With reference to the entire period analyzed, from 2000-2008, during the involvement of the fund and after the divestment of the fund from the company, the number of employees has been reduced from over 2,000 employees to 738, with a medium reduction in staff of 63.1%.

For Sicomed, the investee company, the employees reduction has become a favorable part, because this restructuring process has lead to higher turnarounds, results that can be translated in terms of productivity growth and efficiency.

This downsizing cannot be limited solely to the Sicomed-Zentiva business case, it can influence in a certain way all the economic activity. Any redundancy in the number of employed people in the economy could increase the unoccupied population (i.e. the number of unemployed). Reducing the number of employees only in the Sicomed with over 63%, above the European average employability of 30%, generates an average vacancy rate of over 30%, which may show that the reduction in the number of employees in Sicomed has increased by 30% unemployment rate at the industry level, or even in Bucharest, with the assumption that employability rate that it is reached at European level it's also reached in Romania.

5. Macroeconomic implications

Reducing significantly the number of employees due to the influence of these funds, and the corresponding increase in unemployment rate on their behalf, has implications not only on the labor market (through loss of jobs increases the number of unemployed), but also on economy as

a whole. Job cuts will lead to a decreasing of the income, which will result in reducing the demand for goods and services as a result of reduced household consumption in their care to spend and save money. Moreover, at the macroeconomic level, it may record a restriction of activity on account of the inability of covering the supply of goods and services by reducing the demand for them. Subsequently, the lack of activity is to be registered due to degradation of the national production assessed by reducing the level of GDP, with direct consequences for national economic growth. Reducing domestic production will reduce economic growth. That is the recording of negative growth rates, and even economic downturns, that is a stage forerunner of economic crisis.

It should be noted that this study was summarized only to the economic and social implication driven by the involvement of a investment fund of PE in a Romanian company only. The withdraw of these conclusions to a macroeconomic level, has been realized with the purpose of observing the possible incidences on to the macroeconomic indicators, especially if the case of Sicomed Zentiva might be registered by other entities.

Moreover, the negative social implications of company activities must be completed by all the effects observed - that relate to the growth of the business and financial results assessment.

Surprisingly, on account of the number of employees, Sicomed has registered continuously an increasing turnover from year to year. The same situation could be noticed at the profit level, as reviewed in the figure 1. For this reason, we can make positive assessments related to reducing the number of employees – this downsizing, which is due to the re-engineering process and restructuring strategies, has been made in order to have an efficient production, rationalizing the use of resources, to facilitate labor, to reduce medium costs, etc.

Noting all these facts, it has to be said that the restructuring of staff, in this case, was set to be a social cost into/through the innovation and technical progress, cost that is going to lead later to higher competition between companies, and to a continuous improvement of products (diversification and/or quality improvement standard), all into the development of each business. Assessments related to effects of the crisis that influence the reduction of the number of employees can not be done yet, because these personnel changes have been found to have a rationale mean that relate directly to the restructure of the activities and to the replacement of manufacturing technologies, and not on account of restriction of activity.

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CURRENT TRENDS IN TAX HARMONIZATION AND COMPETITION WITHIN THE EUROPEAN UNION

Sabău-Popa Diana Claudia

University of Oradea, Faculty of Economic Sciences, Finance-Accountancy Department

Kulcsar-Pop Edina

University of Oradea, Faculty of Economic Sciences, Finance-Accountancy Department,

Gherman Adela-Teodora

This article treats on the fiscal harmonization process within the European Union being indispensable for assuring loyalty in the competition on its single market, given the fact that different system of taxation had direct and powerful impact on the prices level and on choosing the location for production and distribution activities.

Both direct and indirect taxation distort the four fundamental freedoms of the single market. Most of the European Union's regulations regarding fiscal harmonization resemble to the Directive regarding especially the indirect taxes: VAT, Excises.

The fiscal reforms from the member states have to be conceived in such a manner that they take into account the necessity of fiscal harmonization on EU level, creating a reasonable compromise between each country's sovereignty and the desideratum of removing fiscal barriers from the normal functioning of the single market.

Keywords: fiscal harmonization, fiscal reform, VAT, income tax, fiscal europeanization

JEL codes: H21, F36

1. Considerations on fiscal pressures within the European Union

If we take a brief look back in time at the Romanian fiscal system during the transition period, an important stage in the evolution of Romanian fiscal system represents the fiscal reform from 2005, when one has replaced the progressive tax on individuals incomes with a 16% flat rate and the reduction of the income tax from 25% to 16%, which lead to an increase of fiscal incomes with about 7% of GDP. The objects of the reforms depended on the support of the fair distribution of the profit as a result of economic increase, business climate improvement and consolidation of Romanian competition.

The Romanian particularity, in comparison with the old EU member states, before the 1st May 2004 consists in the incomes structures raised from the national budget. In Romania, as well as in the other recently adhered Central and Eastern European countries, the fiscal incomes are mainly composed of indirect taxes – VAT, excises, customs duty, while in the old EU member states, the distribution of the three tax categories – direct taxes, indirect taxes, social contributions to the incomes – is relatively close.

Table no. 1: The evolution of fiscal incomes from VAT (% of GDP) in the period 2000-2008

	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU- 27	7	6.8	6.8	6.8	6.8	6.9	7	7.1	6.9
Belgium	7.2	6.9	6.9	6.8	6.9	7.1	7.1	7.1	7
Bulgaria	9.7	9.1	9.2	9.8	10.7	12.1	12.4	12.1	11.5
Denmark	9.6	9.6	9.6	9.6	9.8	10.1	10.3	10.4	10.1
France	7.3	7.2	7.1	7.1	7.2	7.3	7.3	7.2	7
Austria	8.1	8.1	8.2	8	8	8	7.7	7.7	7.8

Romania	6.5	6.2	7.1	7.2	6.7	8.1	7.9	8.1	8.1
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Source: <http://epp.eurostat.ec.europa.eu/>

VAT represents one of the most important income resources, but in creating the national and the EU budget. European Union's average is 6.9% of GDP. From receipt point of view, Romania exceeds the European average with 8,1% of GDP, the countries with the highest fiscal incomes being Denmark and Bulgaria.

Table no. 2: Evolution of fiscal pressure (% of GDP) in the period 2004-2008

	2004	2005	2006	2007	2008
EU- 27	40.1	40.4	40.9	40.9	40.5
Belgium	46.9	46.9	46.5	46	46.5
Bulgaria	33.1	34.0	33.2	34.2	33.3
Denmark	50	51.7	50.5	49.9	49
France	45	45.4	45.7	44.9	44.6
Austria	44.9	43.9	43.5	43.8	44.4
Romania	27.7	28.5	29.2	29.8	29.4
Great Britain	36.7	37.6	38.4	38.1	38.9

Source: <http://epp.eurostat.ec.europa.eu/>

From the table above we can remark that the Romanian fiscal system is at an average level in comparison with the European Union's countries, being considerably under the fiscal pressure⁴¹² level of France and Denmark. A higher fiscal pressure is specific to the developed countries: Belgium, France, Austria. Although the fiscal pressure in Romania is under the EU-27 average of 40,5%, from tax payers' point of view it is high. When analysing the fiscal pressure of some EU countries we have to take into account their development level, the purchasing power of the country; according to these criteria Romania can be still considered a country with a developing economy, in comparison with the developed countries: France, Germany, Austria, etc.

Further on, we limit our analysis to only three European Union countries: Bulgaria, France and Romania. The reason of choosing these states consisted in the fact that Bulgaria adhered to the UE in 2007, as well as Romania who has a fiscal system similar to that from France. The analysed tax types are: tax on the incomes of persons, profit tax and VAT.

Bulgaria

The tendency of the tax on the persons incomes is in decrease reaching in 2008 a share of 10%. The proportional single tax rate is perceived on the incomes from six different sources, existing only a few fiscal exemptions. This rate is applied both on the incomes of the resident persons and on the incomes made in Bulgaria by non-resident persons. Pensions and other payments made from the social assurances budget are exempted from taxes. Similarly, the incomes resulting from interests of the savings deposited in banks in Bulgaria or other EU country are excepted from imposition.

During the last decade, the taxation of commercial societies' profits in Bulgaria became more and more profitable for the development of businesses. From a 40% rate in 1995 for large companies, the rate has been reduced almost each year, reaching a rate of 10% on the 1st of January 2007. There exists even exemptions from taxation even up to 50% for initial investments and the investments in computers, softwares and mobile phones. The investments in new assets for the purpose of promoting the energetic efficiency benefits from an exemption of 50% from the profit tax. Another measure of business encouragement, effective since the 1st of January 2009, is the

⁴¹² We've taken into account the fiscal pressure calculated generally as a report between the fiscal incomes+social contributions and VAT

exemption for 5 years from tax payment for those who make profit from the following activities: agriculture, hi-tech, infrastructure.

The VAT standard rate has been reduced from 22% to 20%. The rate reduced to 7% is applied for the accommodation in hotel if it is about an organised travel.

France

Since 1999, one of the main purposes of fiscal policies was to reduce the taxes on the incomes from salaries, taking into account the specific situation of each family. The tax on the income of persons is perceived annually on the income resulting from any sources, in progressive rates on instalments. In 2008, the maximum rate was 40% applied to the incomes higher than 69.505 Euro. A remarkable character is the high number of the applied exemptions. The incomes resulting from investments, such as bank interests, incomes resulting from the profits on the capital market are charged with a proportional rate of 16%.

The profit tax affects each profit made in France by the companies and other legal entities, the standard rate being 33,33%. The large companies with an asset turnover exceeding the threshold of 7.630.000 Euro and with a taxable profit of 2.289.000 Euro have to pay a surtax with a 3.3% additional rate.

France has a VAT standard rate of 19.6% and two reduced rates. A reduced rate of 5.5% is applied to the absolutely necessary products and on the restaurant services and the reduced rate of 2.1% for newspapers, plays and approved medicines.

Romania

Since 2005, the tax rate on the incomes of persons are proportional, unique of 16%. This rate is applied to the incomes resulting from independent activities, from the concession of goods, from salaries and agricultural activities. Moreover, the incomes of the employees whose main activity represents software development are exempted from income tax payments. Benefits in kind are charged normally. The incomes from pensions are charged with 16% , but only those exceeding 1000 RON/month, that is about 235 euro.⁴¹³

Since 2005, the profit of commercial societies is also charged with the same proportional, unique 16% rate, reduced from 25%. In the context of international financial crisis and the current government's desire to limit tax dodging, there has been introduced since April 2009 a minimal tax on the profit of commercial societies, established according to the total incomes registered at the end of the last year.

Romania has a VAT standard rate of 19%, two reduced rates, one of 9% and one of 5%. The 9% rate is used for medicines, medical equipments, books, newspapers, the right to access some cultural and hotel accommodation services, while the 5% rate is applied for providing social and some private housings.

2. Current trends regarding tax harmonization within the European Union

At the same time with the intensification of European economic integration, persons and individuals gain a greater freedom to benefit from the opportunities given by foreign economies. Thus, international fiscal competition increases together with the increase of capital and work force mobility. Fiscal harmonization proves indispensable for assuring loyalty in the competition on the EU single market, given the fact that the different system of taxation has a direct and powerful impact on the level of prices and on the choice of the investment's location. At the same time, it is an extremely complicated process because the modification agreed on the tax affects the entire national fiscal system.

⁴¹³ Romania's Fiscal Code up dated

Fiscal harmonization ambitions can be thus categorized on three levels.⁴¹⁴ Two of them would be the avoidance of immediate imbalance resulting from the opening of borders, EU fiscal system smoothing⁴¹⁵. Both direct and indirect taxes distort the main four freedoms of the EU single market. But the most EU directives refer to VAT and excises, which are indirect taxes. Concerning the direct taxes, EU's *acquis* regards the profit tax, capital gains tax and less the tax on the incomes of persons. Most of the dispositions regarding direct taxes are left at each state's disposal, a fact that represents an attribute of their sovereignty. From the point of view of the harmonization of taxation elements, we can refer to several aspects: kind of taxes, imposition rate, taxation base and way of management.

According to a study one reached the conclusion that the more developed countries, such as France or Germany, having large taxation base, are for the harmonization of direct taxes, in comparison with the less developed countries which are skeptical regarding the process of harmonization of these taxation categories. Romanian fiscal system integrates itself in the typology of East-European fiscal system, rendering this market more attractive by means of a direct taxation, more reduced in comparison with the Western-European fiscal system.

Fiscal disparities at EU level determined the European Commission to initiate the implement of a common system of taxation of the profit made by the companies located on the European Union's territory. The system has the determined purpose to remove fiscal obstacles between European transactions. This probably represents the beginning of the fiscal europeanization. The fiscal europeanization can also have the meaning of dependence of the European Union's main institutions. Thus, there would gradually lose the national fiscal autonomies, or parts of them, and the fiscal system would no longer represent a national problem, but a Community problem.

A European measure in fiscal harmonization represents the implement of the common consolidated base of the profit tax (Common Consolidated Corporate Tax Base, or CCCTB), having as main object to facilitate the economic operations realised by the companies from the European Union, but it has no compulsory character, but an optional one. The application of the common base means actually the use of some common regulations regarding the calculation of taxation base for the profits made by the EU companies.

The Commission's proposition for a common base of taxable profit at EU level, letting continually the freedom to national governments to establish their own rate of profit tax is pragmatic and reasonable. This would simplify the profit taxation of the companies which carry on their activities on EU territory, without affecting the competition and restricting the freedom of national governments to establish tax rates considered adequate.

The common consolidated corporate tax base is not the only object of the European Union concerning the fiscal harmonization of direct taxes, but it has also in view to create a common taxation system, applicable to fusions, divisions, assets assigning and shares changing within companies belonging to different EU member states and a common profit tax system among offices and head-quarters.

3. European Union's fiscal paradises – a form of disloyal fiscal competition

A major problem that the European economy is confronting with represents the fiscal paradises, known also as fiscal shelters or "fiscal heavens". Actually these are key-areas of the European economy through which there are circulating freely and continually financial flows drawn as a magnet by the facilities offered by these areas. We can appreciate the fact that these have represented actually the stimulus of the capital migration at international level and even the fiscal europeanization. Generally these are characterized by globally specializing in different services,

⁴¹⁴ H. Sterdyniak, M - H. Blonde, G. Comilleau, J. Le Cacheux, J. Le Dear, *Vers une fiscalite europeenne*, Ed. Economica, Paris, 1991, p. 79-97.

⁴¹⁵ Tulai C., Șerbu Simona, *Fiscalitate comparată și armonizări fiscale*, Editura Casa Cărții de Știință, Cluj-Napoca, 2005, p.136-138.

mainly bank services, serving the interests of multinational companies. These constitute the meeting point of "white money" with "black money", implying no discrimination, even though these fiscal shelters have strict laws concerning "black" money laundering to assure that financial institutions headquartered there are not used illicitly. Moreover, they have special departments investigating any possible regulation violation. The offshore banks have strict methods of "acknowledging the client", the well known anonymous accounts are just a myth.

Within the European Union we can meet several fiscal paradises, such as Luxembourg, Cyprus or Malta. Some EU member states have become "black" money laundering centres without being fiscal paradises such as Latvia, Poland or even Romania.

There are also "fiscal heavens" outside the Community absorbing important financial flows from the European Union, such as Liechtenstein, being one of the most old fiscal paradises from the world and offering the best services of private banking in the entire world. The case of Switzerland, very well known, constitutes a problem for the European Commission, fighting with the removal of Swiss fiscal system. Monaco is a fiscal paradise more oriented towards persons, as it is not charging incomes, dividends or direct line of successions or capital increase of persons. Thus, the lack of taxes has drawn a high number of "tax refugees" from the European Union, having money earned mainly outside of Monaco.

We consider that the current global economic and financial crisis is due partly to these "black holes" of global economy, because there exist many companies having repatriated their profits in offshore centres and, thus, the states they have invested in lost possible considerable budget resources, achieving a "chain" reaction: budgetary persons have no longer been well enough remunerated in order they may pay their loan rate, the banks confronted with serious financial problems because of many bad credits, leading to the release of global crisis. The lack of a political will to put an end to these "black holes" of financial globalisation makes them to flourish and to put into danger the global financial stability. The developed countries tolerated and are still tolerating the existence of these fiscal paradises because they assure profits to the large companies, but they don't see the long term effects of this phenomenon. We cannot ignore the fiscal paradises when debating a global problem, taking into account the fact that analysts assert that about 70% of the tolerated monetary volume are circulating from the shade of fiscal paradises. Thus, as long as there are fiscal paradises, there will also exist economic crisis. Their cycles are legitimate as long as the problem of fiscal paradises is not removed.

4. Conclusions

By means of the European System Accounts (ESA95) it has been tried to bring to a common denominator the classification of national accounts and within the taxes and EU contributions. The European system of national and regional accounts is a compatible framework on international accountancy level for the systematic and detailed description of a total economy, as well as of its components and relations with other economies. ESA95 is according to the revised orientations from the entire world regarding accountancy at national level, System of National Accounts (1993 SNA, or simply SNA).⁵

Within the European Union's common fiscal policy there exist also the tendency of modernizing Community and national regulations concerning VAT, as well as the stimulation from fiscal point of view of the research-development field or the resources use according to the Community principles of long-lasting development.

Since quite a long time, rumours are heard about the introduction of a common tax in the European Union which shall finance EU's activity. But the institutional (especially the unanimity regulation of the member states discussed again in the Treaty of Lisbon), technical and political

⁵ <http://circa.europa.eu/irc/dsis/nfaccount/info/data/ESA95/en/titelen.htm>

(fear from federalism and budgetary derivation) obstacles still remain numerous and, thus, the introduction of such a resource seems less realist for medium term.

Regarding the recently debated fiscal standardization, there exists a series of arguments for, among which: the necessity of fiscal debureaucratization, as a component of institutional debureaucratization; a step towards the legislative fiscal stability at national level; a state's foreign business would adapt itself more easily to the economic environment of that country; many conventions at international level would no longer be necessary; the smoothing of fiscal legislation would support a better circulation of monetary capitals and, as a consequent, of the main three freedoms and, of course, the fact that there would be no longer divergence, fiscal contrasts at European level, between areas with high fiscal relaxation and those with too much fiscal pressure. Of course, this standardization would be carried into effect only after the ending of national fiscal reforms and only for long term. On Utopian scheme, a fiscal union would be established.

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THE AUDIT OF THE EUROPEAN FUNDS - THE ROMANIAN CASE PARTICULARITIES

Țară Ioan Gheorghe
University of Oradea, Romania
Faculty of Economics

The European funds are committed to improving the economic and financial state of the eastern European countries. Therefore they have to be performing spent. The financial audit has an extremely important duty from this point of view. In Romania case there are some particularities which are, at the same time, the possible ways to improve the financial audit activity as well. The vital thing among them is to improve the independence of the financial audit and to take in account the necessary report between internal and external audit. A proposal is made here.

Keywords: financial audit, internal audit, external audit, the Authority of Audit, the European fund, Court of Accounts.

Paper JEL code: M42

The European funds as a lever for the economic growth of the European Union newly entered members

The enlargement process of The European Union needed to be well prepared from many points of view. Among them, those referring to the economic and financial aspects have been considered extremely important. Therefore, The European organisms have decided to give financial support, in order to improve their economic state, to the countries that ask for becoming members of The European Union. It is mainly the case of the eastern European countries that, in a huge majority, inherited a poor economic situation.

Romania, as a country that gained its freedom in 1989, expressed its will to become member of the European Union immediately after nineties. It lasted more than sixteen years and needed both financial support and a long period of exhausting efforts for negotiations. Starting with the January the 1st of 2007 Romania managed to meet the conditions and entered European Union as a fully-rights member. Since than a new European Union policy concerning the financial support has been applied.

There have been two kinds of supporting funds like that: pre-adhesion funds and post-adhesion funds. They actually have had a similar goal, mainly to help the country in restructuring the economic sector and in adopting the European rules concerning the economic and political organization, the rules that are called “the European acquis”. In this way the European funds have been used as a lever to improve the economic infrastructure and to bring a better performance in financial sector. Nevertheless the post-adhesion funds aimed at giving help differently from those of the former period.

The types of the European funds in Romania case and their objectives

The funds that Romania has received from The European Union came differently in type and goal before 2007 from since then. Thus, the former funds referring to the previous period of 2007 consisted in:

- Funds under the SAPARD program (The Special Pre-Adhesion Program for Agriculture and Rural Development) which is a financial support coming from the European Community (the European Counsel decision, number 1268/1999). It was given for the period of 2000 - 2006 in an amount of 153.000 thousand euro annually. The objective of the entire Program consists in:

- to set up a necessary frame for a performing agriculture implementation
- to take over the EU community acquis regarding the agricultural free market

Over the course of the all these funds the Romanian government have had to contribute an overage of 25% from the sum of the funds. That is why the accessed funds have been, sometime, much less than that in right. According with the Agency for the Fishing and Rural Development Payment, at the end of 2008, only 84.05 % have been consumed from the entire amount of the allotted 1,521,450 thousand euros over the period of 2000-2006. Romania has not had the financial possibilities to access all of the funds because of its financial state. That means, however, that in this period, a 1,521,450 thousand euros was allotted for the Romanian economic growth despite the fact that only 1,278,740 thousand euros has been really paid.

- ISPA– Instrument for the Pre-Adhesion Structural Politics – a programme that began with January of 2000 as a result of the European Council decision, 1267/1999. With the allotted 2,783,864 thousand euros till December of 2008 the programme aimed at:

- improving the internal standards of the environment so as they comply with those of the European Union
- connecting the internal transportation webs with those of the Europe

- PHARE– Help for the Economic Reconstruction of Poland and Hungary – which brought to Romania, accordingly with the Finance Ministry report, at December of 2008, 1,187,955 thousand euros mainly for the purpose of:

- developing of the democracy, human rights and minorities respect
- achieving public administration and justice system reform
- improving the over- border cooperation

On the other hand, the tools for the financial support delivery have been wealthy diversified and improved after the January of 2007. Thus, essentially one can identify the following instruments which are still working in order to provide European funds for the Romania's economic, financial and social sectors:

- The European Agricultural Fund for Rural Development which provide money for developing all the agricultural activities and rural infrastructure.
- The European Fund for Agricultural Guaranty that is in charge with the stimulation of the agricultural products export accordingly with the European standards.
- The Structural and Cohesion Funds which are compounded from three accurate-purposed funds such as:
 - The European Fund for Regional Development for giving financial support to those regions that are less developed in fields such as: education and health system infrastructure and local economy
 - The Social European Fund that backs measures to fight against unemployment and for improving the quality of the life
 - The Cohesion Fund as a structural instrument to give money for improving the infrastructure and the environment for those countries that realize a GDP of less than 90% from the European average

All these funds have to be spent in accordance with their specific objectives and within a total compliance of the European Commission rules. Therefore, a requirement that was strongly asked even from the beginning of the adhesion negotiations referred to an effective control on the spending process of the both internal public money and especially for that coming from European Union. It is to watch over the regularity, reality and transparency of the money spending process. To comply with such a demand Romania set up, since 2005, a new special organism in charge with the external financial audit on the European funds. This is called The Audit Authority and is working within The Romania Court of Accounts. Its organization and competences had to and should have to enable it to meet both the European Commission requirements concerning the

needed reasonable assurance on the legality and the performance of money spending process and, at the same time and not less important, the financial audit international standards.

The Audit Authority as an independent organism on European funds external financial audit

In order to audit all the European funds and to give a positive answer to European Commission demands concerning the external audit as a duty of any member of European Union Romania decided to set up The Audit Authority.

This is an independent organism inside The Romania Court of Accounts in charge with so-called external public audit on European funds both pre and post adhesion process. It is thought to work independently from The Court of Accounts and from any other institutions dealing with the European funds management. It is organized both at the central and regional level and actually belongs to The Romania Court of Accounts just administratively. All the professional rules and proceedings are similar with those of The European Court of Accounts and in accordance with the European Commission requirements.

According to its special law, The Audit Authority has a wide range of competences which are to make sure it successfully manages to be a real audit institution. By the law, they quite accurately are:

- to assess the conformity of the control and management systems for the European Programs internal institutions in charged
- verifications upon all the expenses statements of the entities in charge with the European funds management
- reports to European Commission concerning the irregularities found over the course of the money spending process
- control of the reality and legality of that part of money coming from national participation
- issues the so-called audit certificate upon the annual financial statements of those entities that use money
- follow-up regarding the recommendations issued at the end of the audit missions

The law states also that the Audit Authority is entitled to ask for documents and information to any entity which, in a way, may have a connection with the European funds.

It is committed to carrying different types of audit missions, such as:

- audit of conformity aiming at giving a reasonable assurance that the management and control systems work properly at any program level
- audit of system called to identify the strengths and weaknesses of the different systems involved in programmes application
- audit of the transactions having as objective to give reasonable assurances that financial statements which are sent to European Commission are accurately made up
- audit at the end of any programme with the goal of issuing the “closing declaration”

The most important thing defining The Audit Authority activity consists in being an independent audit institution and, as a result, its financial audit activity complies with the demands of international standards. The independence as an ethical principle is a real one and it is secured by the followings:

- it is an external audit and therefore it is alleged to have no material, moral, social or any other kind of connections with those audited. It is really possible to be avoided any interests conflicts as a result of its external statute. All the advantages of the external audit comparative with the internal audit, from this point of view, are possible
- being organized inside The Romania Court of Accounts, beside The Parliament, it is financed by the public money so that there is not possible any negotiation, concerning financial aspects between the auditors and those audited. More than that, it is not at all

possible any agreement, between those two parts, concerning the facts such as: whether or not to be audited, what is the period of time that has to be audited, which is the exact, date the audit mission takes place, which is the cost of the audit. If such things do not intervene in the audit activity it surely is more independent, more trustful and more effective

Taking in account the way of how the independence principle is enforced in both organization of The Audit Authority and in the performing process of audit (its competences) one may conclude that European funds have the right conditions to be audited. How the things are going practically? What might it be done to improve the activity of the entire audit on external funds so as to increase the performance in using them? Being still at its beginning, one could think of some methods, to make it more effective. On this purpose we have to look into The Audit Authority reported results and to compare them with the real expectations.

Conclusions and proposals

As we can see Romania made real progresses as far as the financial audit on the European funds are concerned both in its organization and in an effective exercising. Nevertheless, the European Commission and Romania as well are interested in a more effectiveness and not less important in enforcing all the principles regarding the financial audit so as they are issued and approved by the international professional organisms. In our opinion, toward both directions there are still reserves to be exploited so that the performance of the using process of the European funds to be improved. We refer to the principles of the Ethic Code and to International Standards of Audit.

The International Standards state that there is an important connection between internal and external audit. It is also known how important internal audit for a performing management is, as it is stated by the Corporate Governance Code. Professionally, each of those two forms of financial audit - external and internal audit - has their own functions and therefore, they have to work independently not rejecting of each other. From the management performance point of view, in any field, it is compulsory to organize and perform the internal audit in order to give assurances and advice to the management representatives that their goal will be accomplished. The internal audit is also responsible, in the International Standards vision, with the entire internal control of any entity.

The Authority of Audit is thought to work beside Court of Accounts as an external financial audit. It performs the functions of an external audit and, as we put down, it has a more independence than any other types of audit. As we could see the main goal of an external audit consists in giving assurances that the money are legally or properly spent. In case of the European funds, the purpose of the external audit is mainly to certify that the rules of the European Commission regarding the spending process of money are applied. In this situation the external audit of the European funds appears as a certification organism.

Taking in account the specificity of the internal audit and the connection between it and the external audit it appears that it is also a real need for an internal audit concerning the European funds. The main purpose of any internal audit, accordingly with the international standards, is to give assurances and advice for management so that it accomplishes its goal.

In case of the Romania financial audit on the funds coming from the European Union there is only an external audit exercised by the Authority of Audit. Despite the fact that it is well organized and effectively performed it can not carry out the functions of the internal audit.

There are many governmental agencies which deal with the European funds. In many cases the Government is in charge with the responsibilities of accessing European funds and with their spending. Therefore it is necessary the Government to organize and exercise its own audit which would be an internal audit. Its main goal would be to help governmental agencies management to improve their internal control system so that to be able to prevent the irregularities in spending process of the European funds. As usually the internal audit would give advice to management

system in improving the internal control in order to cover all the risks concerning external funds matter.

As it is obvious enough by studying the last report of the Court of Accounts, referring to the European funds spent during the 2008, there are many and diversified irregularities the external auditors found. It is too late such mistakes to be discovered only after a year or more as it occurs in case of the Authority of Audit. If an internal audit, inside the Government, had been organized it would have been able to contribute to an effective internal control at the agencies level so that many if not all of the irregularities to be previously stopped.

Our proposal from this point of view goes to one of the following variants: either to set up a new financial audit inside the Government having the functions of the internal audit or passing the Authority of Audit from Court of Accounts to the Government changing at the same time its actual functions of the external audit into those of an internal audit. The external financial audit would be exercised, in this last case, by the Court of Accounts itself. It would not be need for any change of the Court of Accounts law because it states such competencies being, from this point of view, in accordance with other such institutions from Europe. It is not less important to notice that in this case a certain superposition of competencies of those two institutions (Court of Accounts and Authority of Audit) concerning the European funds audit would disappear.

The more accuracy the better effectiveness of the financial audit activity.

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SOLVENCY INDICATOR IN THE CREDIT COOPERATIVES

Tiplea Augustin Liviu

*Faculty of Economics and Business Administration
Babes-Bolyai University, Cluj-Napoca, Romania*

Popa Anamaria

*Faculty of Economics
Bogdan Vodă University, Cluj-Napoca, Romania*

Csegedi Sándor

Faculty of Economics and Business Administration Faculty of Economics and Business Administration

Abstract

Solvency ratio is the best known indicator of banking prudence, with the priority to ensure the ability of credit institutions to meet the borrowers default and mitigate competitive inequalities between different national systems.

Key words: caution, solvency, own funds

Cod JEL:G32

Introduction

Banking capital is the necessary tool to protect the bank in case of unexpected losses. As a restriction on capital adequacy of banks is, in fact, determining the size of conventional capital according to certain criteria that were proposed and accepted by the partners.

Basel agreement established the capital adequacy system, namely:

- minimum capital requirements are related to credit risk, depending on the structure of bank assets. It creates a specific relationship: the more risky loans, the capital requirement is higher;
- shareholders intake is considered the most important type of capital, each bank itself must participate with a minimum rate required depending on the degree of risk;
- minimum total capital requirements are set at 8% of total risk weighted assets;
- risk for off-balance sheet transactions is included in the calculation by converting specific commitments in equivalent credits;
- capital requirements were roughly standardized between countries, which removes the competitive advantage that banks in a country could have on banks in other countries, according to the rules or different accounting systems.

Solvency ratio, of capital adequacy, has been an ongoing concern of bank management and prudential regulations, due to its significance on bank soundness and safety deposit.

Furthermore, it has an important competitive dimension, well capitalized banks are more attractive and competitive to attract resources and to expand business.

Solvency ratio 1

Under existing banking legislation⁴¹⁶, banks are required to compute and report NBR solvency level indicators, which is determined as follows:

⁴¹⁶ 26/04/1999 NBR Norms No. 8, to limit credit risk of banks published in M.Of.nr.245 of 1.06.1999

-Indicator of solvency 1, calculated as a percentage ratio between the equity level 1 and net exposure (total assets and off- balance sheet items, weighted according to their degree of risk), an indicator whose minimum is 12%.

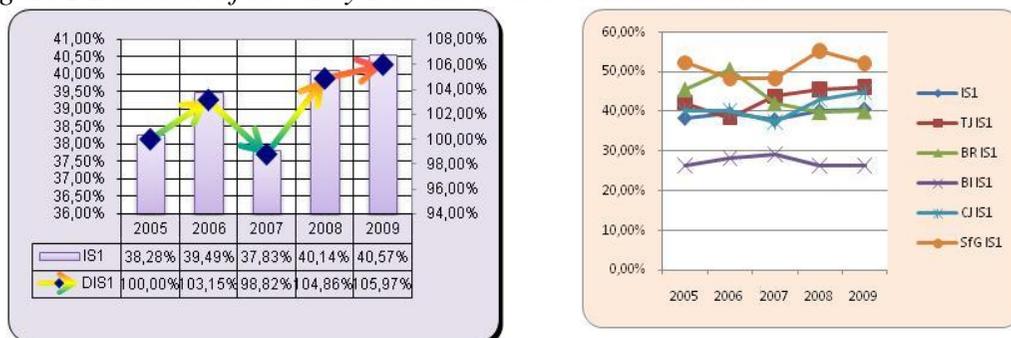
Formula	Own funds/[net assets (after deduction of liabilities AB) + off balance sheet items, converted to equivalent credit depending on their degree of credit risk processing] weighted according to their degree of credit risk		
Periodicity	monthly		
Development limits	>15%	Well capitalized	(rating 1)
	12-14,9%	Adequately capitalized	(rating 2)
	8-11,9%	Undercapitalized	(rating 3)
	5- 7,9%	Significantly undercapitalized	(rating 4)
	< 5%	Major undercapitalized	(rating 5)

Table 1 Evolution of the solvency ratio at the credit unions examined

Indicator of solvency 1 (SI1)=OF*100/NE		2005	2006	2007	2008	2009
Own funds level 1	OF	8.815.052	10.823.266	22.245.640	28.071.974	28.287.224
Net exposure (assets and elements outside balance sheet risk-weighted)	NE	23.027.670	27.409.985	58.809.356	69.932.111	69.732.207
Indicator of solvency 1	IS1	38,28%	39,49%	37,83%	40,14%	40,57%
Dynamic of indicator of solvency 1	DIS1	100,00%	103,15%	98,82%	104,86%	105,97%

Source: Own calculations based on the aggregated financial statements

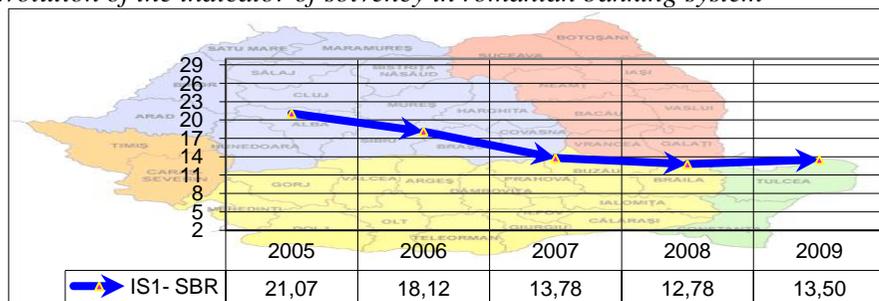
Figure 1 Indicator of solvency 1 at the examined credit unions



Source: own illustration based on the aggregated financial statements

From the graphic above is noted that the indicator of solvency 1 throughout the period under review stood at a level exceeding 37% and 12% upper limit, something which highlights the state of solvency of credit cooperatives analyzed. It is also higher than the average recorded in the banking system in Romania.

Figure 2 Evolution of the indicator of solvency in romanian banking system



Source: NBR Periodical publications

Solvency ratio 2

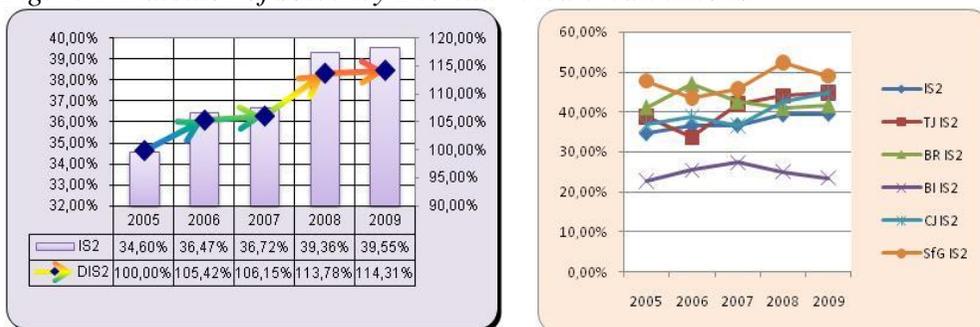
Indicator of solvency 2, calculated as a percentage ratio between equity and net exposure, indicating whose minimum level is 8%.

Table 2 Development of the solvency ratio 2 at the examined credit unions

Indicator of solvency 2 (SI2) = E*100/NE						
		2005	2006	2007	2008	2009
Equity	E	7.966.648	9.996.581	21.597.200	27.528.455	27.577.437
Net exposure (assets and off balance sheet items weighted by risk)	NE	23.027.670	27.409.985	58.809.356	69.932.111	69.732.207
Indicator of solvency 2	SI2	34,60%	36,47%	36,72%	39,36%	39,55%
Dynamic of Indicator of solvency 2	DSI2	100,00%	105,42%	106,15%	113,78%	114,31%

Source: Own calculations based on the aggregated financial statements

Figure 3 Indicator of solvency 2 to examined credit unions



Source: own illustration based on the aggregated financial statements

The indicator of solvency 2 was higher than the threshold of 8% required by Basel II, as follows: 36.60% in 2005, 36.47% in 2006, 36.72% in 2007 39.36% in 2008 and 39.55% in June 2009.

Equity Rates (Leverage effect)

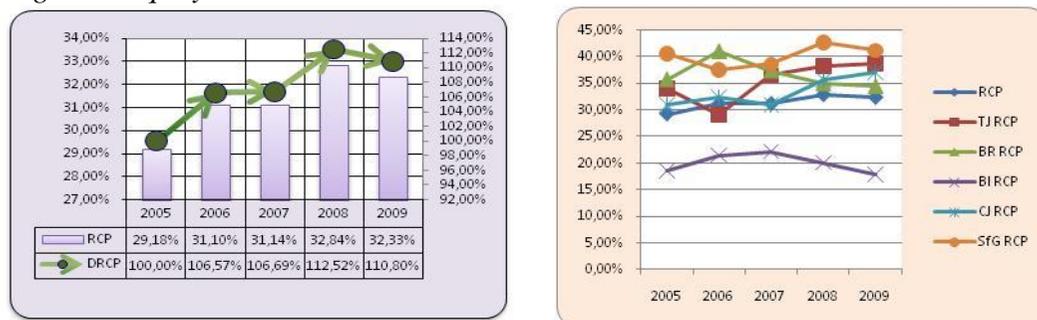
Formula	Equity / Total assets (net)												
Periodicity	monthly												
Development limits	<table border="0"> <tr> <td>> 6%</td> <td>well capitalized</td> <td>(rating 1)</td> </tr> <tr> <td>4 – 5,9%</td> <td>adequately capitalized</td> <td>(rating 2)</td> </tr> <tr> <td>3 – 3,9%</td> <td>undercapitalized</td> <td>(rating 3)</td> </tr> <tr> <td>2 – 2,9%</td> <td>significantly undercapitalized</td> <td>(rating 4)</td> </tr> </table>	> 6%	well capitalized	(rating 1)	4 – 5,9%	adequately capitalized	(rating 2)	3 – 3,9%	undercapitalized	(rating 3)	2 – 2,9%	significantly undercapitalized	(rating 4)
> 6%	well capitalized	(rating 1)											
4 – 5,9%	adequately capitalized	(rating 2)											
3 – 3,9%	undercapitalized	(rating 3)											
2 – 2,9%	significantly undercapitalized	(rating 4)											

Table 3 Evolution of the Equity rate

Equity rates (ER)=E*100/TA		2005	2006	2007	2008	2009
Equity	E	7.966.648	9.996.581	21.597.200	27.528.455	27.577.437
Total assets	TA	27.298.882	32.142.935	69.366.139	83.830.681	85.288.738
Equity rates	ER	29,18%	31,10%	31,14%	32,84%	32,33%
Dinamyc of equity rates	DER	100,00%	106,57%	106,69%	112,52%	110,80%

Source: Own calculations based on the aggregated financial statements

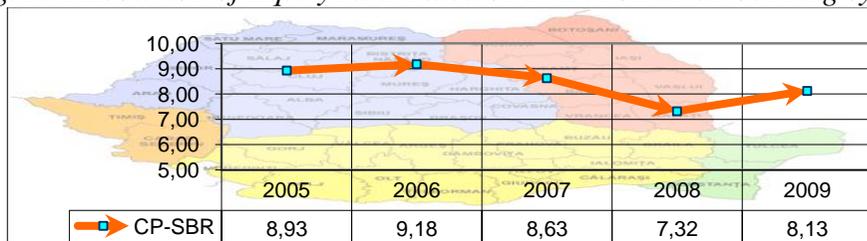
Figure 4 Equity Rates at credit unions examined



Source: own illustration based on the aggregated financial statements

Equity rate evolved increased from 29.18% in 2005 to 32.33% in June 2009 because the assets increased faster than the equity.

Figure 5 Evolution of Equity rate indicator in the romanian banking system



Source: NBR Periodical publications

The indicator in the banking system in Romania reached the 8.13 level in June 2009.

The ratio of equity capital

Formula	Equity/ Capital		
Periodicity	monthly		
Development limits	> 150%	well-capitalized	(rating 1)
	150 - 100,0%	adequately capitalized	(rating 2)
	80 - 99,9%	undercapitalized	(rating 3)
	50 - 79,9%	significantly undercapitalized	(rating 4)
	< 50%	major undercapitalized	(rating 5)

Defining capital ratings: related adequacy

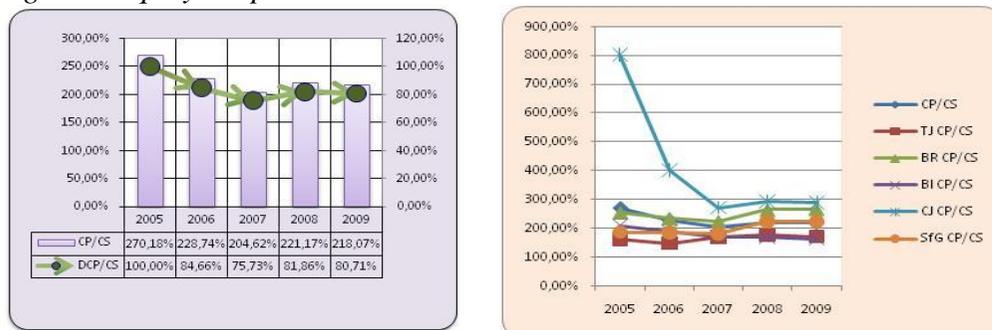
Rating 1: indicates a strong level of capital compared to the bank's risk profile.
 Rating 2: indicates a satisfactory level of capital compared to the bank's risk profile.
 Rating 3: shows a less satisfactory level of capital that can not fully support the bank's risk profile. Rating indicate the need for improvement even if the capital exceeds the minimum required by regulations.
 Rating 4: indicates a deficiency of capital, the bank's viability could be threatened. In this case, shareholders may request the assistance or financial support from external institutions.
 Rating 5: indicates a critical deficiency of capital, threatening the viability of the bank. It requires immediate financial aid of shareholders or an external funding agency.

Table 4 Evolution of the ratio of equity and capital to credit unions examined

Equity / Capital (>100%)		2005	2006	2007	2008	2009
Equity	E	7.966.648	9.996.581	21.597.200	27.528.455	27.577.437
Equity	C	2.948.630	4.370.190	10.555.010	12.447.020	12.646.170
Equity / Capital	E/C	270,18%	228,74%	204,62%	221,17%	218,07%
Dinamyc of Equity / Capital	D E/C	100,00%	84,66%	75,73%	81,86%	80,71%

Source: Own calculations based on the aggregated financial statements

Figure 6 Equity /Capital in credit unions examined



Source: own illustration based on the aggregated financial statements

The indicator fell during 2005-June 2009 from 270.18% to 218.07% because the equity increased faster than the capital.

A bank may be considered:

Well capitalized (rating 1) if it meets the following conditions:

- solvency ratio 1 is 15% or more;
- solvency ratio 2 is 10% or more;
- Equity ratio (leverage effect) is 6% or more;
- It is not in danger of not fitting within the terms of any legislation aimed at maintaining a specific level of capital.

Adequately capitalized (rating 2) if it meets the following conditions:

- solvency ratio 1 is 12% or more,

- solvency ratio² is 8% or greater;
- Equity ratio (leverage effect) is 4% or higher.

Undercapitalized (rating 3) if:

- solvency ratio 1 is below 12% and / or
- solvency ratio 2 is below 8% and / or
- Equity ratio (leverage effect) is less than 4%.

Significantly undercapitalized (rating 4) if:

- solvency ratio 1 is below 8% and / or
- solvency ratio² is below 6% and / or
- Equity ratio (leverage) is less than 3%.

Major undercapitalized (rating 5) if:

- solvency ratio 1 is below 5% and / or
- solvency ratio 2 is below 4% and / or
- Equity ratio (leverage) is less than 2%.

Conclusions

A bank is expected to maintain adequate capital compared with the nature and extent of risk, and management's ability to identify, measure and control these risks.

To determine the adequacy of capital is taken into account the effect of credit risk, market and other risks to the financial condition of the bank. Types and size of risk in bank activity, determine whether the capital should be above the minimum level required by regulations to cope with unintended consequences.

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EQUITY AND INCOME TAX REDISTRIBUTION

Tulai Constantin

Babes Bolyai University Cluj-Napoca The Faculty of Economics and Business Administration

Moga Aura Carmen

Babes Bolyai University Cluj-Napoca The Faculty of Economics and Business Administration

Schiau Laura-Liana

Babes Bolyai University Cluj-Napoca The Faculty of Economics and Business Administration

Paltinean Luminita

Babes Bolyai University Cluj-Napoca The Faculty of Economics and Business Administration

Two issues are covered by this study: 1) critical analysis and systematization of equity controversies and 2) attempts of finding technical solutions for measuring fiscal inequality, closely related to the redistributive role of income tax.

Keywords: tax equity, income inequality, redistribution

JEL Classification: D31, H22, H23, H24, H5

1. Tax Equity controversies

Construction of a rational tax system has proved to be a step as difficult as it is delicate. The main reason is that its foundation principles and demands are often contradictory and extremely difficult to harmonize: moral and ethical demands of equity and tax justice, tax efficiency and technical principles of social policy and fiscal policy.

Principle that has been given special attention over time is that of fairness, ethical principle par excellence. "Equity should be the rule and taxation objective [...] since we were all created equal. But fairness does not mean that all individuals should be charged as [...] it implies that any tax act to be done correctly, taking into account a particular context or situation." ⁴¹⁷(Henry George, 1881)

Achieving ethical goals is very difficult to accomplish. Murray Rothbard pointed out that in this respect "Our conclusions are two:⁴¹⁸ economic science can not justify any principle of fair taxation and that nobody has managed to establish such a principle and (2) neutral tax, which seems to many an achievable ideal, logically proved unobtainable. Economists should abandon their quest for fair and neutral tax. "

However the public debate related to finding the optimal tax system both socially and economically, is becoming increasingly heated. The idea of fairness in taxation was perceived differently from author to author and from one era to another. So over the last century have crystallized three major normative theories that have attempted to define an ideal tax system and fairness of each of these three cases is seen differently. The first theory on chronological order of their appearance, Equitable Taxation theory, has its origins in the writings of Henry Simons (1938), a recognized advocate of classical liberalism. The role of the State was to create equity through redistribution. Equity is achieved mainly horizontally, by applying the same rates to the same income. Taxation which is solely aiming the fiscal equity, is disregarding efficiency

⁴¹⁷ Henry, George, The Common Sense of Taxation, The North American Review, iulie, 1881, Volumul 130, p.296

⁴¹⁸ Marinescu, Cosmin, "[Mitul criteriului eficienței în știința economică](#)", Revista *Analiză și Prospectivă Economică*, Ed. ASE, nr. 1-2/2005, p. 49-53

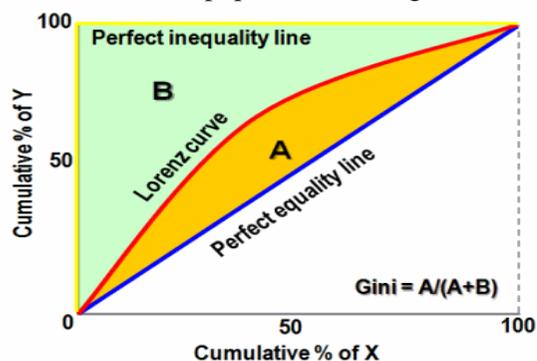
objectives. The second theory was the theory of Optimum Taxation, based on the doctrine of sacrifice and was developed by the classical school. In *The Principles of Political Economy* (1891) John Stuart Mill states that the fairness of taxation is that each taxpayer bears the same burden and the same sacrifice. Modern welfare economics (Pigou), interpreted the sacrifice as a utility loss, claiming that in order to equalize marginal utilities to minimize the sacrifice aggregate caused by taxation. Later, Frank Ramsey (1927), James Mirrless (1971), Peter Diamond (1971) also reiterated the idea that the tax system should involve the smallest sacrifice, but define sacrifice as a reduction in social welfare, and not as simply individual utility loss. Exchange Theory of taxation, the most recent theory, is looking for a tax system as close to perfect. The idea comes from the old tax theory of voluntary exchange Knut Wicksell's (1896) and the works of James Buchanan (1976-1980). This theory involves narrow, multiple elastic tax bases. Regarding tax rates are recommended fair rules to limit taxation by discrimination. From the findings above it appears that the three approaches have very different views on the fiscal construction, how tax is levied and how the idea of fairness can be applied in the system. Regarding their applicability, can be said that all three approaches were used as starting points to build different tax systems. Thus, the theory of fair taxation exercised most pronounced impact on the systems of USA, Sweden and Ireland. Optimal tax theory has exercised a less visible effect in recent years. Theory of tax exchange had a minimal effect at least until now the current tax system; it is visible only as theoretical support for constitutional changes to limit the power of local or state tax in the U.S. So equity in taxation is an easy to pronounce, but difficult to accomplish in practice, and neutralization of taxes is absolutely obvious conflict with their redistributive role and their quality of fiscal levers.

2. Indices of income redistribution through taxes

In developed countries, income tax has long been regarded as the main instrument for redistributing income and wealth. To measure fiscal equity, we use several indices., from wich the most commonly used is the Gini index.

2.1 The Gini Index

The difference between the Gini index for the distribution of income before tax and Gini index after taxation, is an indicator that measures the impact of such taxation. Gini Coefficient is a measure of statistical dispersion, first to be drawn up by the italian statistician Corrado Gini ("Variability and change", 1912). It is frequently used as a measure of income or wealth inequality. Gini coefficient is usually defined mathematically based on the Lorenz curve, each portion of the y-axis represents the proportion of total incomes simultaneously obtained by the bottom x% of the population. 45 degree line represents perfect equality of income.



Gini coefficient can be calculated as the ratio between the area that lies between the line of equality and the Lorenz curve (marked "A" in diagram) and total area under the equality line

(marked "A" and "B" in diagram), for example $G = A / (A + B)$. Gini coefficient can vary between 0 and 1, is sometimes multiplied by 100. A low Gini coefficient indicates more equal distribution, corresponding to a 0 is perfect equality, while the Gini coefficient indicates more unequal distribution, the corresponding value of 1 is maximum inequality.

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
BG				26	26	25	26	26	24	26	
FR	29	29	29	28	29	28	27	27	27	28	28
DE	29	27	25	25	25	25					28
HU						23	23	24	27		28
PL					28	30	30				36
RO				28	29		30	30	30	31	31
UK	32	32	30	32	32	32	31	35	34		
EU-25									29	30	31

[Source of this data: [Eurostat](#)]

In the table from above there are presented the values taken by the Gini index in some of the European countries, between 1995 and 2005.

While the developed European countries and Canada tends to have Gini indices between 24 and 36, the Gini index of the United States and Mexico are over 40, indicating that in the USA and Mexico inequality is high. In 2005, the Gini index for EU was estimated at 31, and in Romania grows from 1998 until 2005 at 28, 31, indicating a slight increase of tax inequity. The introduction of 16% tax, have produced, without doubt, an even more increase of the index. (32 in 2008-103 place in the world).

2.2 The Suits Index

The Suits⁴¹⁹ index is a measure of the Suits collective progressiveness, bearing the name of the economist Daniel b. Suits. It is often used in the analysis of fiscal policy in order to measure the degree of progressiveness, or changes under the arrangements for alternative tax. Similar to the Gini coefficient, Suits index is calculated by comparing the area below the Lorenz curve to the area under a proportional line. For a progressive tax, the index is positive, a [proportional tax](#) has a Suits index of zero, and a [regressive tax](#) has a negative Suits index.

However, almost all of the income tax systems allow for some amount of income to be earned without tax (an [exemption](#) amount) to avoid collecting tax from very low income units. Also, most of the income tax systems provide for higher marginal tax rates at higher incomes. These effects are combined to make income taxes generally progressive, and therefore have a positive Suits index. A tax that the richest people pay the whole tax has a Suits index of 1, and a tax where the poorest person pays everything, has a Suits index of -1.

⁴¹⁹ John E. Anderson, Atrayee Ghosh Roy, Paul A. Shoemaker "Confidence Intervals for the Suits Index" National Tax Journal. 2003-03

The Suits index has the useful property that the total Suits index of a group of taxes or policies is the revenue-weighted sum of the individual indexes. The Suits index is also related closely to the Gini coefficient. While a Gini coefficient of zero means that all persons receive the same income or benefit as a per capita value, a Suits index of zero means that each person pays the same tax as a percentage of income.

2.3 The Hoover Index

Hoover index is the easiest to calculate from all measures of inequality, namely: the proportion of all income which would have to be redistributed to achieve a state of perfect equality (taken from the richer half of the population and offered to the poorest half). Hoover index varies between 0 and 1 (0% and 100%), where 0 (zero) indicates perfect equality and 1 (100%) indicates maximum inequality.

In a world of perfect equality, no part of resources need to be redistributed to achieve equal distribution, to have an Hoover index equal to 0 (zero). In a world in which all income was received only by one family, almost 100% of this revenue should be redistributed to achieve equality.

2.4 The Theil Index

Theil index is a measure of entropy. That for any distribution of resources and with reference to information theory, "maximum entropy" occurs once income earners can not be distinguished by their resources, ie when there is perfect equality. The individuals can be distinguished by their income resources. The more distinguished they are, the lower „actual entropy” of a system consisting of current income and income earners. Also, based on information theory, entropy difference between these two may be called "surplus". It acts as a negative entropy.

A Theil index of 0 indicates perfect equality. A Theil index of 1 indicates that the distributional entropy of the system under investigation is almost similar to a system with an 82:18 distribution. This is slightly more unequal than the inequality in a system to which the "80:20 [Pareto principle](#)" applies.

There are three variants of the Theil index. When applied to distributions of income, Theil index first refers to systems in which revenues are distributed stochastically to income earners, while the second Theil index refers to systems within which the earners are stochastically distributed to incomes. Third Theil index is the arithmetic mean of the two mentioned above. Interestingly, the third formula of the Theil index has some similarities with Hoover index.

Conclusions:

There are two forms of tax equity: vertical and horizontal equity⁴²⁰. Vertical equity – „The degree to which taxpayers with higher ability to pay in fact pay more in taxes”. In this case progressivity is the solution agreed in developed countries. Horizontal equity – „The degree to which taxpayers in identical circumstances pay the same taxes”, the revenue neutrality with respect to the income origin being more appreciated than fiscal discriminations.

Based on the indicators presented were designed several models for calculating the equity income taxation, analysis and measurement horizontal and vertical equity, the degree of progression of income taxation system, which will be topics of future research, with the base given the situation in Romania.

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⁴²⁰ Musgrave and Musgrave, 1989, p.223

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SUBSECTION: BANKING

THE PARTICULARITIES OF THE MONETARY POLICY TRANSMISSION MECHANISM IN ROMANIA

Apostoaie Constantin Marius

“Alexandru Ioan Cuza” University of Iasi

Faculty of Economics and Business Administration

Roman Angela

“Alexandru Ioan Cuza” University of Iasi

Faculty of Economics and Business Administration

The process of transmitting monetary policy impulses to the real economy presents a series of particularities from one country to another, mainly because of the diversity of financial systems. Thereby, the functionality of various monetary policy transmission channels is significantly influenced by the specific features of each country's financial system.

The objective of this paper is to highlight some of the key features of the monetary policy transmission mechanism in Romania, taking into consideration the dominant role of the banking sector in the national financial system.

Key words: monetary policy, transmission mechanism, interest rate channel, credit channel

JEL code classification: E51, E52, E58, G21

1. Introduction

Although economists don't agree about how monetary policy conducted by a central bank affects the economy (their views diverge in terms of the specific channels through which monetary policy works) an understanding of the transmission process is essential to the appropriate design and implementation of such a monetary policy.

Monetary policy compresses the rules and various actions adapted by a central bank in order to achieve its objective(s). These actions, when undertaken by the bank, set into motion a series of effects (consequences). It is generally assumed that monetary policy effects start with changes in financial market conditions, work through changes in firms and private household spending, and eventually exert, via demand and supply, effects on the economy's price level. The path of consequences a change in the economy's stock of money triggers in terms of real magnitudes is known as *transmission mechanism*.

The empirical studies of monetary policy transmission mechanisms focus upon two major aspects: 1) identification of the effects of monetary policy shocks and 2) identification of those channels through which changes in monetary policy stances reflect on the economy. The first aspect deals with attempts to identify the exogenous monetary policy shocks and their subsequent effects on macroeconomic variables, whereas the second aims at investigating which channels in particular are at work. Through various channels of the transmission mechanism the central banks affect different variables and different markets, and at various speeds and intensities. Identifying these channels is important and attracts a lot of attention from economists, policy makers and investors alike, because they determine the most effective set of policy instruments, the timing of policy changes, and hence the main restrictions that central banks face in making their decisions. In Romania, the monetary transmission channels were subjects for some papers. Pelinescu (2001) revealed some circumstances such as weak competition, soft budgetary constraints and lax corporate governance that lead to a short transmission period of the mechanism in the Romanian economy. Popa et al. analysed the impact of inflation targeting regime on the monetary transmission channels and Antohi, Udrea and Braun (2003) established an econometric model of the monetary policy transmission mechanism for the period October 1999 – May 2002.

The paper is organized as follows. The second section of the paper consists in a survey of the literature regarding the monetary policy transmission channels. In the third section we present some key features of the monetary policy transmission mechanism in Romania highlighting the role of the banking sector in transmitting the monetary policy impulses to the real economy. The final section focuses upon some main conclusions and key aspects of the paper.

2. Literature review regarding the monetary policy transmission channels

Monetary policy decisions are transmitted through the economy in a variety of ways and that eventually reflect upon the evolution of prices and output. The monetary transmission mechanism is a combination of all the economic channels through which, over a certain period of time, monetary policy affects the economy.

Mishkin (1995) identifies four channels of monetary policy transmission (in the context of the US experience): interest rate channel, credit channel (balance-sheet channel and bank-lending channel), the exchange rate channel and other asset prices channel.

A transmission channel is the *interest rate channel*, the traditional mechanism and the one often regarded as the “main channel of monetary policy transmission”, a position taken by Taylor (1995), but strongly disputed by Bernanke and Gertler (1995). On the one hand Taylor emphasizes the importance of financial prices (like interest rate) as opposed to financial quantities in the transmission process and argues that there is strong empirical evidence for substantial interest rate effects on consumer and investment spending. On the other hand Bernanke and Gertler emphasize the importance of the financial market quantities: credits.

The *credit channel*, according to the “credit view”, implies that monetary policy affects the real economy by shifting the supply schedule of credit. The credit view is composed of two different views, namely the “lending view” and the “balance-sheet view”. Kashyap and Stein (1994) trace the origins of thought on the bank lending channel back to Roosa (1951) and also highlight Blinder and Stiglitz’s (1983) resurrection of the loanable funds theory and Bernanke and Blinder’s (1988) extension of the IS-LM model as two approaches that account for this additional source of monetary non-neutrality.

According to Kashyap, Stein, and Wilcox (1993) and Kashyap and Stein (1994) the narrow credit channel or the narrow bank lending channel refers to that situation in which small banks are more limited than large banks in their ability to find alternative funding sources when monetary policy is tight and are, therefore, less able to make loans. The second channel formalized by Bernanke and Gertler (1989), referred to as the balance-sheet mechanism or broad credit channel, can exist because tighter monetary policy causes firms’ interest payments to rise at a time when revenues are falling, weakening firms’ balance sheets and limiting their ability to grow and spend. Policymakers at times have also resorted to more direct actions to limit bank credit “availability”, such as credit controls or jawboning (Romer and Romer, 1993). There is abundant evidence on the empirical relationship between monetary policy, bank loans and economic activity but in most of the studies the general conclusion is that tight monetary policy leads to a drop in bank credit, which has large negative impact on economic activity.

After discussing about the interest rate there is no reason to focus on only one it as a channel of monetary transmission, because monetary policy can also have important effects on the prices of bonds, equity, real estate and foreign exchange. Given the fact that there are special features of the transmission of monetary policy through the exchange rate, we will discuss about equity, bonds, and real estate as a single group, asset price channel. The additional *asset price channels* are highlighted by Tobin’s (1969) *q*-theory of investment and Ando and Modigliani’s (1963) life-cycle theory of consumption.

The *exchange rate channel* plays an important role particularly in open economies and also in developing countries with only rudimentary markets for bonds, equities and real estates (Kamin et al., 1998). This channel works through both aggregate demand and aggregate supply effects.

The literature identifies also a fifth channel, separate from the others, based on private sector expectations about the future stance of monetary policy and, more generally, about all future-related variables. This *expectations channel* implies that all variables that have intertemporal implications, and are therefore determined in a forward-looking way, are affected by agents' beliefs about future shocks to the economy and how the central bank will react to them. The specific mechanisms for the expectations channel are intertemporal versions of the static interest rate, asset price, exchange rate, and monetary and credit mechanisms.

3. The role of the banking sector in the monetary policy transmission mechanism in Romania

Not all economies react in the same way to changes in monetary policy. The choice of transmission mechanisms and their effectiveness in the conduct of monetary policy depend on the specific features of the economy in question. For purposes of illustration, Loayza & Schmidt-Hebbel (2002) divided the monetary transmission into two steps.

According to the authors, the first step consists in the fact that policy instrument affects various asset markets and prices, and the second step, when these changes affect spending decisions by firms and households. Each step is affected by the economy's specific features, and in particular its stage of financial development and openness to international trade and capital. The effect that changes in market prices can have on aggregate demand is also determined by the solvency and liquidity of firms and households.

Romania is not an exception. In order to estimate the effectiveness of a certain transmission channel we have to analyse several characteristics of the Romanian financial system: whether it is based primarily on banks or comprises a variety of financial institutions, whether it is run publicly or privately, and whether it offers a large range of financial products. These characteristics in turn affect the effectiveness of NBRs' monetary policy.

According to the specialised literature in the field⁴²¹, an important role in transmitting the monetary policy impulses to the real economy has the structure of the financial system. In Romania, taking into consideration the particularities of the financial system (bank-based system), the transmission of monetary policy impulses is carried out mainly by the lending channel and the interest rate channel.

Monetary policy measures adopted by the NBR are transmitted to the economy also by the exchange rate channel and the expectation channel. However, in this paper we consider only the bank lending and interest rate channels, which have a considerably greater importance given the prevalence of the banking sector in the national financial system.

In the period until 2000, the credit channel and the interest rate channel were almost inactive, therefore the monetary policy transmission mechanism had a low efficiency. The possibilities of the NBR to influence the real economy have been reduced, due mainly to the banking system that was dominated by a few banks, which did not depend on resources drawn from central bank, the budget deficits that were financed by the banking sector and the volume of bank loans that presented low levels.

After 2000, in the context of the reforms undertaken in the Romanian economy, the restrictive monetary policy pursued by the central bank had positive results. The disinflation process and increasing competition among banks led credit institutions to reduce active and passive interest rates for operations in lei, as well as the margin between them. Also, 2000 marks the beginning of the recovery process of financial intermediation and the connections between financial variables and the real economy⁴²².

The developments in the financial system of the Romanian economy after 2000 contributed to the

⁴²¹ Cecchetti, Stephan G. (2009), „Legal Structure, Financial Structure, and The Monetary Policy Transmission Mechanism”, *Working Papers*, No. 7151, June, 1999, at www.nber.org/papers/w7151.pdf?new_window=1

⁴²² Antohi, D., Udrea, I. & Braun, H. (2003), “Monetary Policy Transmission in Romania”. *National Bank of Romania, Occasional Papers*, No. 3, p. 9, at <http://www.bnr.ro/PublicationDocuments.aspx?icid=6786>

efficiency in transmitting the monetary policy impulses to the real economy.

The Romanian financial system is dominated by the banking sector (see data in Table 1) so that the transmission of monetary policy impulses is more sensitive to its features and how it functions. Therefore, the changes occurred in the Romanian banking sector in the period after 2000, led to significant changes in the transmission of monetary policy decisions on the real economy.

Table 1. *Romanian' financial system characteristics during the period 2000 – 2009*

Indicators	2000	2002	2005	2006	2007	2008	2009
The share of bank assets per total financial system assets	20,4	86,35	83,7	83,8	82,16	82,76	...
The share of bank assets to GDP	30,6	31,9	44,76	50,6	61,5	62,4	67,30
Market concentration (top five banks in the system / total assets, in percent)	65,5	62,8	58,8	60,3	56,4	54,4	54
Share of assets held by banks with private capital per total assets of the banking system	53,9	59,6	94	94,5	94,5	94,7	92,7
Share of assets held by foreign-owned banks per total banking system assets	50,9	56,4	62,2	88,6	87,8	88,3	85,3
Market capitalization to GDP (%)	3,8	6,05	19,52	21,28	27,3	11,23	18,81

Source: NBR - Annual Reports, 2000-2006, Report on financial stability, 2008, 2009; <http://www.bnr.ro/Indicatori-agregati-privind-institutiile-de-credit-3368.aspx> and data processed.

As we can see in Table 1 there is a predominance of private ownership in the banking sector. This improved the monetary policy transmission mechanism. Also significant is the presence of the foreign private capital in the banking sector, which has positive effects, translated into better corporate governance in the banking sector, increase efficiency and strengthen risk management of banking sector stability. However, the presence of foreign banks may reduce the efficiency of transmission of monetary policy decisions because they have better access to external financing, being less dependent on attracting domestic resources. Also, given the current crises in international financial markets, foreign capital can transmit by contagion, some of the risk to the national financial system. Another feature of the Romanian banking sector with influence on the monetary policy transmission mechanism is the degree of concentration. This feature determines that the impact of monetary policy decisions are perceived and transmitted uneven in the economy. An important aspect that indicates the progress of the Romanian banking sector is the significant increase of non-government credit share in GDP (from 9.3% in 2000 to 39.3% in 2008), showing a positive change in the attitude of the credit institutions to the real economy and the return to the traditional function of financial intermediation. Restoring the financial intermediation process and unlocking of the credit lending channel, after 2000, were caused by changes in the supply and demand offers.

Simultaneously with the reinvigorating of the credit channel, in the context of the recovery process of financial intermediation, a revival of interest rate channel was noticed too, these two components of the monetary transmission mechanism being interconnected. In comparison with the period until 2000, when the elasticity coefficient of the demand for loans and deposits with the interest rate was low, in recent years the interest rate channel proves to be quite efficient, in the context of the relationship central bank – commercial banks but also in the context commercial banks – customers.

The main tool that we can use to highlight the impact of monetary policy decisions on the real economy and thus, on prices, through the banking system is NBRs main instrument of monetary policy, i.e. the monetary policy interest rate. This has a direct impact on the interbank interest

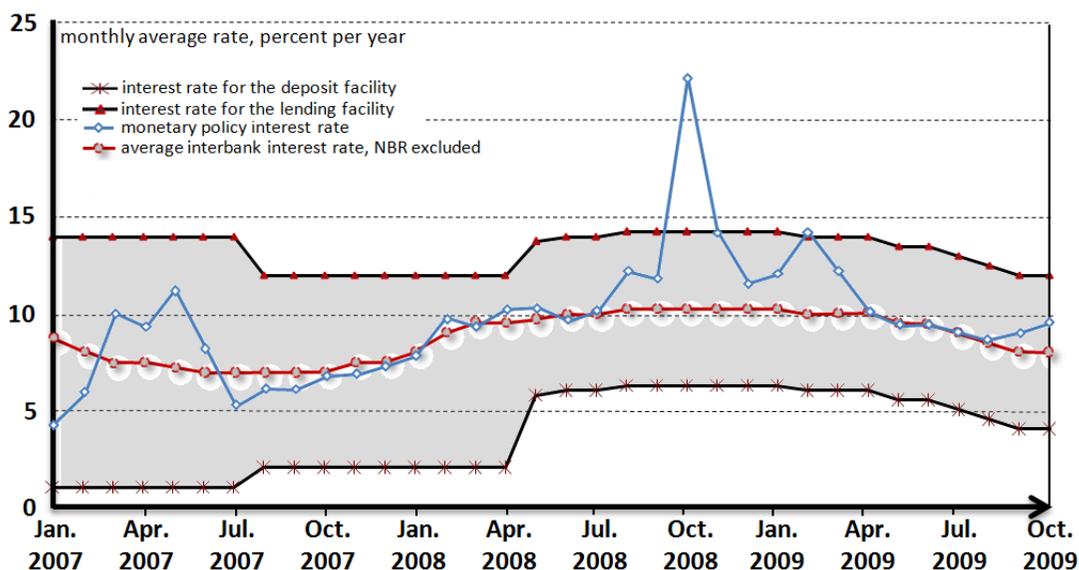
rates because through monetary policy operations, the central bank has the ability to influence the volume of market liquidity. In turn, changes in the interbank interest rate affect the interest rates used by banks on deposits and loans, which have an impact on consumer decisions, investments, savings and therefore ultimately, on the aggregate demand in the economy.

In order to improve the signal role of the monetary policy interest rate and increase the efficiency of the transmission mechanism, in May 2008, the central bank decided to reduce the due date of the key instrument of monetary policy (the standard operations of deposits, whose maturity has been reduced from two weeks to one week) and to narrow the amplitude of the corridor formed by the interest rates on standing facilities to a value of ± 4 percentage points (see Figure 1).

Changes in the monetary policy interest rate are transmitted to the real economy after a certain period of time, as a result of gradual adjustments of bank interest rates.

Furthermore, the transmission of monetary impulses is uncertain and there may be circumstances in which the interbank interest rate does not react to the signal of the monetary policy interest rate. According to Figure 1, one can notice that in certain periods of time there is a significant gap between these two interest rates. For example, in October 2008, in the context of the current international crisis, there were significant malfunctions on the interbank market, reflected by the amplitude of the gap between the interbank interest rate and the monetary policy interest rate. The increased disbelief and the risk aversion of the credit institutions resulted in a significant decrease in the interbank market transactions so that the monthly average interbank rate reached a level of 23%, well above the monetary policy interest rate of 10.25%. In this context, the central bank, considering that it is the case of an unrealistic growth, granted the possibility to temporarily suspend publication of the interbank market indices (ROBID / ROBOR), when the quotations for participants' deposits (ROBOR) to the calculation of the average interest rates interbank exceeds the interest rate on lending facility by more than 25% (BNR, 2008).

Figure 1. *The evolution of the monetary policy interest rate and the interbank interest rate, in the corridor formed by the interest rate for the deposit and credit facilities, in Romania, January 2007 – October 2009*



Source: processed data from the site www.bnr.ro

In February 2009, in the context of a reduction in the economic growth rate and in lending activity, given the current international crisis, NBR started to relax the monetary policy, as shown by the reduction of the monetary policy interest rate and the Reserve Requirements. Nevertheless, the reactions of the bank interest rates to the monetary policy impulses are slow and limited in

size due to the high degree of cautious of the credit institutions, but also to people and traders' reluctance to borrow.

Conclusions

Monetary policy decisions have an impact on the real economy through several channels, whose importance varies from one country to another, mainly depending on the specifics of each economy, on the financial system structure and the existing legal framework.

In Romania, taking into consideration the particularities of the financial system (bank-based system), the transmission of monetary policy impulses to the real economy is carried out mainly by the lending channel and the interest rate channel.

In the period after 2000, the efficiency of the transmission of monetary policy decisions on the real economy via the lending channel and the interest rate channel has increased, due to the positive developments of the national economy in general and of the banking system in particular.

In the context of the current turmoil, the significant contraction of supply and demand for bank loans, due to deteriorating macroeconomic indicators and uncertainty about the prospects of national economies, leads to difficulties in transmitting monetary policy decisions, as shown by the week and small-scale reaction of bank interest rates. Thus, the activity of the National Bank of Romania is not an easy one, if we consider the fact that through the operational framework of the monetary policy, the central bank wishes, on the one hand, to achieve its primary objective (price stability) and, on the other hand, to renew the activity of bank lending, which was significantly influenced by the current crisis.

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THE MANAGEMENT OF CREDIT RISK ACCORDING

TO INTERNAL RATINGS- BASED APPROACH

BALOGH PETER

“Babes-Bolyai” University, Cluj-Napoca

BOLOCAN DRAGOS-MIHAIL

“Babes-Bolyai” University, Cluj-Napoca

The internal ratings based approach (IRB Approach) was created as part of Basel II replacing the original Basle Accord of 1988 (Basle I) in an effort to create a better framework for regulating bank capital. This paper covers the methodology and components of the IRB Approach used to determine capital requirements for credit risk. Such an approach, which relies heavily upon a bank’s internal assessment of its counterparties and exposures, can secure two key objectives consistent with those which support the wider review of The New Basel Capital Accord.. IRB approach should promote safety and soundness in the financial system and, consistent with providing incentive compatibility, that the structure and requirements of the IRB approach do not impinge upon or undermine banks’ well-established lending and credit risk management practices

Keywords: Basel II, credit risk, internal rating based approach;

JEL Classification: G28, G32.

The main objective of the Basel-II is to strengthen the stability of the international banking system concerning better risk management, by bringing regulatory capital requirements more in line with bank good practices. This implies credit capital requirements to be significantly more risk sensitive and it is possible to achieve by introducing an operational risk capital charge.

The importance of risk management derives from the objectives of financial regulation. The problem of systemic risk constitutes part of the embodiment of the rationale for financial regulation.⁴²³ Regulators impose liquidity monitoring measures on banks to meet specified minimum levels of withdrawals. However, such measures are precautionary against short-term cash flow problems rather than a situation of panic outburst.⁴²⁴ The level of confidence reposed in the public by the financial community is what sustains banks in modern times and this is strengthened by external checks which is given by credit agencies through scrutiny of published accounts and by bank regulation through prudential supervision.⁴²⁵ Prudential regulation however, is not the only way in which some regulators take interest in the financial management of authorised firms – there is also the principle of ensuring that a firm operates with required minimum level of capital in order to reduce the consequences of failure. As a result, the focus on

⁴²³ Ojo, Marianne (2008), Risk Management by the Basel Committee: Evaluating Progress made from the 1988 Basel Accord to Recent Developments; Center for European Law and Politics, University of Bremen.

⁴²⁴ S Gleeson (2006), *Prudential Regulation of Banks under the FSMA*, J Tattersall (ed) second edition

⁴²⁵ Ibidem;

the solvency and safety and soundness of financial institutions and minimum capital requirement are often regarded as synonymous.⁴²⁶

The new Accord is organized around three so-called pillars. First, it represents a comprehensive set of rules designed to measure the risks in banks' portfolios and to produce minimum capital requirements. Second, it refers to a supervisory review process setting out the role of bank supervisors in ensuring that the new framework is correctly executed. The purpose of the third pillar is to increase the transparency of bank's risk profiles for market participants through disclosure requirements, i.e. to promote market disciplinary effects towards sound banking practice.

The guiding principle of the new accord is that the size of the buffer capital is made much more risk sensitive compared with the current accord. The first pillar proposes two main routes for banks to follow when determining risk weights. First, a base-line "standardized approach" designed to be applicable for every bank. In this approach a portfolio of bank loans will be characterized by a relatively small number of risk categories, and the risk weight associated with a given category is based on an external rating institution's evaluation of counterparty risk. Second, a more elaborate model: the so-called Internal Ratings Based (IRB) approach. The underlying idea is to make further use of the information collected and processed in the bank's internal counterparty rating operation. Since banks make it a business to evaluate risks, these evaluations ought to be a reasonable basis for risk-contingent capital adequacy determination. Each internal rating category in a loan portfolio is characterized by an estimate of its average probability of default, calculated by the bank itself. By means of an estimated function, the supervisory authority provides a mapping from the estimated probability of default to a relative risk weight. The products of relative risk weight, exposure at the time of default (usually taken as the face value of the loan), and the 8 percent absolute capital requirement, summed over the loans of the portfolio give the bank's required buffer capital. The current accord suggests that the banks may choose to apply the IRB-approach at either of two levels of sophistication. The more advanced requires bank internally generated inputs on loss given default and exposure at default, whereas the simpler only requires the bank to provide estimates of probability of default.

Minimum capital requirements for credit risk

Capital adequacy constitutes one of the foundations of prudential supervision. In the New Basel Capital Accord the Basel Committee proposed a capital adequacy framework based on three complementary pillars: minimum capital requirements, a supervisory review process and market discipline. Capital adequacy is a term used to describe the adequacy of a bank's aggregate capital in relation to the risks which arise from its assets, its off balance sheet transactions, its dealing operations and all other risks associated with its business.⁴²⁷ The aim is for a bank to have enough capital in relation to its risks to absorb the highest foreseeable amount of loss and still give allowance in which to realise assets, raise new capital or arrange for disposition of its business.

There are always some borrowers that fail to meet their obligations. The losses caused by default events fluctuate every year, depending on the number and severity of default events. Financial institutions forecast the expected loss by estimating the proportion of obligors that might default within a given time horizon, multiplied by the outstanding exposure at default and once more multiplied by the percentage of exposure that will not be recovered by sale of collateral.⁴²⁸

Simple Schematic of IRB Approach

We can consider five key elements:

⁴²⁶ Ibidem;

⁴²⁷ J Hitchins, M Hogg and D Mallet, (2001) *Banking : A Regulatory Accounting and Auditing Guide* (Institute of Chartered Accountants;

⁴²⁸ Joocheol Kim, KiHyung Kim, (2006), *Loss Given Default Modelling under the Asymptotic Single Risk Factor Assumption*, Yonsei University, Seoul, Korea

[1]A *classification of exposures* by broad exposure type; [2]For each exposure class, certain *risk components* which a bank must provide, using standardised parameters or its internal estimates; [3]A *risk-weight function* which provides risk weights (and hence capital requirements) for given sets of these components; [4]A set of *minimum requirements* that a bank must meet in order to be eligible for IRB treatment for that exposure, and [5]Across all exposure classes, supervisory review of compliance with the minimum requirements.

A classification of exposures by broad exposure type

Under the IRB approach, banks must categorize banking-book exposures into broad classes of assets with different underlying risk characteristics, subject to the definitions set out below.

The classes of assets are: (1) corporate, (2) sovereign, (3) bank, (4) retail, (5) equity.

IRB banks are required to assign each of their banking-book exposures to one of those classes. If an exposure does not fall within the definition of any class, it will be categorized as a corporate exposure for the purposes of the IRB approach. Banks are required to apply the appropriate treatment to each exposure for the purposes of deriving their minimum capital requirement.

(1) *Definition of corporate exposures.* In general, a corporate exposure is defined as a debt obligation of a corporation, partnership, or proprietorship. Banks are permitted to distinguish separately exposures to small- and medium-sized entities (SME).

(2) *Definition of sovereign exposures.* It covers all exposures to counterparties treated as sovereigns under the standardised approach. This includes sovereigns (and their central banks), certain public sector entities (PSEs) identified as sovereigns in the standardised approach, multilateral development banks (MDBs) that meet the criteria for a 0% risk weight under the standardised approach, and the entities claims on the Bank for International Settlements, the International Monetary Fund, the European Central Bank and the European Community.

(3) *Definition of bank exposures.* This asset class covers exposures to banks and some securities firms. Otherwise such claims would follow the rules for claims on corporates. Bank exposures also include claims on domestic PSEs that are treated like claims on banks under the standardised approach, and MDBs that do not meet the criteria for a 0% risk weight under the standardised approach.

(4) *Definition of retail exposures.* An exposure is categorized as a retail exposure if it meets all of the following criteria:

Nature of borrower or low value of individual exposures:

- Exposures to individuals: are generally eligible for retail treatment regardless of exposure size, although supervisors may wish to establish exposure thresholds to distinguish between retail and corporate exposures.

- Residential mortgage loans: are eligible for retail treatment regardless of exposure size so long as the credit is extended to an individual that is an owneroccupier of the property (with the understanding that supervisors exercise reasonable flexibility regarding buildings containing only a few rental units — otherwise they are treated as corporate).

- Loans extended to small businesses and managed as retail exposures are eligible for retail treatment provided the total exposure of the banking group to a small business borrower (on a consolidated basis where applicable) is less than €1 million. Small business loans extended through or guaranteed by an individual are subject to the same exposure threshold.

- It is expected that supervisors provide flexibility in the practical application of such thresholds such that banks are not forced to develop extensive new information systems simply for the purpose of ensuring perfect compliance. It is, however, important for supervisors to ensure that such flexibility (and the implied acceptance of exposure amounts in excess of the thresholds that are not treated as violations) is not being abused.

Large number of exposure:

The exposure must be one of a large pool of exposures, which are managed by the bank on a pooled basis. Supervisors may choose to set a minimum number of exposures within a pool for

exposures in that pool to be treated as retail. Small business exposures below €1 million may be treated as retail exposures if the bank treats such exposures in its internal risk management systems consistently over time and in the same manner as other retail exposures.

(5) *Definition of equity exposures.* In general, equity exposures are defined on the basis of the economic substance of the instrument. They include both direct and indirect ownership interests, whether voting or non-voting, in the assets and income of a commercial enterprise or of some financial institution that is not consolidated. An instrument is considered to be an equity exposure if it meets all of the following requirements: (a) It is irredeemable in the sense that the return of invested funds can be achieved only by the sale of the investment or sale of the rights to the investment or by the liquidation of the issuer; (b) It does not embody an obligation on the part of the issuer; and (c) It conveys a residual claim on the assets or income of the issuer.

Within the corporate and retail asset classes, a distinct treatment for *purchased receivables* is also applied with certain conditions. Eligible purchased receivables are divided into retail and corporate receivables. Banks also must determine regulatory capital requirements on exposures arising from traditional and synthetic *securitisations* or similar structures that contain features common to both. For each of the asset classes covered under the IRB framework, there are three key elements: (a) Risk components-estimates of risk parameters provided by banks some of which are supervisory estimates; (b) Risk-weight functions-the means by which risk components are transformed into risk-weighted assets and therefore capital requirements; (c) Minimum requirements-the minimum standards that must be met in order for a bank to use the IRB approach for a given asset class.

Banks that have received supervisory approval to use the IRB approach may rely on their own internal estimates of risk components in determining the capital requirement for a given exposure. The risk components include measures of the: (a) *Probability of default (PD)*: Estimate of the likelihood of the borrower defaulting on his obligations within one year; (b) *Loss given default (LGD)*: Loss on the exposure following the borrower's default, commonly expressed as a percentage of the debt's original nominal value; (c) *Exposure at default (EAD)*: Nominal value of the borrower's outstanding debt; (d) *Effective maturity of the loan (M)*.

The use of the IRB approach is subject to an explicit supervisory approval, which depends on meeting certain minimum requirements from the outset and on an ongoing basis. The IRB approach is based on measures of unexpected losses (UL) and expected losses (EL).

The internal-ratings system is based on Foundation IRB and Advanced IRB, accompanied by a set of formula provided by the Basel II Accord.

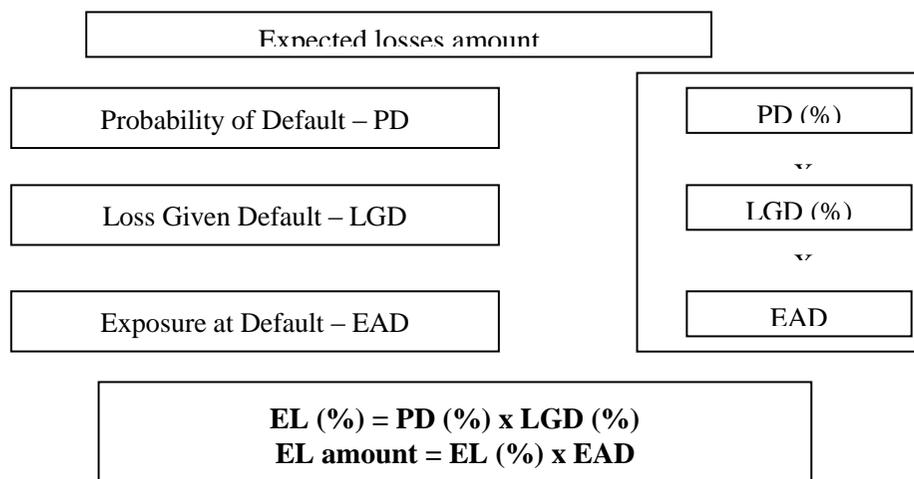
- **The Foundation IRB (F-IRB).** Under this approach banks are allowed to develop their own empirical model to estimate the PD for individual clients or groups of clients and they are using regulator's prescribed LGD and other parameters required for calculating the RWA (Risk-weighted asset).⁴²⁹

- **The Advanced IRB (A-IRB).** Under this approach banks are allowed to develop their own empirical model to estimate PD, EAD, LGD and other parameters required for calculating the RWA. No matter the approach, the total required capital is calculated as a fixed percentage of the estimated RWA.⁴³⁰

Expected losses are determined as follows:

⁴²⁹ Miru Oana Maria, Hetes-Gavra Roxana, Nicolescu Ana Cristina (2008), Applying Basel II Requirements in Romania West University from Timisoara (Romania), Faculty of Economics and Business Administration, Finance Department

⁴³⁰ Ibidem



Source: Georgescu F. (2005) – BASEL II - A New Stage in Modernising the Romanian Banking System - Florin Georgescu, NBR First Deputy Governor Presentation delivered on the occasion of EU-COFILE (European Union Finance & Banking Lectures project)

The risk components serve as inputs to the risk-weight functions that are developed for each asset class. For example, there is a risk-weight function for corporate exposures and another one for retail exposures. For each asset class we have relevant risk-weight function(s), risk components and other relevant factors, such as the treatment of credit risk mitigants.

The general formula for calculating risk-weighted assets is:

$RWA = RW (\%) \times EAD$

RWA – risk-weighted assets, RW – risk weight, EAD – value of exposure

Risk-weighted exposures are determined in different specific way depending on the classes of exposures, but it has to take in consideration PD, LGD, M and EAD risk parameters.

Certain minimum requirements which relate to internal ratings, credit assessments and disclosure need to be fulfilled in order for a bank to qualify for an application of the IRB approach.⁴³¹

Furthermore, the eligibility requirements for an internal ratings based model imposes obligations on the bank to set up an internal ratings model for purposes of compartmentalising the exposure of various lending activities, be they commercial or consumer lending, and depending on whether such are on or off balance sheet activities. Qualifications aimed at satisfying the demands of the Advanced IRB approach would require the fulfillment of supplementary conditions which would apply in exposure calculations where the following events occur, namely: default, loss in the event of default and maturity of the exposure.

The minimum requirements are set out in 12 separate sections concerning: (a) composition of minimum requirements, (b) compliance with minimum requirements, (c) rating system design, (d) risk rating system operations, (e) corporate governance and oversight, (f) use of internal ratings, (g) risk quantification, (h) validation of internal estimates, (i) supervisory LGD and EAD

⁴³¹ Ojo, Marianne (2009), The responsive approach by the Basel Committee (on Banking Supervision) to regulation: Meta risk regulation, the Internal Ratings Based Approaches and the Advanced Measurement Approaches. Center for European Law and Politics, University of Bremen.

estimates, (j) requirements for recognition of leasing, (k) calculation of capital charges for equity exposures, and (l) disclosure requirements.

Romania, due to its accession to the EU in 2007 and, because of the large number of banks part of an international group, alongside with the diversification of the banking operations, it had to adhere to the international regulations and transpose the Basel II requirements into national legislation. In Romania, the implementation of the new capital accord, poses a series of challenges both on the credit institutions and on the National Bank of Romania (NBR).

In Romania, the regulatory framework has been substantially reconfigured. The banking laws were revised, in order to meet the Basel II criteria. The National Bank of Romania has done some work in this respect. For the banking sector and the capital market the year 2006, was dominated by the transposition of the European legislation that ensure the implementation of the Basel II standards into the national legislation. The process of transposing the EC 2006/49 Directive, with respect to the adequacy of the investment firms and credit institutions' capital level, was of great significance. This exercise has joined the forces of the national competent authorities in the financial sector, such as the National Bank of Romania and the National Securities Commission, the Ministry of Finance and the banking community and was finalized through the publication of the Government Emergency Ordinance (GEO) 99/2006 concerning credit institutions and capital adequacy. This regulation, accomplished through the application of the EC directive, for both credit institutions and financial investment institutions, has the advantage that it integrates the legal dispositions regarding all kinds of credit institutions, i.e. banks, mortgage banks, savings banks, which before were regulated separately.

The new capital adequacy framework became effective beginning with 1st of January 2007. The new legal context, together with the Romania's EU membership, favours the presence of some EU implementation particularities, of the capital standards applicable to credit institutions and investment firms.

The regulatory framework for managing credit risk according to the internal-based approach in Romania is transposed into two regulations:

-Regulation No. 15/20/2006 issued by the National Bank of Romania and the National Securities Commission on credit risk management by credit institutions and investment firms according to the internal ratings-based approach (Monitorul Oficial al României No. 1033/27 Dec.2006).

-Regulation No. 26 of 15 December 2009 approves the implementation, validation and assessment of approaches based on internal rating models for credit institutions (Monitorul Oficial al României No. 912/24 December 2009).

Conclusions

The implementation of the Basel requirements is a challenge for both the commercial banks and the National Bank. Legislative modifications have been made for the specific legal and institutional setting, as well as for some features of the Romanian financial system.

The Internal Ratings Based approach for the determination of required buffer capital is one of the greatest achievements of the Basel II Accord.

The implementation of IRB is a complex activity, that needs qualified personnel both in commercial banks and national banks. In Romania only 1(one) commercial bank is managing credit risk according to the internal-based approach, the foundation approach.

The costs of implementation is higher for IRB than for the Standard Approach, which means that it could be quite difficult for the small and medium-sized banks to undertake this approach. But even for the large banks, with international activities, and part of an international group, this can be a little difficult, as they cannot just take the framework from the mother bank, which has already developed it. This is because of the specificities of each national financial system.

Another problem is concerning databases. Banks need to implement substantial changes to their internal systems to prepare for appropriate data collection and revised reporting requirements.

These changes may require systems integration, modification and new software. This also affects banks in matter of costs.

In establishing an Internal Ratings Based approach, the Basel Committee's intention was directed at fine tuning capital requirements with a greater degree of accuracy to the level of a bank's exposure to credit risk. The IRB approach should operate consistently with the system adopted by banks whose risk management systems are capable of making internal assessments in matters related to their capital adequacy and risk profiles.

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ELECTRONIC BANKING – ADVANTAGES FOR FINANCIAL SERVICES DELIVERY

Bojan Daniela

“Babes-Bolyai” University, Cluj-Napoca

Mutu Simona⁴³²

“Babes-Bolyai” University, Cluj-Napoca

Păun⁴³³ Dragoș

“Babes-Bolyai” University, Cluj-Napoca

E-banking is a fully automatic service for traditionally banking customer's products based on information technology platforms. E-banking services provide customer access to accounts, the ability to move their money between different accounts or making payments via e-channels.

The advantages generated by this services have determined an accelerate developing of this industry over the entire world. This paper examines some of the advantages of electronic banking products together with the characteristic management issues generated by the implementation of this new channel for financial services delivery.

Keywords: Electronic banking, Internet banking, Home Banking, Mobile Banking.

JELL Clasification: G21

1.Introduction

Many specialized works define e-banking as a modern fully automatic service which delivers traditional banking products to customers with the help of information technology platforms and interactive communication channels.

2. Body of paper

Other works define e-banking as the automatic supply of new and traditional banking products and services directly to customers, using interactive channels of electronic communication. E-banking includes systems which allow customers, whether individuals or corporations, to access accounts, to close deals or obtain information about products and services through a public or private network, including Internet.

E-banking relies heavily on information and communication technology (ICT) to achieve its promise for 24 hours availability, low error rates and quicker delivery of financial services

Initially, e-banking was limited to phone banking operations and remote banking, but the range of services has increased thanks to the technological advances, the spread of online banking has coincided with the spread of high-speed broad and connections and the increasing maturation of the internet user population

One important factor in e-banking growth is that banks have discovered the benefits of e-banking and have become keener to offer it as an option to costumers.

⁴³² *“Investește în oameni!”* doctorand bursier în “Proiect cofinanțat din Fondul Social European prin Programul Operațional Sectorial Dezvoltarea Resurselor Umane 2007-2013”

⁴³³ *“Investește în oameni !”*, doctorand bursier, FONDUL SOCIAL EUROPEAN, Programul Operațional Sectorial pentru Dezvoltarea Resurselor Umane 2007 – 2013 **Axa prioritară 1**. Educația și formarea profesională în sprijinul creșterii economice și dezvoltării societății bazate pe cunoaștere. **Domeniul major de intervenție 1.5**. Programe doctorale și postdoctorale în sprijinul cercetării. Contract nr: POSDRU/6/1.5/S/4: „Studii doctorale, factor major de dezvoltare al cercetărilor socio-economice și umaniste”

Today, customers can use Internet Banking or Mobile Banking services. Remote banking consists of electronic transactions between customers and their bank. These transactions are operated through a closed communication network using specific software provided by the bank. By these means, clients establish relations with their bank without being physically present in its premises. E-banking allows customers to access banking services through alternative distribution channels which focus on the customers' operational needs. These non-conventional channels use "electronic currency" and offer advantages which have made customers as well as banks use them increasingly:

- permanent technological innovation;
- fast and cheap communication with the existing clients;
- lower processing cost than conventional channels;
- serving a greater number of customers through the same physical infrastructure of bank branches;
- increased expectations from an ever increasing number of customers who are also better educated with respect to the use of these channels, in most cases;
- possible introduction of new commissionable services;
- identifying profitable clients and categories of clients;
- customized offers for an ever increasing number of clients selected from the data bases.

Technological advances lead to the development and implementation of new services [1] which complete the range of traditional ones. These new services are described below.

TELES Services allow customers to access the bank database and to do various operations through virtual bank branches. These services can be:

- Simple, allowing customers only to get information about their account status, or
- Complex, allowing customers to get information about their account status, to make payments or transfers between accounts, and to ask bank forms.

PHONE BANKING services use a rented telephone line (dedicated line), a connection convention signed by the customer, a password only known by the client and a personal code allowing access to the data.

HOME BANKING services allow access to the bank accounts through a software module which is installed on the customer's PC and accesses the server connected to the bank's database. Access is possible thanks to a customer code, a password only known by the customer and an electronic signature. There are several security levels (customers' access to the application, access to the server and access to payments). Customers can check their accounts, do bank transfers, and obtain financial and banking information (exchange rates, interest rates, etc.). Home banking is powerful software located in one or more computers at the customers' headquarters. As authorized users, customers access a Multicash server connected to the bank's databases. From the customers' point of view, the advantages of home banking are:

- comfort: access to the bank 24 hours a day, 7 days a week, without depending on the bank's schedule;
- flexibility: adaptability to the client's needs;
- accessibility: at present, customers can access bank servers by dial-up connection or through the web; bank statements are easy to access;
- safety: transactions are made in the best safety conditions;
- low costs: in order to reduce the number of clients who go to the bank desks, there are fee reductions (10-50% of the ordinary fees) for the electronic payments;
- time saving and reduced expenses (no more transportation to and from the bank building);
- free installation, training and technical assistance;
- interoperability: it is possible to import and export databases for a more efficient management of the customers' own accounting applications;

The disadvantages are:

- additional costs (subscription and connection to the server);
- dependence on the computer where the client software has been installed;
- offline connection with the bank; data can only be updated upon connection to the bank server; data are only updated once a day or every hour.
- an expert must go install and configure the client module;

INTERNET BANKING services allow customers to access their accounts online. Customers connect to a bank portal and thus can check their accounts and do bank transfers from any computer connected to the Internet. For authentication, a customer code and a password are provided.

Internet technology can make significant contribution to a company's value chain, provides a powerful platform for corporations to market and advertise their products and services.

It is important also to mention some of the problems of internet medium: overload, security & privacy problems, rapid technology change, high initially cost and uncertainly about information reliability.

Internet banking is a service which concerns individual and companies who are customers of a certain bank and have access to the Internet. This service allows them to access their bank accounts through a web browser connected to the site of the bank. As there is no need for special software, the only costs customers pay are the Internet connection and the fees.

In order to insure a high level of security, this service is developed on an infrastructure complying with the international information security standards. From the moment the authorized client is connected, any data exchange takes place under a secured protocol, SSL3, which uses a 128 bytes encryption key (the most powerful available for the time being) and a DES algorithm. Moreover, as this service can be provided and guaranteed by VeriSign, clients can easily recognize and check the authenticity of the site.

Currently, there are many Internet banking solutions on the market. They have been usually developed by specialized software companies or in house, due to the specificity for the data security. This service is provided to individuals, physical persons, and small and medium enterprises.

Internet banking is used for the following operations:

- checking bank statements (remainder, history, transactions for all the accounts);
- issuing payment authorizations in any foreign currency (between banks or within the same bank);
- remainder transfers from the current account to the card accounts of the same individual;
- creating and annulling deposits;
- daily information about currency exchanges and interest rates;
- currency exchange and currency exchange negotiations
- securing transaction by an encryption key;
- modularity: use of various customer profiles and limitation of the operation in compliance with the bank policy;
- possibility to pay local taxes and duties (at banks which have implemented the e-Tax service)

Customers have the following advantages:

- comfort – access to the bank 24 hours a days, 7 days a week, without depending on the bank's schedule;
- low costs – in order to reduce the number of clients who go to the bank desks, there are fee reductions (10-50% of the ordinary fees) for the electronic payments;
- time saving and reduced expenses (no more transportation to and from the bank)

building);

- safety – transactions take place in the best security conditions as customers use a user name, a password, and an encrypted channel;
- accessibility – online connection with the bank from any Internet connected computer; simple and ergonomic menu leading the client directly to the operation he/she wants to perform;

One disadvantage concerns the additional costs of subscription and Internet connection.

MOBILE BANKING services can be described as the newest services in electronic banking. They are performed using mobile phones or other mobile devices. Mobile banking services are provided through a convention of connection to these services. Access to the database is made through a password and a customer code. Customers can check their balance and make adjustments between accounts.

The potential for providing mobile banking services may be far greater than services through typical desktop access, as there are several times more mobile phone users than online PC users.

There are two main types of technology available for use in mobile banking: WAP (Wireless Application Protocol) and WIG (Wireless Internet Gateway).

The first one is an application environment and set of communication protocols for wireless devices built to enable manufacturer, vendor and platform independent access to the internet and advanced telephony services.

The other one (WIG) is a SMS-based service in which a menu of banking services options is downloaded from the bank to the phone. This enables the user to browse to all bank services options and through their accounts and to conduct specific tasks.

The main problems in developing mobile banking are:

- internet connectivity costs;
- difficult user interface;;
- lack of awareness amongst customers;
- limitation in functionality of mobile devices;
- accessibility issues;
- security concerns;
- organizational changes;
- small number of choices;
- technology overload;

Mobile-banking can be defined also as an account management tool which can be accessed through the mobile phone. This modern service appeared on the market as an alternative to electronic banking and internet banking services and it facilitates access to accounts and banking operations through the mobile phone. This service can be easily used whether in the home country or abroad. If a client is abroad and wants to access his/her bank account, that can be done through the mobile phone operator. The bank is accessed by Internet (through the WAP service which allows reading Internet pages directly on the mobile phone display) or by SMS through the local operators.

Mobile banking is a fast, secure and efficient service. It offers up-to-date information on the status of the clients' bank accounts, whatever the location of clients or the schedule of the bank.

From the customers' perspective, mobile banking presents the following advantages and disadvantages:

- access to the bank 24 hours a day, 7 days a week, through the mobile phone;
- smaller fees for electronic payments than for traditional payments;
- reduced transportation costs and time saving;
- offline link to the bank;
- Additional costs for the subscription and the connection to a GSM provider.

CALL CENTER services are provided by a team which performs a homogeneous set of interactions with customers according to procedures under control. Customers can benefit from technical assistance by experts and can check and make transfer between accounts.

A rapid development of e-banking requires the increase of the customers' base by attracting new categories of clients with a new behavior and which are very open to the latest technological advances. At present, there is an increased competition in the banking system because of many banks

with small territorial network entering the market and offering new products competing with traditional ones.

For the future it is expected to have a decrease in the banks' operational costs by reducing the volume of "traditional" operations, customers' transactions costs (in 2003, in the US, a transaction operated at the bank's desk would cost almost 1\$, while the same transaction operated online would cost 0,1 \$), and the number of operations requiring the customers' presence in the bank's buildings.

The Call-Center is an assistance tool for the bank accounts management through the phone. In the broad sense, a call-center is a functional entity that exists within a company and is able to communicate by phone and electronically in real time.

E-banking management problematic issues

The implementation of e-banking services is far from being well known and is encountering a numerous difficulties and barriers

The Internet as the unique channel for services delivery is totally different from the classic branches network or telephone banking. That's way it brings up its own challenges that require unique and innovative solutions.

The most common problematic issues in e-banking implementation and management include:

- Traditional structures that are unable to respond to the agility required for the e-banking;
- Resistance from the employees;
- Legacy systems;
- Security issues;
- Regulatory issues which are more complex than traditional ones;
- Project management problems

Further more it is necessary to identify the technology related problems like:

- IT and Telecommunication issues;
- Capacity (or scalability) problems;
- Availability and System Integration;
- Operational Functionality of Web Site Design;

together with management problems like:

- Regulatory issues;
- Information Management;
- Outsourcing problems ;
- Security;
- Loss of Personal Relationship;
- Organizational structure and resistance;
- Trust issues;
- Acceptance issues;
- Clash with other service delivery channels;
- Change Management issues;
- Ethical issues.

3. Conclusion

Organizations that have successfully adopted e-banking demonstrate that a combination of a strong customer focus, performance measures and strategic planning process can be easily incorporated. All these organizations are able to measure the quality of their services and products and become flexible enough to quickly respond to their customer request and market changes

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MONETARY STABILITY VERSUS FINANCIAL STABILITY IN ADJUSTING THE REAL ECONOMY

Boldea Bogdan

Gheorghe Roxana Maria

Ivanovici Daniela Cecilia

Strezariu Iulia Ana-Maria

Universitatea de Vest din Timișoara

Facultatea de Economie și de Administrare a Afacerilor

Nowadays, in the economic theory and practice, there's commonly held idea that the primary objective of monetary policy should be price stability. However, the possibility of achieving this goal depends on the development and stability of the financial system. Even though financial stability represents a prerequisite for reaching the objective of price stability, the relationship manifests itself in reverse also.

In the long term, the two objectives support and reinforce each other, but in the short term, there may occur certain incompatibilities, thus resulting in the central bank's dilemma of abandoning one in favor of the other.

This paper aims to investigate precisely the circumstances in which the policies pursued to ensure price stability can cause or worsen financial stability.

Keywords: price stability, financial stability, central bank, monetary policy, National Bank of Romania

JEL Classification: E31, E52, E58, G01

Modern economies must cope with the challenge of achieving financial stability, given that the globalizing financial environment is becoming more complex due to globalization, to the intersection of the monetary and financial market, and to the financial industry innovativeness. Although this evolution of the markets encourages more efficient allocation of global capital resources, allowing the ways of financing to adapt more quickly to the needs of the real economy, “the financial sector is not exempt from tensions and destabilizing movements, which generate risks not only for the players of the financial sector, but also for the economy as a whole”.

Thus, most of contemporary economists have reached consensus on the importance of the central banks (CB) in ensuring financial stability. Missing this goal may cancel the monetary authority performances in achieving its ultimate objective priority – price stability.

Through the years, the CB activity has oriented its monetary policy on various objectives. In the 70s – 80s, the CB were particularly concerned with stimulating the economic growth, their main role being that of providing liquidity and monetary supply expansion through bank refinancing (active monetary policy). Since the early 80s, CB have focused on the objective concerning price stability (the new monetary policy), and currently, financial stability has become again an important objective in the economic decision making process, mainly due to the liberalization of capital flows and to the emergence of economic and financial crises.

Therefore, in our opinion, financial stability is no fresh news to economy, but a retrieval of a traditional issue.

It is required a delimitation of the two concepts – “price stability” and “financial stability” – taking into account the existence of multiple definitions concerning the first concept and the lack of universally accepted definitions for the second one.

After analyzing some definitions from the specialty literature for clarifying the two concepts, we considered the ECB's⁴³⁴ vision relevant with respect to price stability and the paper "Financial Stability", in what concerns the definition given to financial stability⁴³⁵.

The ECB's vision concerning price stability is the following: 'price stability is defined as the state of economy when the general price level is stable in the strict sense or when the inflation rate is sufficiently low and stable, so that considerations related to the nominal dimension of transactions cease to constitute a relevant factor for the economic decisions'.

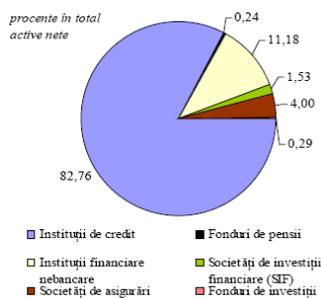
In Romania, price stability represents the objective of the National Bank of Romania's strategy: direct inflation targeting. The aim of this strategy is reaching the optimal level of inflation, which can contribute to sustainable economic growth, macroeconomic stability, and last but not least, to ensuring a high level of social welfare.

Unlike price stability, there is no universally valid definition of financial stability. The following genus-differentia definition of 'financial stability' better satisfies the requirements of formal logics: "financial stability is the feature of the financial system which subsists in its capacity of absorbing the financial imbalances that occur endogenously or due to exogenous, significant and unanticipated event, thus facilitating the achievement of economic performances".

Authors such as J. Chant refer to this concept starting from the opposite term: 'financial instability'. "Financial instability refers to the financial markets, conditions which affect or threaten to affect the economic performances through their impact over the financial system".

In the broad sense, financial stability implies that the financial system must be "able of attracting and placing funds efficiently and of withstanding shocks without hurting the real economy", while in the restricted sense, specific to the banking sector, financial stability relates to the situation characterized by a lack of banking crises and the existence of a certain level of assets price stability, including the interest rates.

Thus, the concept of 'financial stability' appears as a feature of the financial system, which includes the financial market, financial institutions and their related infrastructure. As a consequence of the many links among these components (markets, institutions and infrastructure), any imbalance in either of the elements may affect the others, thus compromising the stability of the whole system. However, if the system works well enough to perform its core functions, even when one of the components faces problems, they do not necessarily constitute a threat to overall stability. This means that it is not mandatory for all the elements to operate at / near maximum at any time.



A stable financial system has the capacity to limit or to solve imbalances, partly through self-control mechanisms, before leading to crises (in which case, financial stability and monetary stability are achieved simultaneously). Therefore, we must speak of both global perspective and a systemic one, in measuring the soundness of the financial system.

⁴³⁴ European Central Bank.

⁴³⁵ In our paper, we will refer to the two concepts considering these definitions, as they are the most adequate, in our opinion.

When it comes to Romania, we must highlight the fact that it still shows the features of an emerging financial market. In 2008, financial and non-bank financial institutions continued to hold the largest share of total financial assets, being in slight increase up to 93,9%, while the insurance and capital markets account for only 6,1% of total net assets.

Consequently, the impact over the stability of the entire financial system, caused by failures in the banking sector, would be much higher than if it were provoked by problems of any of the components of the financial sector (Chart 1 – Structure of the financial system in Romania), so they must be efficiently supervised.

Bank supervision plays a very important part in ensuring both financial and monetary stability because the banking sector is the main transmission channel of monetary policy. Therefore, if it recorded imbalances (liquidity deficit or surplus), it would be very difficult for the CB to fulfill their objectives.

In our view, bank regulation and supervision is vital in maintaining price stability because the micro and macro-prudential information obtained by practicing this function may be successfully used in preventing or managing crises which could negatively affect the main objective of the CB, taken into account the repercussions on the real economy.

Usually, financial stability does not represent an explicit objective for modern central banks, but they begin to show a particular interest in achieving their main objective: to ensure currency stability. Monetary policy can not be fully effective unless it is based on foreseeable transmission mechanisms, which implies a sufficiently stable financial environment. Mutually, price stability is a necessary condition in ensuring financial stability, but not sufficient. In our opinion, there are certain circumstances when some unpredictable transmission mechanisms may also have a high efficiency.

A well-functioning financial system allows an economy to exploit the full potential of growth because it provides the necessary funds for investment opportunities at minimal costs. Also, a stable financial system facilitates the economic performances improvement and contributes in correcting imbalances that affect the economy. However, this concept should be perceived dynamically. This means that resources must be permanently mobilized, and once stability is reached, a more lax policy should not be adopted, instead, it should be operated with different levers to maintain stability, because the financial system is in a permanent qualitative change.

But still, could the policies pursued to achieve monetary stability (restrictive policies), cause or even worsen financial instability, in certain circumstances? The answer to this question, somehow rhetorical, is the objective of this research.

Regarding the relationship between price stability and financial stability, in the literature there were formulated two approaches: *the conventional approach* – according to which, the two types of stability support and reinforce each other, in the long term - and the *"new environment" hypothesis* – which holds the idea that along with controlling inflation at low levels, a new economic environment is developed and financial stability is not guaranteed anymore.

We subscribe to the idea that the two objectives are compatible in the long term, but in what concerns concrete monetary policy, short term outlook is targeted, in detriment of the former. Such conflicts may arise between the two concepts within the meaning of disclaiming one for another.

The interest rate monetary policy is one of the main tools used by CB to ensure financial stability. To illustrate, in an economic scenario with two variables - high inflation and fragile banking system – in order to combat high levels of inflation CB may increase the nominal rate of reference interest rate, thus causing higher instability of the banking system.

Therefore, we can talk about an incompatibility between the policies pursued in the short term to ensure price stability, respectively financial stability. Interest rate variations induced by CB in the monetary market triggers a series of mechanisms, having a strong influence on the population and enterprises decisions of consumption, savings and investment.

In *caeteribus paribus* terms, a higher interest rate will lead to a contraction in the consumer and investment credit in what concerns the population, respectively the businesses, thus affecting the already installed fragility of the banking system. Also, the population will be encouraged to save, in detriment of investing, these chain effects, finally, having an impact on other real economy variables, like production and correlative volume of imports and exports.

On the one hand, from the households' point of view, an increase in real interest rates above the growth of differential inflation rate increases the attractiveness of saving because the efficiency is higher in terms of future consumption, resulting therefore in lower current consumption. Furthermore, regarding an enterprise, a higher rate of interest will have inhibitory effect on investments because there will be fewer investment projects available to provide sufficient performance to cover the increased costs of capital.

The connection between monetary policy and bank stability does not inhere exclusively in the level and volatility of interest rates. A more general tension is that the cyclical effects of monetary policy and bank regulation push in opposite directions. Monetary policy tends to move in countercyclical fashion: in the event of an economic slowdown, the central bank may expand the money supply and provide more funds to speed up the economy's recovery. However, the effects of bank regulation—especially prudential regulation, such as capital adequacy requirements—are procyclical, requiring a contraction of banking activity when the economy slows. For example, during a recession, a bank regulator might require an increase in loan-loss reserves and an improvement in the quality of banks' lending portfolios.

A second argument of the incompatibility between monetary policy and financial stability is reflected in the literature of ideas set out by various authors who disagree with CB involvement in regulatory and supervisory activities. The supported idea is establishing a Single Supervisory Authority (SSA), responsible for the stock exchange, insurance sector and banking supervision, thus absolving CB from regulatory and supervisory function of the banking sector.

The main argument used by the authors in question is the possible conflict that may arise between the objective of financial stability (achieved mainly through this function) and the objective of monetary policy, for instance, in a crisis, when CB should not be concerned only with the inflation targeting, but with ensuring the stability of the financial and banking system by/through injecting cash in order to rescue financial institutions which are in difficulty (it will choose “the least bad”).

We consider that a SSA is justified if the stock market would be developed or it would be difficult to define each financial sector's activities, and not based on the incompatibility theory between banking supervision and the objective of monetary policy. In Romania, the supervision unification is not appropriate now, given that the Romanian financial system is characterized by a low degree of intermediation, insurance and financial investment are underdeveloped, the banking sector having a significant weight.

Although, in the short term, a compromise between monetary stability and financial stability can be reached, we consider necessary to keep the banking supervisory function as an attribute of CB, because macroeconomic forecasts can be improved when based on confidential information obtained from prudential controls on credit institutions.

A third argument of the incompatibility between monetary stability and financial stability, identified in the literature, is the very complexity of the two objectives. If price stability is the main goal of many modern CB, it can be well defined, achieved and maintained over time, financial stability is more complex, both by the different opinions on its definition, and by the many ways of achieving it, as by the importance that some authors assign to this concept in light of the economic context. Financial stability depends both on endogenous factors, such as: real economy movement, relations with foreign countries, operational risk, domino effect, etc., and exogenous factors: macroeconomic disturbances, natural disasters, large business failures.

Since August 2005 NBR's attention has focused, in particular, on the objective of price stability, due to increased inflation expectations and national currency appreciation caused by massive capital inflows (direct investments, portfolio investments, return of labor incomes). Between 2005-2007, NBR fulfilled the net debtor position towards the banking system when increases of the interest rate, needed to bring expectations in line with the inflation target, were attracting more foreign capital, and appreciating the national currency unsustainably ("Tosovsky dilemma").

From the onset of the financial crises in July 2007, NBR aims to be a net creditor of the banking system, foreign capital inflows being significantly attenuated. The reduction of external funding led to national currency depreciation, which increases inflation and requires a relatively high nominal interest rate. Due to the exponential growth in consumer credit recorded in the period 2005-2008, the main affected by the depreciation of the national currency are the borrowers in euro and currencies, who do not register a debt service as good as the previous, thereby assist in increasing the vulnerability of the financial system. Although it is necessary increasing the interest rate, this may decelerate economic growth and, moreover, could lead to the augmentation of contracted credit costs and also of the possibility of converting them in nonperforming loans, with the risk of destabilizing the financial sector. Under these conditions, the compromise between the monetary policy objectives (price stability and financial stability) appears.

In modern economies, a low and stable inflation level leads to a new economic environment in which financial stability is not guaranteed and so the reconsideration of the relationship between price stability and financial stability is strictly required. So, there can be identified a fourth argument for the incompatibility of the two objectives, namely: the "new environment" hypothesis.

The cases of Asian countries during 1997-1998 were relevant in this direction. In the period preceding the onset of a financial crisis, these economies had experienced significant imbalances, despite the existence of a relatively high degree of price stability. The same situation/case is observed with current financial and economic crisis in which CB were forced to inject a considerable amount of cash to maintain financial systems in operation. So, CB are no longer able to ensure both price stability and financial stability, in the event that their implementation requires contradictory measures.

Analyzing the case of Romania, we can affirm that maintaining financial stability has a particular importance to price stability, being primary considered regarding an alert process of disinflation. During 2000-2007, financial instability had been avoided through a proper dose of the disinflation rate, thus recording an average rate of disinflation of 5.8% per year, while maintaining financial system stability, which shows that, although both objectives, on short term, can be in contradiction, on the long term, they sustain and highlight each other (conventional approach). Failure in maintaining financial stability can only lead to an inflation growth.

The long term objective of monetary policy should be to achieve a low and stable inflation which helps long-term sustainable growth. Accordingly, low and stable inflation represents a goal in itself and also a way of achieving sustainable economic growth. The effectiveness of monetary policy in achieving this objective is limited by the level of financial stability.

As shown above, we can affirm that if financial stability is a condition for achieving the objective of price stability, the dependency relationship between them manifests also in reverse.

At the end of 2005, NBR adopted a series of "unorthodox" measures in order to limit the magnitude of the inflows impact on price stability and financial stability, such as: "cooling" - government credit growth which mitigates the phenomenon of overheating, that contributes to the reduction of inflationary pressures and limits external imbalances; reducing the growth rate of foreign currency component which prevents the increase of banks vulnerability to currency exchange rate fluctuations, that ensures the avoidance of an augmentation in the nonperforming loans volume.

The “unorthodox” measures which NBR adopted in 2005 and 2006 were primarily effective in the short term, ensuring reconciliation between financial and price stability. Since 2007, with Romania’s accession to EU, NBR has gradually dropped these restrictive measures which aimed especially the credit restriction.

But why were these measures so important? If NBR had not tried to restrict foreign currency loans, based on excessive appreciation of the national currency due to massive inflows of speculative capital, the population would have been tempted to overborrow in foreign currency. Since 2004 until August 2007, NBR has made relatively large purchases of foreign currency, being criticized that it had not left the course to appreciate in line with market requirements.

Often, high volatility of the exchange rate is associated with large current account deficits which are dangerous due to major implications primarily for monetary stability and generally for macroeconomic stability. Therefore, NBR adopts a floating current which allows CB interventions on the foreign exchange market, but without imposing them. It also reduces the possibility of speculative attacks on national currency, which intensified along with the liberalization of capital account.

The fact that CB does not assume a strict commitment rate and allows the market to set the exchange rate, represents both an advantage for financial system stability and a precondition of accession to ERM II.

In conclusion, we sustain the view according to which the policies designed to ensure price stability and financial stability have different intensities effects on the real economy, even if they can be implemented using similar tools by CB. Also, in our opinion, it is necessary to keep the regulatory and prudential supervisory function of the banking sector as an attribute of CB, because in this way micro- and macro-prudential information are obtained, information which contributes to the increase of monetary policy effectiveness.

We consider the arguments presented above as a reflection of the potential conflicts that may arise in the short term and/or very short term, between the two objectives, in the context of abandoning one for the other and not as a total incompatibility between them. Furthermore, we believe that, on the long term, the two objectives are interrelated, mutually sustaining and highlighting.

Analyzing the relationship between monetary stability and financial stability, we can affirm that there is a two-way link between them. Therefore, we believe that even if, in the long term, the primary objective of CB is, in general, price stability, they must pay attention also at financial stability. Otherwise, even if there is a progress regarding disinflation, their sustainability is not ensured in the context of an unstable financial system. Failure in maintaining financial stability can only lead to an inflation growth.

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POSSIBILITIES OF IMPROVING THE METHODS AND TECHNIQUES USED IN THE SURVEILLANCE OF CREDIT RISK MANAGEMENT

Bolocan Mihail-Dragos

“Babeş-Bolyai” University Cluj-Napoca

Balogh Peter

“Babeş-Bolyai” University Cluj-Napoca,

Through their daily activities, credit institutions are subject to various risks which could affect both the bank and the whole banking system, national and transnational. The activity field of the banks, marked by volatility, by the internationalization and liberalization of the financial markets, is in a continuous change. The contagion effect, as it has been proved by the spread of the financial crisis' effects, determines the surveillance authorities to pay increased attention to the financial risks and implicitly to the systemic risk.

In this study, to start with, there shall be presented some aspects regarding the banking rating systems used by the surveillance authorities and then some ways of improving the models of managing credit risk in banks. In the end, there will be demonstrated that the risk profile of the banking institution has a determining role in the management of the credit portfolio.

Key words: banking system, banking risk, surveillance, rating systems, credit portfolio, investment.

Cod JEL: G32

1.Introduction

By promoting the new agreement (Basel II), it is intended to improve the surveillance methods of the credit risk, as well as to develop a methodology for each banking institution for the measurement and management of the banking risk, to increase discipline on the financial markets, but also to offer some stimulents for the banks that implement the best practices in this domain. Thus, it is intended to reach a convergence between the reglemented capital (established by the national banks) and the economic capital [1]. Establishing the reglemented capital on the basis of the assumed risk level by each bank will allow these to manage their resources better (Maniu, 2006).

The integration of the financial markets and infrastructures in the European Union, together with the growing number of big and complex financial groups, which have cross-border operations, contributes to the efficiency and stability of the financial system of the European Union. At the same time, the financial/monetary integration increases the possibility of cross-border and cross-regional contamination and it consequently amplifies the possibility of a systemic crisis which could affect one or several state members. The financial stability is, consequently, a common preoccupation for all “euro states” and it must be protected through an open collaboration.

In order to limit the economic impact of a systemic cross-border financial crisis, there must be allowed a response at the appropriate and efficient moment. In-time preparation for a crisis is necessary, allowing sufficient flexibility in order to solve the specific circumstances of each potential crisis. Consequently, it is important that at the level of the European Union there are common principles, procedures and agreements regarding the cooperation between the authorities responsible for maintaining the financial stability.

2.The banking rating systems used by the surveillance authorities.

The main objective of the surveillance system is represented by the identification in an incipient stage of those banks considered inefficient, according to the evaluation criteria of the financial and operational aspects established by the monetary authority or by the manifestation of adverse trends, requiring special surveillance.

Credit risk is one of the most important risks encountered in the activity of a banking institution and it expresses the possibility that the debtors or the title issuers cannot accomplish obligations in time, as a result of the degradation of their financial situation which can be determined by the lending conditions or by the general economic situation.

In the surveillance activity, surveillance authorities generally use a top-to-bottom approach, starting from the financial reports which give a lead and reaching the particular, stressing the identification quantification, management and control of risks, all these by the help of some instruments called *early warning systems* [2]. The best known bank surveillance system is CAMEL [3], model used in The United States of America. Federal Reserve Bank evaluates credit institutions based on some events, limits etc., included in the CAMEL system. SEER Risk Bank Model (System for Estimating Examination Ratings) utilized by FED established the possibility of banking bankruptcy or severe sub-capitalization by the means of a probit-like regression. Part of the same category of early identification instruments of the credit institutions whose performance degrades is the SCOR model (Statistical Camels Off-site Rating) utilized by FDIC.

The Banking Commission in France utilizes the SAABA system based on historical data in order to evaluate possible losses at the credit portfolio level for the following three years. The diagnostic element and the alert mechanism are based on the indicator's solvability level and on the shareholding's quality.

The Bank of Italy (BdI) estimated a survival function of the credit Italian institutions by using the Cox Proportional Hazards model. This quantifies the probabilities of the appearance of some severe difficulty states at the level of the Italian banks during a period of two years. In this respect, the severe difficulty state is evaluated on the basis of bankruptcy events in the juridical sense, of the overtake of a credit institution by a stronger one from the financial point of view and in which the banking rating system (PATROL) [4] classifies the credit institution into category 4 or 5.

The new concept introduced by The Basel II Agreement is represented by the risk-based analysis [5] of banks, which presupposes a permanent analytical revision of the bank's activity, thus ensuring the maintenance of stability and trust in the financial system. This approach presupposes the extension of instruments used by the traditional banking analysis, these being starting points for anticipating risks and forming simulations, their change offering in time a dynamic image of the bank's performances. On the other hand, the financial indicators (referring to the structure of the balance, profitability, market risk and credit risk, liquidity or exchange rates) are the object of the banking surveillance, each bank having the obligation to calculate these indicators.

Taking into account the requirements of the Basel II Agreement, the elements which can be developed in the rating systems refer, in our opinion, to:

- completing the quality marking modality of the shareholding by individual ratings for each shareholder [6], among which we can mention the shareholders' financial situation, the type of shareholder, the type of reports with the credit institution etc.;

- quantifying the sensibility to the market risk;

 - measuring the credit risk by using the verified databases received from the credit

 - institutions regarding credit types, activity domain, data obtained from the Banking Risk Authority (BRA) and from the Payment Incident Authority (PIA) verified by macroeconomic elements regarding the activity sectors where credit institution have investments with a considerable concentration.

3.Possibilities of improving the models of managing credit risk in banks.

For the management of a credit portfolio there are several models [7], each stressing different aspects (entrances). Thus, on the one hand, the stressed items are the historical data of the counterparty (SD, debtor's rating, non-reimbursement incidents, frequency etc.), among which we mention the CreditRisk+ or CreditMetrics models and, on the other hand, models of credit portfolio management which also take into consideration the macroeconomic indicators (CreditPortfolioView or PortofolioManager), thus positioning the counterparties in a more realistic context regarding the non-reimbursement probability.

There certainly is an impressive number of models for the management of a credit portfolio but, in our opinion, the great challenge is represented by the identification of minimal elements that must be included in composing that model by the credit institution.

In elaborating models there are some principles which have to be taken into consideration [8] (according to the recommendations of the Basel Committee):

- credit institutions must not forget that the main responsibility in the formation process is theirs;
- the model must have real predictive abilities for the risk estimations of a bank and the analysis of the way in which these are utilized in the relevant activities of the credit institutions;
- there is no universal elaboration method for these, only minimal elements that have to be introduced;
- they must comprise of both qualitative and quantitative elements;
- the process and the results must undergo independent reviews.

It is recommended for each credit institution that the entire credit risk exposure is monitorised by limits and a reporting system.

In the best known scoring methodologies, the credit risk value is calculated by the method of a scoring equation:

$$Y = w_o + w_1 X_1 + w_2 X_2 + \dots + w_n X_n, \text{ where:}$$

X_1, X_2, \dots, X_n – entrance variables of the model (in case the scoring is meant to measure the credit risk of a company, these variables usually represent indicators calculated based on the data from the financial situations)

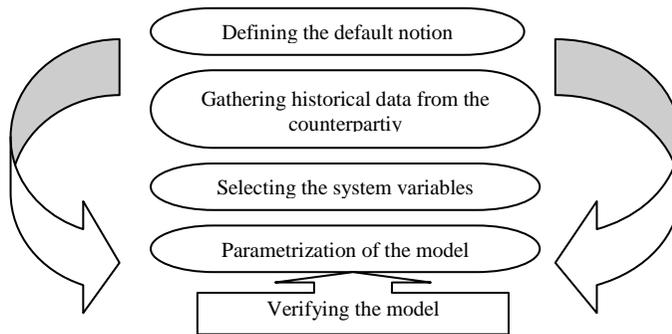
$w_o, w_1, w_2, \dots, w_n$ – interception coefficient and constant which describe the balance of the model's particular variables, the so-called *weights* (balances)

Y – the number that describes the stability/state of the entity's credit under verification and it depends on the determination of the Y bigger model, meaning a weaker evaluation of the credit; nevertheless, the relationship can also be the other way round.

The formation process of a scoring model consists of the following stages:

1. Defining the case of the neglect of duties.
2. Gathering historical data from the counterparties.
3. Selecting the variables X_1, X_2, \dots, X_n .
4. Evaluating, on the basis of historical data of the parameters $w_o, w_1, w_2, \dots, w_n$.
5. Verifying the model taking into account the forecasted accuracy.

The formation process of a scoring model



Source: created by the authors

In case a credit institution selects a *logit model* these explicative independent variables X_1, X_2, \dots, X_n with which the state of the Y entity can be modelled, the so-called dependent variables. In the scoring based on logistic regression, the state of the Y entity has the following interpretation:

$$Y = P(\text{default} \mid X_1, X_2, \dots, X_n),$$

and thus Y reflects the probability of neglect during a prolonged period, starting with the rapport date at which the variables X_1, X_2, \dots, X_n were calculated. Through such an interpretation Y , by X_1, X_2, \dots, X_n , on the basis of the linear regression and consequently the attempt to build the regression of the formula $Y = w_0 + w_1X_1 + w_2X_2 + \dots + w_nX_n$ encounters problems of a fundamental nature: Y probably belongs to the row $[0,1]$, and to the linear combination $Y = w_0 + w_1X_1 + w_2X_2 + \dots + w_nX_n$ and it can take any values $(-\infty, \infty)$.

In the models formed by the logit methodology, the Y result certainly represents a function of the default probability, during a future period, for example an year from the result calculation. Thus, through a good model calibration, the more ample the function of the neglect definition utilized for the calibration of the model, the greater Y exit results.

The evaluation and estimation systems of the credit risk implemented in the financial (banking) institutions attempt to quantify the losses that might appear as a result of the counterparty's default (payment inability). Credit risk factors are generally specific to each company, but they must also include a series of macroeconomic variables which reflect the state of the economy and the specific branches.

4.The risk profile of the banking institution –determining factor in the credit portfolio management.

In the demarches regarding the utilization of a work methodology, in order to elaborate some credit risk management models, there must be taken into consideration two items. Firstly, specialty literature should be consulted, including the requests expressed by laws, regulations, work procedures, and then there must be taken into consideration the peculiarity of each banking institution's activity. Thus, the conceptual models used for the marking system regarding the identification of credit risk to which the counterparty exposes itself before offering the credit, respectively assuming the payment engagement, must take into consideration, on the one hand, the creditor's experience in the process of offering credits and, on the other hand, the automated models of previewing the non-reimbursement possibility of the assumed engagement, this being realized by sophisticated models, estimation statistics of the counterparty's behaviour during the engagement.

The elaborated models should preferably comprise both rating and statistic elements, in the form of mathematical models, well established. The scoring function [9], which is an important step in the formation of the rating system, does not necessarily presuppose determining the non-

reimbursement probability for each counterparty, only the transfer of the risk characteristics considered relevant, in a small amount, represented by a value called score. As a result of the interconnection and classification of the scoring models, the counterparties will be included in the marking classes.

Thus, after the analysis of a hazardous sample of the clients' portfolio of a credit institution for which the balance data were available in December 2008, financial indicator like gross/net margins, "equity ratio", "debt-equity ratio", the rapport between the operational expenses and incomes, EBIT (EBITDA), ROE, but also data referring to the debtors' behaviour as client of the banking institution (ex. debt service), together with a set of standard financial indicators (solvability, debt degree, current rate, economic profitability) which are compulsorily calculated for each client by the credit institution, there has been noticed different behaviour as regards reimbursement ability, especially if the debtor belongs or not to a different activity sector.

The econometric model of the logit type on the basis of which we estimate the probability of non-reimbursement of companies from the existing sample has the following formula:

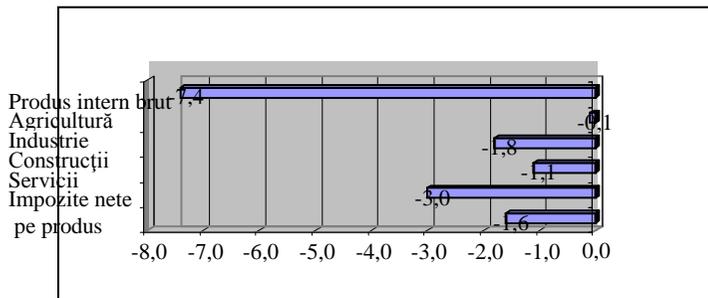
$$\log \frac{p}{1-p} = ct + \sum_i \beta_i \cdot \text{Indicator}_{\text{Microfinanciar}_i} + \sum_j \beta_j \cdot \text{Aspect}_{\text{macroeconomic}_j}$$

For each activity domain of the debtors in the sample there has been built a "dummy" variable, thus observing that the most important sector as representation in the sample is the services one and the least represented is the agricultural-fishing one.

In any regression we have estimates during the analyses; we have started from a specification that includes the variables for each client calculated by the credit institution: solvability, debt degree, current rate, economic profitability. In regression there were taken into consideration the linear correlations between certain indicators like the economic profitability and the debt degree, where the correlation of 97% is negative. This implies that from the two variables there must be included only one in the logistic regression and there was an option for the variable debt degree. This variable is also negatively correlated, in a proportion of approximately 98% with the variable „equity ratio”, which determines us to eliminate from the regression specification also this last mentioned variable.

As a result of the analyses there has been noticed that a company from the services sector has a non-reimbursement probability greater with 6,5 percentage points than a company in any other sector, if both companies are characterized by the same solvability and market quality. This result does not seem surprising at all for the analysis of a clients' portfolio at the end of the year 2008, a raised macroeconomic risk of the services sector compared to the other sectors. Practically, the logistic regression catches the beginning of a phenomenon latter confirmed by the macroeconomic evidences, an example being the below graphic.

The contribution of the main activity branches to the decrease of PIB during 1.I.-30.IX.2009 compared to the period 1.I.-30.IX.2008



Source: *Rapports National Statistics and the National Bank, own adaptation.*

5. Conclusions

When defining a neglect of obligations, the banking institution that forms the analysis model of the credit risk, both ex-ante and post-factum, there must exist the possibility of answering to the following question: “Which of these credit institutions wouldn’t have given a credit/wouldn’t have made that investment, had it previously known that this situation might arise?”

Extremely important in the analysis of the credit risk is determining the *default*. This presupposes the extension of the definition, for the purpose of the credit risk management, thus being subordinated to the profile of aversion towards risk of that credit institution. It is wrongly stressed the fact that the way of defining a neglect of an obligation is limited by the quality of historical data utilized in forming the model. The too detailed definition can be useful at a certain stage, as it might similarly be impossible to determine the moment whether the neglect manifested itself in the past for too many counterparties.

An individual element from CPP or BS has little importance taken singularly. A rate, on the contrary, taken as a rapport/combination between two or more elements can bring about important clues, especially if it is compared to the similar one of industry, of competitors. In Romania, such references, databases are almost absent, and the instability registered so far determines many analysts to regard this demarche without much trust. Nevertheless, this way is the only valid reference point, although it has imperfections or its realization brings about inherent implementation difficulties.

Comparisons with the industrial standards (benchmarks) are important so that all societies are influenced, to a greater or smaller degree, by the economic expansion or recession (contraction). It is unlikely that a growth of sales, profits intervenes when the economy (a certain sector) is on a descendent road. Similarly, there can’t appear a growth of activity, business volume, although it might seem attractive if it is under the industry’ average, of the main counter-candidates, this meaning loss of competitiveness and market share.

In order to overcome the eventual “contracted” degradations right from the start and which now are part of the credit portfolio, banks must conceive and implement *alarming policies*, more precisely minimum and maximum limits which offer to the board of the credit institution a continuous feedback upon the efficiency of the control process of the quality of credits, investments, so that those with problems are detected and amended (as much as possible) in time.

Notes

1. The notion of *economic* stresses the fact that measuring risk is done in the conditions of the economic realities and not based on accounting or settlement rules.

2. Moinescu, Bogdan (2007) “Sistem de previziune a evenimentelor de deteriorare a ratingului CAAMPL”, Caiete de studii, Banca Națională a României.

3. Acronym formed out of elements included in the verification process of the security and solidity of credit institutions: solvability, assets' quality, management quality, the quality of incomes and liquidity.
4. Adapting the capital, profitability, credit risk, organization, liquidity.
5. *Organization's pure risk* – utilized for the first time in 1956 by Russel Gallanger *Risk Management: A new Phase of Cost Control*, Harvard Business Review.
6. Banking rating methodologies utilized by the surveillance authorities especially represent expert systems which furnish evaluations only for the period during which the evaluation is being made, without offering signals regarding future evolutions. The ex post results must be completed based on the information furnished by the prediction instruments whose utilization offers more time for the surveillance authority to take the necessary measures.
7. A description of the formation of the scoring models based on the linear regression is presented by R. A. Johnson, D. W. Wichern, *Applied Multivariate Statistical Analysis*, 2002, Prentice-Hall or L. C. Thomas, D. B. Edelman, J. N. Cook, *Credit Scoring and Its Applications*, 2002, SIAM
8. www.bis.org.
9. The scoring function is a statistical or heuristic (subjective) method which offers the possibility to organize counterparties according to the risk level, level established either by the credit analyst (by verifying the counterparty's characteristics considered relevant, based on a manual or evaluation form conceived by the institution) or automatically calculated by the help of a statistical model (created on the basis of an initial data set which comprises interest characteristics and the registered events of non-reimbursement) or as a combination of the two.

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CENTRAL AND EASTERN EUROPEAN COUNTRIES IN EUROPEAN UNION – IMPACT OF FOREIGN DIRECT INVESTMENTS

Apolzan Carmen

West University, Timișoara , Romania

Faculty of Economics and Business Administration

Economic integration refers to trade unification between different states , and one of its most important aspects is liberalisation of capital movement. In this paper is presented a brief evolution of economic integration cases focusing on one of the most integrated economies – European Union. We concentrate on the participation of foreign investors in different economies and their impact, taking the example of Central and Eastern European Countries and their markets. Also , the level of influence that direct investments in capital markets entails on the Stock Exchange evolution is presented for the case of Romania .

Keywords: European Union, foreign direct investments, capital markets, CEEC

JEL classification: E20, E22, E44

1. Introduction

Economic integration refers to trade unification between different states by the partial or full abolishing of customs tariffs on trade taking place within the borders of each state. This is meant in turn to lead to lower prices for distributors and consumers (as no customs duties are paid within the integrated area) and the goal is to increase trade. The trade stimulation effects intended by means of economic integration are part of the contemporary economic [Theory of the Second Best](#): where, in theory, the best option is [free trade](#), with [free competition](#) and no [trade barriers](#) whatsoever. Free trade is treated as an idealistic option, and although realized within certain developed states, economic integration has been thought of as the "second b". The framework of the theory of economic integration was laid out by [Jacob Viner](#) (1950) who defined the [trade creation](#) and [trade diversion](#) effects, the terms introduced for the change of interregional flow of goods caused by changes in customs tariffs due to the creation of an economic union. He considered trade flows between two states prior and after their unification, and compared them with the rest of the world. His findings became and still are the foundation of the theory of economic integration.

The basics of the theory were summarized by the [Hungarian economist Béla Balassa](#) in the 1960s. As economic integration increases, the barriers of trade between markets diminish. Balassa believed that supranational common markets, with their free movement of economic factors across national borders, naturally generate demand for further integration, not only economically (via monetary unions) but also politically—and, thus, that economic communities naturally evolve into political unions over time.

The dynamic part of international economic integration theory, such as the dynamics of [trade creation](#) and [trade diversion](#) effects, the [Pareto efficiency](#) of factors (labor, capital) and value added, mathematically was introduced by Ravshanbek Dalimov. This provided an interdisciplinary approach to the previously static theory of international economic integration, showing what effects take place due to economic integration, as well as enabling the results of the non-linear sciences to be applied to the dynamics of international economic integration.

2. Recent examples of economic integration

The experience of economic integration, as currently understood, starts with the creation of the [Union of South Africa](#) (1910), which was further implemented in the Belgium-Luxemburg economic union, [Benelux](#) (1944), and the [European Coal and Steel Community](#) (1951).

Economist [Fritz Machlup](#) traces the origin of the term 'economic integration' to a group of five economists writing in the 1940s, including [Wilhelm Röpke](#), [Ludwig von Mises](#) and [Friedrich von Hayek](#). Economic integration was a foundational plank of US foreign policy after World War II.

The [USA](#) is also economically and politically integrated, as it has unified 50 different states (the US states), but the current political and economic structure was achieved via civil war, and not by steady peaceful development according to the stages of economic integration.

An example of recent unprecedented development of economic integration is the formation of the East Asian Free Trade Area (EAFTA): [ASEAN](#) has proposed that Japan (along with India and China) join EAFTA, and at first Japan declined to do so. China's consent to enter EAFTA has forced Japan to sign on, since otherwise Japanese goods would become cost-inefficient (more expensive) and hence lose competitiveness both regionally and globally.

Probably one of the most integrated economies today, between independent nations, is the [European Union](#) and its [euro zone](#). The **European Union (EU)** is an [economic](#) and political union of 27 [member states](#), located primarily in [Europe](#). Committed to [regional integration](#), the EU was established by the [Treaty of Maastricht](#) on 1 November 1993 upon the foundations of the [European Communities](#).

The EU has developed a [single market](#) through a standardised system of laws which apply in all member states, ensuring the [free movement of people, goods, services, and capital](#). It maintains common policies on trade, [agriculture](#), [fisheries](#) and [regional development](#). Sixteen member states have adopted a common currency, the [euro](#), constituting the [Eurozone](#). The EU has developed a limited role in foreign policy, having representation at the [World Trade Organization](#), [G8](#), [G-20 major economies](#) and at the [United Nations](#). It enacts legislation in justice and [home affairs](#), including the abolition of passport controls by the [Schengen Agreement](#) between [22 EU and 3 non-EU states](#).

The WTO is one of the engines of international economic integration, as it has been pushing the states around the world towards decreasing the tariffs: their average level sharply dropped from 45-50% in 1950s to 4-5% in 2000. Global economic integration de-facto will be in place when the level of tariffs equals 1-2%. Due to rapid development of the worldwide web the global competition pushes traders and the states worldwide to gradually decrease tariffs. The driving forces of trade which seeks maximization of profits and extra-cutting the costs may seem as being independent, but they all simultaneously push towards one same goal - global economic integration.

3. Foreign Investments in Central and Eastern European Countries after joining European Union

After the end of the traditionally not very intensive external relations between CEECs and EU before 1989/90, CEECs started to seek for stronger economic integration into the Western markets, terminating their rather strong orientation towards Russia. In addition to Trade and Cooperation Agreements with the EU, far-reaching Association Agreements, the so-called Europe Agreements (EAs), started to get into force. The first of the so far ten EAs with CEE countries have been signed at the beginning of the 1990s.

The integration of CEE countries into the European Union accelerated the integration of CEE capital markets into the international and European capital markets. The major economic factors behind this integration of capital markets are improved possibilities for risk diversification and for future returns which the CEE capital markets could offer to international investors.

International mobility of capital is extremely important for transition countries. Due to the general lack of domestic savings in these countries, capital inflows are necessary for complementing the finance of domestic investments and thus for growth and employment, influencing the macroeconomic situation. For Estonia 26.4% of gross fixed capital formation has been financed by foreign direct investment in 1994 to 1998; a huge amount of foreign finance of domestic investments can also be found in Hungary (25.2%), Poland (16.6%) as well as in the Czech Republic (11.2%). The extent of capital inflows simultaneously depends on the progress in the process of transition. However, the import of large amounts of foreign capital increases a country's vulnerability to the fluctuation of capital inflows and its dependence on international markets and investors or foreign governments. This vulnerability decreases if short-term capital inflows are not denominated in foreign currency as well as if the majority of capital inflows is not (more) short-term FPI, but FDI -which in the case of transition economies seems to be closely linked to the success in the process of privatisation. Simultaneously, FDI inflows do not substitute but complement for domestic investment. In addition, the diversification of investment-related risks as well as the improvement of international trade conditions can be achieved by sound and prudent capital outflows.

In 2008, inward FDI flows in analyzed countries- Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia, reached a new record high, despite the global financial and economic crisis. The growth rate of inflows was high, especially in the first half of 2008. However, with the crisis deeply affecting several countries by late 2008, initial hopes that the region would prove relatively immune to the global turmoil evaporated. Inward FDI flows to the group in 2008 were unevenly distributed, four countries together accounted for the lion's share (77%) of the group's total inflows: Poland (\$16.5 billion), Romania (\$13.3 billion), the Czech Republic (\$10.7 billion) and Bulgaria (\$9.2 billion). As many companies scaled back or suspended their expansion plans due to the global financial crisis, FDI inflows into Poland and Bulgaria declined considerably in the end of 2008, but in the Czech Republic and Hungary they did not change significantly, despite increasing macroeconomic problems in both countries. For many years the automotive industry has been the key driver of strong FDI inflows to the new EU member countries, but the decline in euroarea car sales that began in the last quarter of 2008 has revealed the region's vulnerability on account of its heavy reliance on the industry.

Outward FDI from the region slow down in 2009. However some Russian TNCs with large cash reserves, but which are new to foreign expansion, expanded in early 2009 despite the financial crisis. For example, Surgutneftgaz bought 21.2% shares in the National Hungarian Oil Company, MOL, from the Austrian National Oil Company OMV for \$1.4 billion, marking the first major acquisition abroad by that Russian company.

Table 1 FDI Inflow/Outflow for CEEC 7

YEAR	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
FDI Inward															
Bulgaria	105.40	90.40	109.00	504.80	537.30	818.72	1,001.56	812.94	904.66	2,096.90	3,452.34	3,922.72	7,667.32	11,716.09	9,204.70
Czech Republic	868.31	2,561.83	1,428.44	1,301.37	3,717.90	6,324.00	4,984.40	5,638.90	8,492.80	2,021.60	4,978.80	11,602.80	5,459.40	10,436.50	10,730.60
Hungary	1,143.37	5,103.49	3,299.58	4,167.32	3,334.86	3,311.94	2,763.17	3,935.41	2,992.20	2,136.16	4,508.20	7,705.79	7,531.87	6,088.42	6,514.36
Poland	1,875.00	3,659.00	4,498.00	4,908.00	6,365.00	7,270.00	9,343.00	5,714.00	4,131.00	4,870.00	12,756.00	10,249.00	19,591.00	22,612.00	16,533.00
Romania	341.00	419.00	263.00	1,215.00	2,031.00	1,027.03	1,056.75	1,157.93	1,140.65	2,196.30	6,435.59	6,482.86	11,366.87	9,922.83	13,305.01
Slovakia	255.17	2,587.15	369.74	230.60	724.70	427.90	1,932.28	1,583.81	4,141.86	2,159.96	3,030.45	2,428.59	4,692.65	3,264.96	3,413.93
Slovenia	116.70	150.50	173.50	334.24	215.49	106.56	137.37	369.03	1,620.35	305.29	825.96	587.60	643.93	1,437.51	1,814.77
FDI Outward															
Bulgaria	0.18	-8.00	-28.50	-1.70	0.10	17.10	3.30	9.70	28.30	26.50	-217.00	307.60	174.90	273.60	732.50
Czech Republic	119.62	36.61	152.88	25.24	127.20	89.80	42.90	165.40	206.50	206.00	1,014.30	-18.80	1,467.10	1,619.10	1,899.50
Hungary	49.00	59.09	-3.64	461.49	278.13	249.98	620.28	368.01	277.98	1,643.04	1,119.41	2,177.95	3,873.83	3,737.04	1,660.85
Poland	29.00	42.00	53.00	45.00	316.00	31.00	16.00	-90.00	230.00	300.00	915.00	3,399.00	8,875.00	4,748.00	3,582.00
Romania	0.01	2.00	0.01	-9.00	-9.00	15.98	-12.90	-16.11	16.94	40.63	69.53	-31.09	422.76	277.84	-272.46
Slovakia	17.69	-41.40	56.53	95.22	146.60	-370.83	28.87	64.52	11.03	246.57	-21.14	149.51	511.37	383.97	258.04
Slovenia	-12.70	-10.00	7.00	30.94	-5.49	47.62	66.06	144.25	156.04	475.49	547.58	641.20	861.83	1,805.27	1,439.92

Source: UNCTAD statistics

4. Impact of foreign investments on Romanian Capital Markets

Taking into consideration the evolution of capital markets after integration in European Union, we must emphasize two factors that have influenced the growth of securities markets in the CEECs: the early development of a government debt market, and the method of privatisation chosen. Stock markets are generally more developed in countries where privatisation has been organised through the use of vouchers, such as the Czech and Slovak Republics. In the latter countries market infrastructure and regulation has been put in place after a rudimentary securities market had already developed (ex-post), in response to the needs of market participants. In other countries, such as Poland and Romania, the opposite was the case: privatisation occurred more gradually and through initial public offerings, after the necessary regulation had been put in place. In this ex-ante approach, with an emphasis on high fiduciary and disclosure standards, capital markets developed more gradually

However, not only privatisation played a crucial role. Also, the development of secondary markets in government securities was important, even if the primary purpose for policy makers has been the satisfaction of the government's borrowing needs. Secondary public debt markets provide liquidity to investors, incentives for financial market development and support interest rate liberalisation. In Hungary, for example, the existence of a liquid government securities market has contributed significantly to the growth of a wider securities market, and is considered as an important achievement in Hungarian financial sector reform.

In Romania, privatization of industry was pursued with the 1992 transfer of 30% of the shares of some 6,000 state-owned enterprises to five private ownership funds, in which each adult citizen received certificates of ownership. The remaining 70% ownership of the enterprises was transferred to a state ownership fund, with a mandate to sell off its shares at the rate of at least 10% per year. The privatization law also called for direct sale of some 30 specially selected enterprises and the sale of "assets" (commercially viable component units) of larger enterprises.

Financial and technical assistance continued to flow in from the U.S., European Union, other industrial nations, and international financial institutions facilitating Romania's reintegration into the world economy. The International Monetary Fund (IMF), World Bank (IBRD), the European Bank for Reconstruction and Development (EBRD), and the U.S. Agency for International Development (USAID) all had programs and resident representatives in Romania. Romania also attracted foreign direct investment, which in 2008 rose to \$72 billion.

Romania signed an Association Agreement with the EU in 1992 and a free trade agreement with the European Free Trade Association (EFTA) in 1993, codifying Romania's access to European markets and creating the basic framework for further economic integration. At the Helsinki Summit in December 1999, the European Union invited Romania to formally begin accession negotiations. In 2002, the target date of 2007 was set for Romania, along with Bulgaria, for its accession efforts. This was confirmed in 2003 at the Thessaloniki Summit and then in early 2005 Romania and Bulgaria signed the adherence treaty to EU. They formally joined the EU on January 1, 2007.

Growth in 2000-07 was supported by exports to the EU, primarily to Italy and Germany, and a strong recovery of foreign and domestic investment. Domestic demand is playing an ever more important role in underpinning growth as interest rates drop and the availability of credit cards and mortgages increases. Current account deficits of around 2% of GDP are beginning to decline as demand for Romanian products in the European Union increases. Recent accession to the EU gives further impetus and direction to structural reform.

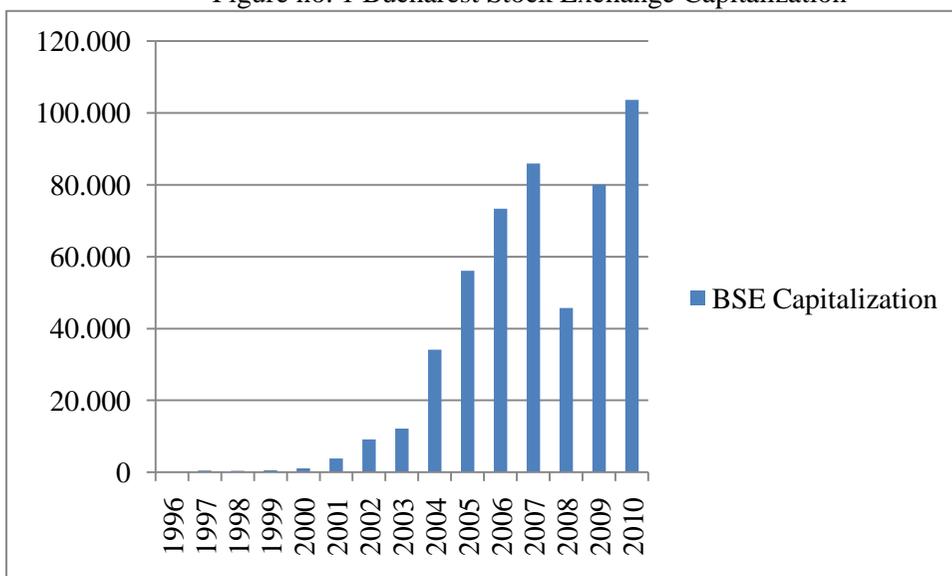
In Romania, the main regulated Stock Exchange is the Bucharest Stock Exchange. After a break for 5 decades, the Bucharest Stock Exchange was reestablished in 1995, first trading day is November 20, 1995, days that were traded 905 shares of 6 companies listed. Since reopening, the exchange has seen a continuous development. An important moment in the evolution of this scholarship is the merger with RASDAQ Exchange in 2004. Thus, in 2007 a total capitalization of the Bucharest Stock Exchange approached the threshold of \$ 12 billion and represent over

17% of GDP, thereby decreasing the gap with the stock market the most advanced Central and Eastern Europe.

According to S & P, Romanian Stock Market registered a 69.7% annualized growth in the period before EU integration, 2002-2006. During this period, Romania has the highest return on capital markets, other countries located around the same level of 60% as Bulgaria, Kenya and Ukraine. After Romania's EU integration, Romanian capital market saw an annual increase of 15 to 25% in 2007.

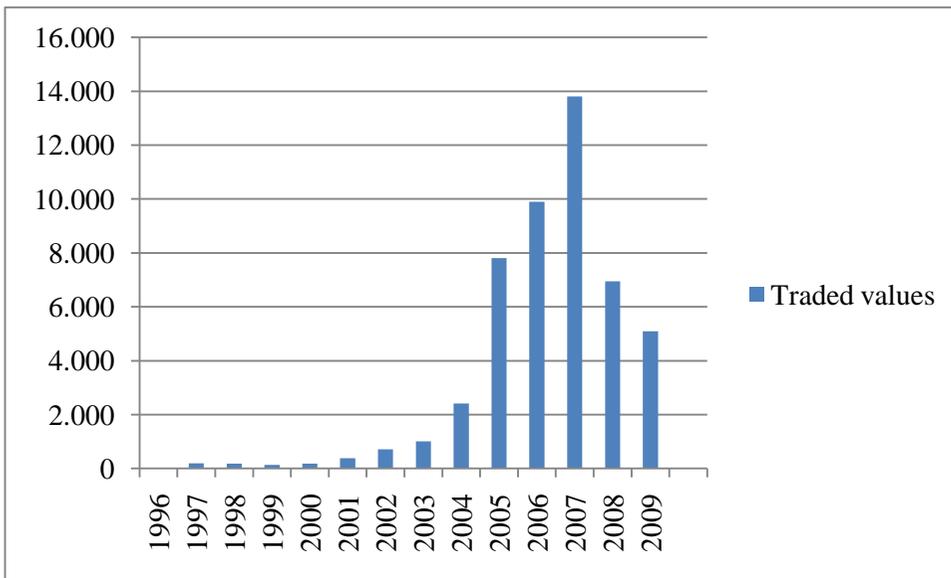
In October 2008 financial crisis caused the stock minimum both in developed markets and emerging ones. In 2008, accounted for BSE and to all participants on the domestic stock market one of the most difficult periods in modern history of capital market in Romania. After nearly a decade in which major indicators and indices of BSE have described an ascending trend, pronounced and sustained in recent years associated effects of accession of Romania to the European Union, 2008 was marked by the abrupt reversal of the upward trend of quotations and sensitive reduction of the overall stock market liquidity.

Figure no. 1 Bucharest Stock Exchange Capitalization



Source: Bucharest Stock Exchange

Figure no. 2 Traded values on Bucharest Stock Exchange

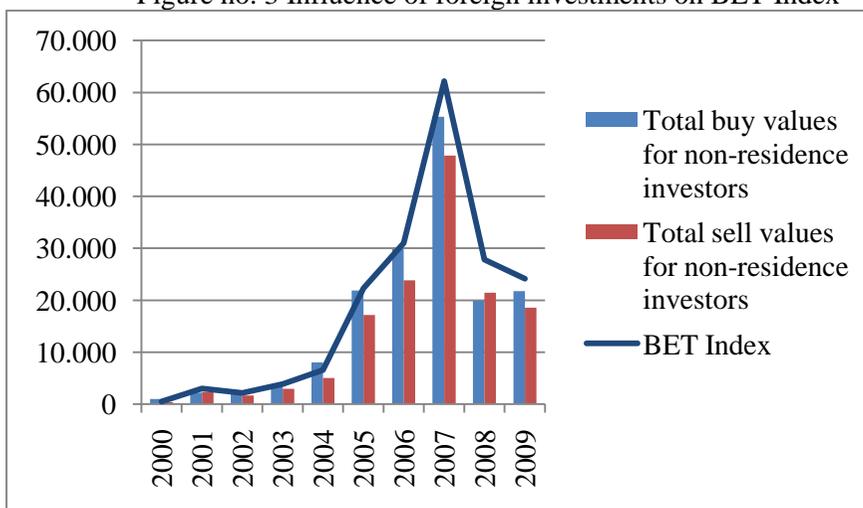


Source: Bucharest Stock Exchange

One of the most important element to influence market evolution is the foreign investors' behaviour. Starting with 2004 foreign investors are more and more attracted by Romanian capital market since it proved to bring great returns and more stability in the perspective of a future integration in EU. Romanian capital market developments have naturally reflected in the investment funds with exposure in this market. For example, East Capital Balkan Fund-fund with the largest exposure on the Romanian market of all funds managed by East Capital (12.1% in Romania) - had a dramatic increase of 239.6% during 2004 to 2007.

Analyzing the correlation between foreign investments and BSE - BET Index evolution, one can easily distinguish a strong bond between the two variables. Year 2008 proved the main vulnerabilities of this market against retiring of foreign institutional investors that caused a drop of 55% of BET Index.

Figure no. 3 Influence of foreign investments on BET Index



Source: Bucharest Stock Exchange

5. Conclusions

Economic integration refers to trade unification between different states by the partial or full abolishing of customs tariffs on trade taking place within the borders of each state. One of the most developed form of integration is European Union, Central and Eastern European countries taking the first steps to integration in 1993. Evidence prove that accession in EU comes with important foreign investments, situation that creates great benefits for an economy. Large amounts of inward FDI constituted the engine for a quick development in CEEC's economies. The recent crisis showed that large exposures that Central and Eastern European Countries have towards foreign investors can cause great turmoil once these funds exit the economy.

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EMPIRICAL EVIDENCE ON THE RELATIONSHIP BETWEEN MERGERS & ACQUISITIONS AND THE ROMANIAN STOCK MARKET

Cernat-Gruici Bogdan

*Bucharest Academy of Economic Studies
Faculty of International Business and Economics*

Constantin Laura-Gabriela

*Bucharest Academy of Economic Studies
Faculty of International Business and Economics*

Iamandi Irina-Eugenia

*Bucharest Academy of Economic Studies
Faculty of International Business and Economics*

Based on empirical studies and theoretical evidence, the paper investigates the relationship between mergers and acquisitions in Romania and Romanian stock market, described by the BET and BET-C indexes. By using the Granger causality test for the number of mergers and acquisitions, the research results suggest that, for the market and period considered, one way and both ways relationships are present.

Keywords: Mergers, Acquisitions, Granger Causality, Stock Market Index

JEL code: G34; G30.

Introduction

An important issue which regards mergers and acquisitions activities (M&A) and the stock market is whether M&A can be used as a predictor for the stock market performance or whether the stock market exerts an influence over the M&A market, and which one influences the other in a more significant manner. The practical relevance of the matter is determined by the fact that stock market performance can be used as a determinant factor for mergers and acquisitions and vice-versa. While the issue remains open for discussion, there are many previous studies that use a variety of approaches in order to determine the before mentioned relationships.

In one of the earliest relevant studies on the issue, Nelson (1959) used quarterly data to investigate the relationship between merger activity, stock market prices and industrial production over the period 1895-1956. By using simple regression analysis, he found that there was a positive and significant relationship between merger activity and stock market prices between 1895 and 1920 and 1895 and 1956.

In more recent studies, Clarke and Ioannidis (1996) investigated the relationship between merger activity and the stock market by using two measures of merger activity (number and value) in the UK, with quarterly data from January 1971 to April 1993, on one side, and the London Stock Market Index, on the other side. In their case, the Granger causality test shows that “real” stock market prices “Granger cause” both numbers and real values of mergers.

Another milestone study was developed by Sharma and Mathur (1989), in which the results of the study, based on the Granger test for causality, indicated very strong causality going from stock market prices to merger activities. They also found that increases in stock market prices lead to increases in the number of mergers being completed.

Other studies have produced contrary results to the ones previously mentioned. Geroski (1984) looked at the relationship between mergers and the stock market index and found no link between mergers and stock prices. He also found that correlations between the

variables considered were unstable. Guerard (1989) found no evidence of “Granger causality” running from stock prices or industrial production to mergers in US data during 1895-1964.

A highly relevant study regarding emerging markets made by Harvey (1995) shows that these markets are characterized by high returns and high risks. When he analyzed the predictability of emergent markets, he concluded that they are more likely than developed markets to respond to local information. The results are relevant for this paper due to the fact that the mergers and acquisitions market is a carrier for high volume of information that may be used by investors.

Based on previous empirical studies and theoretical evidence, in this paper we investigate the relationship between **mergers and acquisitions in Romania** and the **Romanian stock market described by the BET and BET-C indexes**.

1. Data

To prove the relationship between mergers and acquisitions and the stock market we used quarterly and semestrial data on the number of mergers and acquisitions in Romania from January 2000 to December 2009. The BET and BET-C indexes were chosen as the measure of stock market performance resulting in the usage of six indicators as follows:

MA_QUART	Quarterly Number of M&As
MA_SEM	Semestrial Number of M&As
BET_QUART	Quarterly BSE index of the most liquid 10companies
BETC_QUART	Quarterly BSE index of all listed companies
BET_SEM	Semestrial BSE index of the most liquid 10companies
BETC_SEM	Semestrial BSE index of all listed companies

Augmented Dickey-Fuller Unit Root Tests were performed for all data series in order to check the stationarity condition and the first difference was used to stationarise the number of mergers and acquisitions series both for quarterly and semestrial data.

2. Methodology and Results

To test whether stock market activity is a useful predictor of mergers or vice-versa, we used the Granger causality approach (Granger, 1969; Sims, 1972). The basic idea behind this is that “cause cannot come after effect” and that “correlation is not the equivalent of causality”. If in a set of two covariance stationary variables, the lagged values of variable “x” affect variable “y”, then “x” can be used to predict “y”, i.e. “x” “Granger causes” “y”. The approach to the question of whether “x” causes “y” is to see how much of the current “y” can be explained by past values of “x” and then to see whether adding lagged values of “x” can improve the explanation of “y”. “Y” is said to be Granger-caused by “x” if “x” helps in the prediction of “y” or, equivalently, if the coefficients on the lagged values of “x” are statistically significant.

For the optimum lag length, being the shortest lag for which no autocorrelation is found in either of the equations entering the VAR, we have tested all instances for which Granger causality tests will be performed using the following lag length criteria: Sequential modified LR statistic test (each test at 5% level), Final prediction error, Akaike information criterion, Schwarz information criterion and Hannah-Quinn information criterion. The following optimum lag lengths have resulted:

Series	Optimum lags
MA_QUART	1
MA_SEM	1
BET_QUART	1
BETC_QUART	1
BET_SEM	1
BETC_SEM	1

We first test for “Granger causality” between the number of mergers and acquisitions on a quarterly basis and the BET stock market index. The first results show that the hypothesis of “non-causality” from quarterly stock market returns to quarterly number of acquisitions was rejected at 5% level of significance. We were not able to reject the complementary hypothesis that acquisitions do not “Granger cause” stock market prices.

Table 1:

Causality between the quarterly number of mergers and acquisitions and BET stock market index from January 2000 until December 2009

Lags: 1			
Null Hypothesis:	Obs	F-Statistic	Probability
MA_QUART_D1 does not Granger Cause BET_QUART	38	0.24538	0.62345
BET_QUART does not Granger Cause MA_QUART_D1		6.16241	0.01799

The same conclusion is drawn when examining the causality relationship between the number of acquisitions and BET-C stock market index. For the considered lags, the hypothesis of “non-causality” from stock market performance to mergers and acquisitions was rejected at 5% level of significance. We were not able to reject the complementary hypothesis that acquisitions do not “Granger cause” stock market prices.

Table 2:

Causality between the quarterly number of mergers and acquisitions and BET-C stock market index from January 2000 until December2009

Lags: 1			
Null Hypothesis:	Obs	F-Statistic	Probability
MA_QUART_D1 does not Granger Cause BETC_QUART	38	0.00048	0.98264
BETC_QUART does not Granger Cause MA_QUART_D1		5.28758	0.02756

As a sum up, we can clearly state that, for the considered time period, market and data frequency evidence of one way causality between the stock market and acquisitions was discovered. This means that a growing market represents a sufficient incentive to attract companies to make acquisitions on the considered market. The same cannot be said vice-versa, meaning that the volume of mergers and acquisitions does not exercise influence on the stock market.

*Table 3:
Causality between the number of mergers and acquisitions and BET stock market index from
January 2000 until December 2009 on a semestrial basis*

Lags: 1			
Null Hypothesis:	Obs	F-Statistic	Probability
MA_SEM_D1 does not Granger Cause BET_SEM	18	8.02696	0.01259
BET_SEM does not Granger Cause MA_SEM_D1		3.45516	0.08279

The findings presented Table 3 show that, for a 10% level of significance, the hypothesis for non causality can be rejected in the case of the stock market index “does not Granger cause” the number of acquisitions. In contradiction with the observed results, in the case of quarterly data, the number of mergers and acquisitions on a semestrial basis “Granger causes” the BET index.

*Table 4:
Causality between the number of acquisitions and BET-C stock market index from January 2000
until December 2009*

Lags: 1			
Null Hypothesis:	Obs	F-Statistic	Probability
MA_SEM_D1 does not Granger Cause BETC_SEM	18	3.72740	0.07265
BETC_SEM does not Granger Cause MA_SEM_D1		3.96562	0.06497

The conclusion resulting when examining the causality relationship between the number of acquisitions and BET-C market index in a semestrial frequency is that, for the considered lags, the hypothesis of “non-causality” from stock market returns to acquisitions was not rejected at 10% level of significance. We were also able to reject the complementary hypothesis that acquisitions do not “Granger cause” the BET-C stock market index.

Bellow we provide a sum up of the results regarding the causality findings between the number of mergers and acquisitions and the Romanian stock market:

*Table 5:
Sum up of the Granger causality tests*

Instance	Significance	Lags
Number of M&As “Granger cause” the:		
Quarterly BET index	Not significant	1
Quarterly BET-C index	Not significant	1
Semestrial BET index	Significant at 5%	1
Semestrial BET-C index	Significant at 10%	1
Number of M&As is “Granger caused” by the:		
Quarterly BET index	Significant at 5%	1
Quarterly BET-C index	Significant at 5%	1
Semestrial BET index	Significant at 10%	1
Semestrial BET-C index	Significant at 10%	1

3. Conclusions

The results found in this paper are consistent with the findings of Clarke and Ioannidis (1996) and Sharma and Mathur (1989), in the way that stock market prices “Granger cause” acquisitions.

The first results show that the number mergers and acquisitions are “Granger caused” by stock market prices represented by the BET and BET-C indexes, adding to the theory that CEOs’ decisions to merge with or acquire companies are strongly influenced by the respective stock market evolution, driven by the perspective of high future market capitalisation.

In the case of semestrial data regarding the causality relation between the number of mergers and acquisitions, two way causality was found for the BET index and BET-C index. Even though the semestrial frequency data results have less statistical significance than in the case of quarterly frequency data results, proof is still found that the stock market “Granger causes” acquisitions and strong proof is found that the volume of mergers and acquisitions “Granger causes” stock market prices.

Overall results indicate that a solid or unstable stock market does indeed encourage or, respectively, discourage CEOs to initiate costly merger and acquisition transactions. Even though the market may act as a safety net in case of failed mergers and acquisitions, the success of such actions cannot be fully ensured by a growing market, thus a high volume of mergers and acquisitions fail even during favourable market periods. The results of this paper also indicate that informational content provided by M&A activity can be used as a predictor for the stock market performance.

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THE PERSPECTIVES OF EURO INTEGRATION IN ROMANIA, IN THE UNCERTAINTY CONTEXT AROUND THE FOREIGN MARKETS

Ciobanu (Sireteanu) Elena

„Alexandru Ioan Cuza” University of Iași

Faculty of Economics and Business Administration

Doctoral School of Economics

This paper has the object to analyze to what extent Romania fulfils the Maastricht criteria in comparison to some countries which are candidate members from Central Europe, in the today's unfavorable context which has been achieved under the actual global financial and economic crisis and with an important impact on the disfunctionalities which appeared in the emergent economies and also in those from the Euro Zone. Romania's modernization towards the European Monetary Union is a complex and hard process which contains real and coherent economical policies pointed towards the accelerated diminution of the economic development differences and that is why a quick adoption of Euro, at this moment it is not an alternative.

Keywords: nominal convergence, real convergence, global crisi, exchange rate mechanism II, euro area

JEL classification: F33, F36

Introduction

Since it is known, starting from the 1st of January 2007, Romania is a member state of the European Union, with a status of “state with derogation”, because at the time of joining it did not comply with all the criteria demanded by the European Monetary Union (EMU), stated by the Maastricht Treaty. However, though the new members bind to join the Euro Zone as soon as they fulfill all the nominal convergence criteria, these cannot choose the way out from the euro zone, a possibility which is approved for any of the actual members of the E.U (Denmark and U.K). Sweden also has not achieved permanent derogation, but it postpones the adoption of the euro currency because it does not fulfill all conditions imposed by the treaty.

The joining of the European Union and also the entrance in the euro zone can be seen as stages in the process of acceleration and diminution of the gaps in the economical development. Also, the adoption of an unique euro currency represents the finality of a complex process of convergence, not the beginning of one, in particular, it does not eliminate the necessity of solving the macro economical unbalances which exist between the countries.

The broach of the participation in the ERM II⁴³⁶ represents a very important component for the trajectory of the Romanian economy towards the integration in the EMU. That is why, the moment of integration in the ERM II must be chosen so that a two year term for the participation in this exchange currency mechanism must be sufficient for the satisfaction of all nominal convergence criteria, before the adoption of Euro in Romania.

The fulfillment of all nominal criteria for the entrance in the euro zone must not determine a decrease of the importance granted to the real convergence process. However, without the recording of major progress in the real convergence domain, the sustainability of the nominal convergence is being severely affected. Regarding the existence of some relations between the nominal convergence and the real one, also between the community's institutions and national authorities from the E.U. countries, we could say that there is a consensus, meaning that the two

⁴³⁶ Exchange Rate Mechanism II.

processes must be realized in the same time, as some authors sustain⁴³⁷ “the nominal convergence and the real convergence are two sides of the same coin, and must be realized simultaneous” The practice demonstrates that, the national authorities from the E.U member countries have been concerned on the realization of the nominal convergence, for the fulfillment of the conditions imposed for the E.U. joining, being in its essence a practical decision.

The process of nominal convergence

The Maastricht Treaty brings in front of the candidate states a series of criteria, extremely precise and strict economical objectives, whose accomplishment follows actually the nominal convergence for the introduction of the euro, and these must be totally respected and in a sustainable manner.

The Treaty does not contain a strict calendar for the adoption of the euro currency; this process is left at the latitude of each country in consulting with the European Commission and the Central European Bank.

Table no.1 contains the principal indicators of nominal convergence established by the Treaty and the way in which these criteria will be achieved by Romania in the period before and after the joining of the E.U.

Romania has continued the process of disinflation also after the joining of the E.U., with interruption of this tendency in 2008, where we can see an increase than the year 2007, with 3.01 procentual points, a situation determined at first by the numerous heterogeneous factors and also by those exogenous (the increase of international prices for the manufacture materials and for the fuel).

The dynamic of the inflation rate between 2006-2009, reflects in terms of nominal convergence indicators, a surpass of the nominal criteria with 3.85 procentual points for the year 2009.

Regarding the criteria of interest rates on long term, this was far from the reference criteria in 2008, and also in 2009, on the background of financial turbulences which have marked the increase of aversion towards the risk from the financial investors.

Between 2006-2008, the variation of the exchange rate for the national currency in comparison with the euro has not been excelling the standard band of $\pm 15\%$ from the reference level. But, starting from the 4th trimester of 2008, the crisis global effects have been reflected also on the financial market, and the reevaluation in an ascendant level of the associated risk for Romania has conducted to a depreciation tendency for the RON which has been accentuating during 2009, passing 18% percent.

Regarding the importance of the consolidated budget deficit in GDP, this has been situated between 2006-2007 under the level established through the Maastricht Treaty. The increase of the public costs and the powerful decrease of the GDP's dynamic, starting with the 4th trimester from 2008, have influenced in an unfavorable way the balance between the budget deficit and the GDP, in 2008 and also in 2009, overtaking significantly the value of 3% from the reference criteria. As a consequence of these financial inadequate evolutions, from October 2009, Romania has been put under the procedure of excessive deficit. On all the period being analyzed, the public debt of Romania continued to register net levels inferior than the Treaty's⁴³⁸ concerted stipulated limit.

⁴³⁷ Bărglăzan Diana, Analiza economiei românești prin prisma criteriilor de aderare la Zona Euro, Colecția “Biblioteca Băncii Naționale” – Convergența reală și convergența nominală în procesul aderării României la Uniunea Europeană, Conferința tinerilor economiști (București – septembrie 2004), Ed. Enciclopedică, București 2005, p.6.

⁴³⁸ According to estimates made by the IMF, during the evaluation mission from trim. I. of 2010, Romania, in 2010 can afford a level of public debt exceeding 35% of GDP.

Table no. 1 Nominal convergence indicators for Romania in 2006-2009

Nominal Convergence Indicators	Maastricht Criteria	Romania			
		2006	2007	2008	2009
Inflation rate (HICP) (percent, annual average)	<1.5 pp above the three best performing Member States 4.0 percent for 2008 1.6 percent for 2009	6,56	4,84	7,85	5,6
Long-term interest rates (percent, per annum)	<2pp above the three best performing Member States 6.2 percent for 2008 5.3 percent for 2009	6,51	6,7	7,7	9,7
Exchange rate (vs. euro)	+/- 15 percent	+6,4/ -9,1	+11,0/ -6,4	+9,7/ -14,6	+1,6/ -18,2
General government deficit (percent of GDP)	Below 3 percent	-1,9	-3,2	-5,4	-7,9
Government debt (percent of GDP)	Below 60 percent	12,4	12,6	13,6	21,0

(HICP) – Harmonized index of consumer prices according to Eurostat methodology

Source: revised after ECB, Convergence Report, May 2008, NBR, Monthly bulletin, December 2009 and www.bnr.ro

As well as it have been presented before, neither the inflation rate, nor the level of interest, the exchange rate or the budget's deficit are not at the moment at an European level, only one criteria from all of these five is under the reference level of values, but bringing them in tolerable limits is quite hard.

In comparison with the other Central-European countries, which are candidates for the EMU, Romania's performances registered in the convergence process are weaker than those of the others, as well as it can be observed in the table no.2.

On March 24, 2010, the European Commission assessed the convergence programs for the period 2009 -2012 in the Czech Republic, Poland, Romania and Hungary. Evaluated programs showed a debt to GDP below 60% over the period 2009 -2012, concerning the Czech Republic, Poland and Romania.

Regarding Romania, according to the recommendations of the E.U. Council, it aims at reducing the public deficit from 7.9% of GDP to 3% of GDP in 2012. Planned fiscal adjustment is concentrated in the early period (2010 to 2011).

European Commission underlines that Romania's convergence program details not sufficient consolidation measures to be taken in 2011 and 2012, however, it is expected in the medium term the budgetary framework from 2011 to 2013 to include more information.

Following the fiscal developments in the period 2008 - 2009, in the above table, we see that in most euro area countries, fiscal positions have seen a marked deterioration. Thus, the end of 2009 was the highest since the establishment of EMU budgetary deterioration, when 14 of the 16 Euro Zone countries have seen share of GDP public deficit higher than the 3% level. Finland and Luxembourg were the only countries where the government deficit has remained within the limits set by the Stability and Growth Pact. Most inappropriate developments have been recorded on three countries: Greece (-12.7% of GDP), Ireland (-11.7% of GDP) and Spain (11.4% of GDP).

Table no.2 The way of fulfilling the Maastricht Treaty Criteria, 2008

	HICP	Long-term	Exchange	General	General	Nr.
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	(percent annual average)	interest rate (percent per annum)	rate vis-à-vis euro	government surplus (+) or deficit (-) (percent of GDP)	government debt (percent per annum)	Fulfilled criteria
<i>Criterion</i>	4,1	<6,24	+/-15	-3	<60	5
<i>Czech Republic</i>	6,3	4,6	+20,9/ -3,5	2,1	30,0	3
<i>Hungary</i>	6,1	8,2	+11,3/ -10,6	3,8	72,9	1
<i>Poland</i>	4,2	6,1	+18,9/ -8,5	3,6	47,2	2
<i>Romania</i>	7,85	7,7	+9,7/ -14,6	5,4	13,6	2

Source: revised after ECB, Monthly Bulletin, March 2010, NBR, Annual Report, 2008, p. 129, and www.bnr.ro

Table no.3 Financial Evolution in EURO area for 2008-2009

	General government deficit (percent of GDP)					Government debt (percent of GDP)				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Belgium	-1,2	-5,9	-4,8	-4,1	-3,0	89,8	97,9	100,6	101,4	100,6
Germany	0,0	-3,2	-5,5	-4,5	-3,5	65,9	72,5	76,5	79,5	81,0
Ireland	-7,2	-11,7	-11,6	-10,0	-7,2	44,1	64,5	77,9	82,9	83,9
Greece	-7,7	-12,7	-8,7	-5,6	-2,8	99,2	113,4	120,4	120,6	117,7
Spain	-4,1	-11,4	-9,8	-7,5	-5,3	39,7	55,2	65,9	71,9	74,3
France	-3,4	-7,9	-8,2	-6,0	-4,6	67,4	77,4	83,2	86,1	87,1
Italy	-2,7	-5,3	-5,0	-3,9	-2,7	105,8	115,1	116,9	116,5	114,6
Cyprus*	1,0	-0,8	-1,4	-1,9	-2,2	49,3	46,8	45,4	44,2	44,2
Luxembourg	2,5	-1,1	-3,9	-5,0	-4,6	13,5	14,9	18,3	23,9	29,3
Malta	-4,7	-3,8	-3,9	-2,9	-2,8	63,6	66,8	68,6	68,0	67,3
Netherlands	0,7	-4,9	-6,1	-5,0	-4,5	58,2	62,3	67,2	69,6	72,5
Austria	-0,4	-3,5	-4,7	-4,0	-3,3	62,6	66,5	70,2	72,6	73,8
Portugal*	-2,2	-3,9	-2,9	-2,3		65,9	69,7	70,5	70,0	
Slovenia	-1,8	-5,7	-5,7	-4,2	-3,1	22,5	34,4	39,6	42,0	42,7
Slovakia	-2,3	-6,3	-5,5	-4,2	-3,0	27,7	37,1	40,8	42,5	42,2
Finland	4,4	-2,2	-3,6	-3,0	-2,3	34,2	41,8	48,3	52,2	54,4
Euro Area	-2,0	-6,2	-6,6	-5,2	-3,9	69,4	78,7	83,9	86,5	87,3

*for Cyprus and Portugal the dates have been collected in January 2009

Source: ECB, Monthly Bulletin, March 2010, p. 84

Most Euro Area countries are subject to excessive deficit procedures (13 Countries), except Cyprus, Finland and Luxembourg and which will initiate the process of fiscal consolidation starting from 2010 / 2011, according to the recommendations of the excessive deficit procedures. A similar situation is found in the case of the indicator which reflects the share of public debt to GDP, across the Euro Zone, which increased from 69.4% in 2008 to 78.7% in 2009. Looking at the individual level, we find that in 2009, only six Euro Zone countries - Cyprus, Luxembourg, Spain, Slovenia, Slovakia and Finland - have recorded levels of public debt below 60% of GDP.

With a debt of 113.4% of GDP and a budget deficit of 12.7% of GDP, Greece is in the worst situation, with great difficulty to meet deadlines. It is not the only country causing concern in the Euro Zone, there are also some others (Ireland, Spain, Italy).

Adverse fiscal developments were caused, in general by many factors: (i) the financial crisis and economic downturn have led both to decreased tax revenues and increased social spending and structural costs, (ii) the adoption by the central government from Euro Zone of consistent packages of tax incentives, (iii) many countries have adopted comprehensive measures to stabilize the financial sectors, which influenced the public debt ratio in 2009. According to the stability programs 2010-2012 submitted by Euro Zone countries, the European Commission shows that most countries are now subject to excessive deficit procedures which were designed to reduce the public deficit ratio to GDP below 3%, by 2012, while the share of public debt to GDP euro area is projected to rise further to 87.3% in 2012.

Those described above, show that public budgets of big countries in Europe have deteriorated and remain without prospects for the next period, and funding imbalances in the future Member States would be very difficult.

Real convergence process

The Maastricht Treaty does not explicitly mention the real convergence criteria, but are equally important for the euro currency.

The assessment of the opportunities into the Euro Zone is considering and analyzing indicators such as: GDP per inhabitant, the structure of the national economy branches (% of GDP), the openness of the economy, foreign trade and its degree of integration into EU and the costs of labor.

GDP per inhabitant expressed in purchasing power standard, rose in a sustained process of catching up to the euro area externally, reaching in 2008 to a level about 40 % of GDP per person for the Euro Zone. All these developments occurred as a result of sectorial structure of economic convergence. The openness of the Romanian economy has continued during 2002 - 2008 around 75%, while the EU is the main trading partner, but in the year 2009, the indicator fell to 68% mitigation fund export controls. Also, in terms of Romanian financial system development, it is highly integrated into the European Union, however, there are indirect financial intermediations to levels lower than the Euro Zone.

Projections for euro adoption

The euro currency adoption requires participation for at least 2 years in ERM II mechanism (Exchange Rate Mechanism II).

This mechanism performs a dual role, representing the same exchange rate arrangement for the currency of the candidate countries integration into the EMU and a nominal criterion for accepting the Euro Zone. The first situation involves keeping an ERM II standard fluctuation band against the euro of $\pm 15\%$. Nominal convergence criteria for euro area entry were presented in Table 1. To establish a coherent timetable for adopting the single currency, there have been made two fundamental decisions related to the entry into the ERM II mechanism and duration of participation in this mechanism.

The European Central Bank recommended that the entry into the ERM II mechanism should be made after that country's EU accession and participation in ERM II period would not be exceeding the mandatory period of 2 years. This implies that the countries have enhanced macroeconomic stability at the time of entry into the mechanism. It is also an important achievement of a sustainable manner of nominal convergence criteria.

For Romania, the euro involves three steps:

- the period before entry into the Exchange Rate Mechanism II, which requires consolidation of disinflation, financial market development and convergence of long-term domestic interest

rates, the relative stability of the RON exchange rate around the long-term equilibrium level and deepening structural reforms;

- the second step towards the entry into ERM II is planned for 2012. Time was chosen taking into account the need for meeting the nominal convergence criteria while achieving significant progress in the process of real convergence;
- entry into the Euro Zone was expected by the year 2015.

Since that time, Romania will participate in the mechanisms of coordination of economic policies of the euro area, and should comply with the Stability and Growth Pact, which is related mainly to finance public health. Also, Romania will adopt the common monetary policy of the European Central Bank and will need to have mechanisms for automatically balancing the economy and increase the speed of reaction of fiscal policy to symmetric/asymmetric shocks which will be confronted with the domestic economy.

Conclusions

The euro in 2015 should be one of strategic targets for Romania. In these circumstances the provisions Convergence Programme for Romania's accession to the Euro Zone would be a possible correlation between the achievement of nominal convergence and real convergence. But without consolidating disinflation, increasing the competitiveness of Romanian exports, and increase predictability and performance of medium-term fiscal policy, also increased absorption of EU funds and strengthen structural reforms, the euro will become a target of increasingly distance.

In this context, National Bank of Romania (NBR) also insists for the 2014-2015 calendar, when Romania should be very well prepared for the adoption of Euro, otherwise we are assuming major risks.

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HAVE THE RECENT CRISIS AFFECTED FOREIGN BANKS' POSITIONS IN CENTRAL AND EASTERN EUROPE? (II – FOCUS ON ROMANIA)

Bădulescu Daniel
University of Oradea
Faculty of Economic Sciences

The aim of this paper is to investigate the extension to what foreign banks reacted during recent crisis in supporting their Romanian subsidiaries and thus the local economy. The analysis focuses on the interpretation of foreign claims broken by maturity, sector, local versus foreign denomination currency, and liabilities. The data were completed with a brief analysis of internal credit (governmental and non-governmental) and finally with an analysis of the behavior of foreign banks located in Romania on the basis of the parent bank's country of origin.

Key words: foreign banks, economic crisis, Romania

JEL Classification: E5, G21

1. Introduction

Following the methodology and approach developed in the first part of the paper, we will try to extend the research on foreign banks' behaviour regarding the support they provided to their subsidiaries their during crisis time, in the case of Romania. We are interested an evolutive, sectoral perspective, combining data regarding the evolutions of total foreign claims, internal credit (governmental and non-governmental) and liabilities. Finally, we are interested to find out if the banks originated in certain countries had a more unstable action comparing with others.

2. The analysis of foreign claims

Starting with the general findings about the evolution of foreign claims in several selected Central and Eastern European countries, we have to further develop the analysis by taking into consideration the developments of foreign claims, on a quarter basis, since Q4 2005 to the most recent available data. Table 1 summarises the data by maturities, sectors and claim type.

This information related to Romanian banking system shows that the indicators on foreign banks – both on cross border credit and on local credit grant by implanted banks – show a significant increase in the third quarter of 2009 comparing with December 2005, but considerably inferior to the amount registered in the maximum periods (end of 2007 until September 2008). Decreases go from 9-10% for total external credit to 39% for cross border credit.

Table 1. Claims of BIS reporting banks on Romania (2005-2009)

Period	Total foreign claims	Total international claims	Consolidated cross- border claims in all currencies and local claims in non local currencies, on maturities and sectors:						Claims in local currency of reporting banks' foreign offices with local residents	Total foreign claims
			<1 year	1-2 years	>2 years	Banks	Public sector	Non-bank private sector		
	A + L	A	B	C	D	F	G	H	L	R = A+L+Q
Q.4 2005	31984	22240	10599	1145	9050	5851	4358	11749	9744	30272
Q.4	92956	66898	40395	2560	18165	17272	6254	42249	25698	75313

2006										
Q.2 2007	102990	70711	41447	3738	22954	13028	7330	49248	32279	83543
Q.4 2007	129381	90799	49785	4984	33392	16777	8955	64292	38582	109108
Q.2 2008	129810	85401	38132	8775	35003	15082	11451	58007	44409	128034
Q.3 2008	123930	82948	38327	8071	33247	14659	10623	56945	40982	122432
Q.4 2008	121089	83463	37934	7660	34718	14039	11593	57049	37626	120249
Q.1 2009	114759	78334	34885	7817	32837	12140	11901	53613	36425	114080
Q.2 2009	118999	79169	38389	7909	31860	11290	12246	54964	39830	117863
Q.3 2009	117835	79924	30768	8700	37136	9126	13048	56996	37911	116073

Source: own calculation based on BIS data, different years

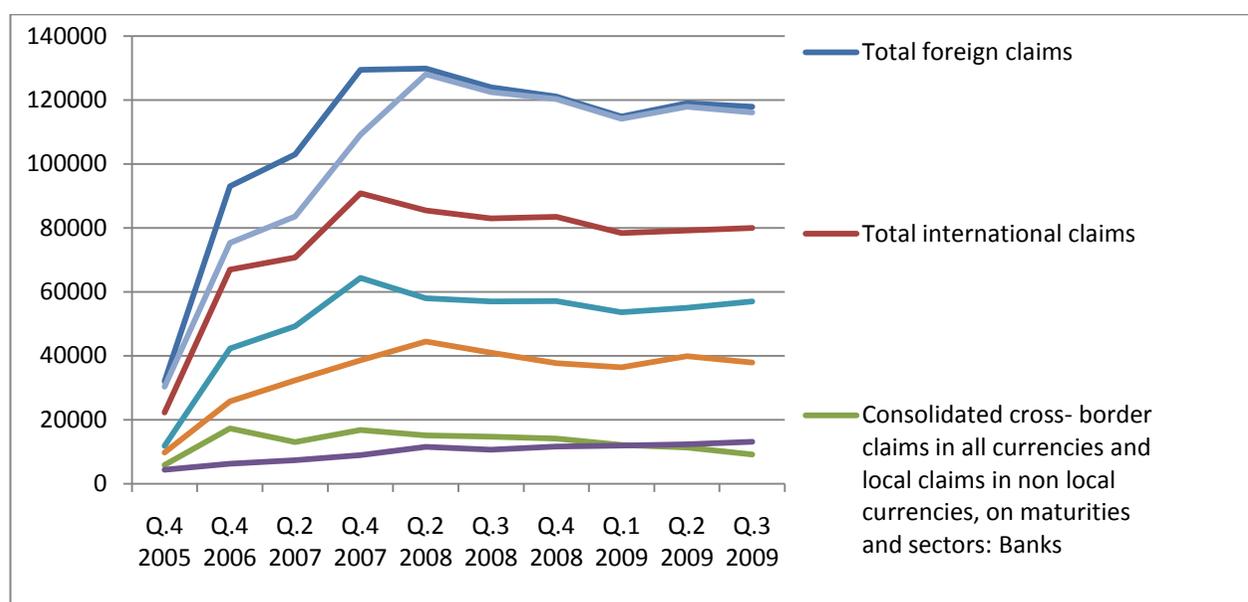


Chart 1. Claims of BIS reporting banks on Romania (2005-2009)

Source: own calculation based on BIS data, different years

3. Internal credit developments

Based on the National Bank of Romania data for 2009⁴³⁹, we can notice that in 2009 the increase of total credit was mainly represented by the government credit (increasing with more than 1,7 times in 2009 versus 2008 and 3,9 ori comparing with 2007), and less on non-government credit (only 1% in 2009 comparing with 2008) – see Chart 2.

⁴³⁹ National Bank of Romania, *Monthly bulletin*, January 2010, www.bnr.ro

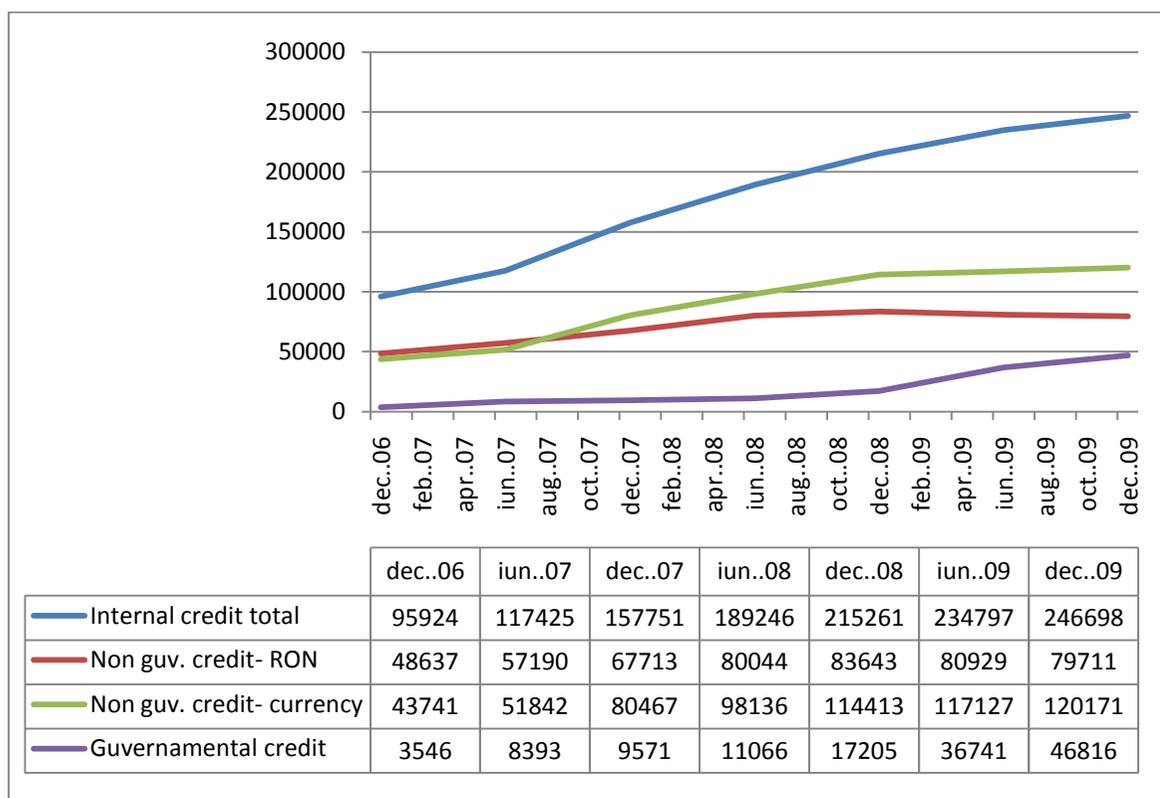


Chart 2. Evolution of internal credit, government and non-government between December 2006 and December 2009

Source: NBR, Monthly bulletin January 2010

Analysing this data together with the data regarding foreign banks' involvement, we can draw the following conclusions:

- Both foreign and domestic banks demonstrated a much reduced interest – comparing with the pre-crisis period – in financing the real economy; they all reported a greater preference in government financing;
- The foreign claims – either referring to cross-border credit or to locally granted credit supplied by the Romanian located subsidiaries of the foreign banks, followed the same pattern; the interest and involvement in the Romanian economy were achieved especially by the financing supplied for the government (in local currency or foreign currency) in the same time with an effective withdrawal from the real economy or population financing;
- The withdrawal of Romanian located foreign banks is confirmed also by the consistent decrease of cross-border credit granted to the Romanian bank sector (decreasing by more than 34%), comprising here the greatest part of the credit supply by parent banks to their own subsidiaries locally implanted in Romania;
- Within the total claims of foreign banks on Romania, the most significant decrease is registered in the case of lending provided in local currency by the subsidiaries of the foreign banks located in Romania, fact indicating a reducing involvement in the Romanian economy and a pro-cyclical action.

In the better possible case, accepting with honest-mindedness the foreign banks' representants statements about their maintained interes regarding the Romanian economy⁴⁴⁰, this fact can be seen as a consequence of the capital re-allocation decisions according to the market oppotunities in risk-aversion conditions.

It worths mentioning that the developments could be much more dramatic then the effective ones, in the absence of international support provided by the EU and the IMF. As Mugur Isarescu, the NBR Governor stated, "the import of credibility from the EU and the IMF determined some private financing not to reduce themselves or to reduce less; this financing positively reflected itself in several directions: relatively larger investment comparing with the situation ob absence of these agreements (with EU and IMF – n.n.); diminishing the depreciation and temperating the foreign exchange rate volatility of the romanian leu relative to euro and other currencies; the Wien agreement on the banks engagement to renew the existing finance lines and to maintain capital adecquation ratios to secure levels"⁴⁴¹.

4. The liabilities' perspective

Foreign banks' involvement in the economy of developping countries has to be completed with the analysis of local liabilities denominated in local currency. Even the relevance of this indicator seams reduced compared with the measure of credit granted (to bank sector, non-bank private sector, public sector in the host country), it reveals it's importance through several issues.

On one hand, an important issue is the way in which the capital entried the host country⁴⁴². Where the entrance was achieved by cross-border granted international claims – the involvement in deposit collection is very low and insignificant. In the case of greenfield involvement, the resources' collection from that country's residents – especially in local currency – is limited especially by the network size, type of clients etc. Finally, if the foreign capital entry is achieved by the acquisition of a existing local bank, often with an important market share in the host economy, it is highly possible that the dimensions, size and expertise of the network, and the contact with the local clients rise the availability and willingness of the new entities to continue their involvement also in resource and deposits collection, in local or foreign currency, at the same time with the appeal to the cheaper, foreign currency resources supplied by their parent bank.

On the other hand, the relevance of this measure is shown by the different way in which the foreign banks' subsidiaries approach the effects of the crisis. Starting from de Hass and Lelyveld findings, we can state that the extension and measure in wich a foreign bank involves in resource collection and lending in local currency can generate two possible developments:

- Increasing it's relative independance toward their parent bank regarding the resource supply and thus valorising more rapidly and more effective the growing opportunities in the local market, exceeding the estimations at the time of implantation;
- On other hand, in crisis times, and in the case when parent bank has not a high financial power and/or experiences difficulties on their home market, the parent bank's support to

⁴⁴⁰ Parent groups of the main 9 banks with foreign capital signed in August 2009, bilateral letters of engagement to maintain the exposure level on Romanian market and the solvency ratio to over 10%. The banks signing the agreement – Erste Bank, Raiffeisen International, Eurobank EFG, National Bank of Greece, Societe Generale, Alpha Bank, Volksbank, Piraeus Bank and UniCredit – counted for about 70% of the Romanian banking market

⁴⁴¹ Isarescu Mugur (2009), *Finantarea dezechilibrului extern si ajustarea macroeconomica in conditiile crizei financiare*. *Cazul Romaniei*, NBR

⁴⁴² see Grubel, H., *A Theory of Multinational Banking*, Banca Nazionale del Lavoro Quarterly Review, nr. 123/1977 Konopielko, L., *Foreign Banks Entry into Central and East European Markets: Motives and Activities*, în "Post-Communist Economies", vol. 11, nr. 4/1999, apud: Badulescu, D. (2007), *Globalizarea si bancile. Cu o privire specială asupra Europei Centrale și de Est și asupra României*, Editura Economica, Bucuresti

its subsidiaries reduces. As a consequence, these subsidiaries masivly involved on the local market through lending and deposits will behave more as a domestic bank, acting pro-cyclicly and suffering the majority of the crisis' effects on the host market. In other words, the consistent support of the parent bank – possible if this parent banks is a powerful multinational bank – is decisive in maintaining the subsidiary as a bank less affected but the crisis in the host country; in a more general approach, this fact justifies the statements regarding the positive effects of foreign banks involvement on the developing countries in the case of entry of powerful banks, originated from developed economies.

Different from the evolution of the indicators analysed in table 2 and 3, the information in Chart 3 shows a similar evolution of local liabilities for all analysed countries; the difference only comes from the lag of starting the crisis or the amplitude of decrease for each country:

- All countries experienced considerable decreases of these liabilities, from -49% in the case of Poland and -42% in Hungary (Q1 2009 versus Q2 2008), -25% – -30 % in the case of Czech Republic, Romania, Bulgaria, or considerably lower in the case of Slovenia (where the foreign capital presence is much less than in other countries cases).
- Even the moment of the decreasing is de-phased in time, it occurs abruptly, and the recover is usually slow; at the moment September 2009, the indicator haven't reach the pre-crisis levels in no country.
- Finally, as a general explanation, confirming the pro-cyclical affection of foreign banks' subsidiaries, is the fact that reducing the amounts of these attracted founds is due to the effects of the profound crisis which affected the real economy, population and firms, government institutions refering to a more extent to the existing liabilities as the access to finance is more and more restrictive and the associated risks higher.

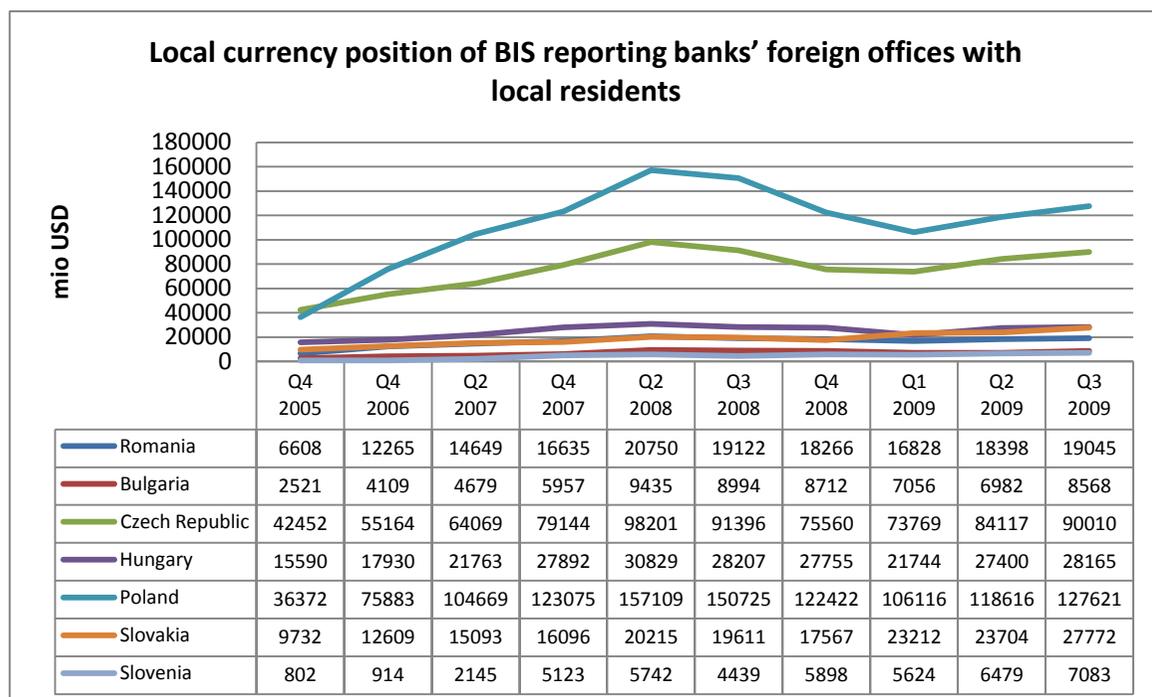


Chart 3. Local currency position of BIS reporting banks' foreign offices with local residents

Source: own calculation based on BIS data, different years

5. Final Conclusions

We can state that the support and involvement of the foreign banks in Romanian economy is moderate, under certain conditions and selective, explained by:

- a. Over 55% of the foreign capital in Romanian banking system comes from countries very affected by the global financial crisis, as Greece, or from relative consolidated banks but very exposed on Central and Eastern European market (Austria).
- b. Decreasing in total claims on Romania was more pronounced from the country consistently involved in Romanian banking system (Austria -11%, France -11.4%, Netherlands -9.7%, comparing with an average at 9.23%)
- c. The scale of crisis shock on Romanian economy

Table 2. Foreign claims, total and main reporting BIS countries on Romania

Period	Total foreign claims	Austria	France	Italy	Netherlands
Dec-06	92596	35467	10135	3282	5186
Sep-07	114637		16128	9989	6483
Jun-08	129810	46457	17640	12948	10999
Sep-09	117835	41460	15629	13149	9932
sep-2009 vs june-2008	-9.23%	-10.76%	-11.40%	1.55%	-9.70%

Source: own calculation based on BIS data, different years

For all Central and Eastern European countries, the global financial crisis is a real, effective test proving the support form multinational banks for their subsidiaries. We can noticed that this involvement has different degrees and extension, explained both by internal particularities of the banks (financial power, complexity and dimension of the abroad networks) and by the particularities of host country economy (crisis effects, economic policy and performance, support from international organizations as IMF, EU etc.).

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BEHAVIORAL BIASES IN TRADING SECURITIES

Dedu Vasile

The Bucharest Academy of Economic Studies

Turcan Radu

University of Oradea

Turcan Ciprian

The Bucharest Academy of Economic Studies

The main thesis of this paper represents the importance and the effects that human behavior has over capital markets. It is important to see the link between the asset valuation and investor sentiment that motivate to pay for an asset a certain prices over/below the intrinsic value. The main behavioral aspects discussed are emotional factors such as: fear of regret, overconfidence, perseverance, loss aversion, heuristic biases, misinformation and thinking errors, herding and their consequences.

Keywords: Behavioral finance, Investor psychology, Irrationality, market efficiency, Behavioral biases, limits to arbitrage.

JEL Classification: G11, G12, G14, D81

“Wall Street never changes, the pockets change, the suckers change, the stocks change, but Wall Street never changes, because the human nature never changes”.

- Jesse Livermore.

Much of the academic finance theory is based on the assumption that individuals act rationally and consider all available information in the decision-making process. But, the researchers have discovered in the markets, many irrational behavior and errors in judgment. Individuals consider the stock market as a person: with its own moods, sometimes it can be ornery or exuberant, may overreact and make amends next day, and so on.

Academic finance, the conventional part of the finance literature, is built on the arbitrage principles of Miller & Modigliani, the portfolio construction of Harry Markowitz, CAPM theory of Lintner and Sharpe, Black-Scholes, and Merton theories. The hypothesis that actual prices reflect fundamental values is the Efficient Markets Hypothesis (EMH). EMH was made famous by Eugene Fama (1970) and affirmed that no trader could “beat the market”, because under this hypothesis, “prices are right”, set by agents that understands Bayes’ Law and no investment strategy can earn better average returns than are warranted for its risk – there is “no free lunch”. The theory of “random walk” in asset prices that knowledge of the series of the past stock prices cannot be used to obtain higher return than a buy and hold strategy.

Behavioral finance that is, finance from a broader science perspective including sociology and psychology, is a new approach to financial markets, in response to the difficulties faced by the academic finance, until a few decades considered to be proved beyond doubt. Behavioral finance deals with understanding and explaining how rational and irrational traders interact, how may affect irrationality the assets prices. “Limits to arbitrage”⁴⁴³, form one of the two building blocks of behavioral finance. Psychology is the second building block of behavioral finance (people’s beliefs and people’s preferences). From the end of the 70s many studies revealed theoretical and empirical challenges to the efficient market hypothesis, (**limits of arbitrage**), studies that

⁴⁴³ Barberis, Nicholas & Thaler, Richard, 2003. “A survey of behavioral finance,” Handbook of the Economics of Finance, in: G.M. Constantinides & M. Harris & R. M. Stulz (ed.), Handbook of the Economics of Finance, edition 1, volume 1, chapter 18, pages 1053-1128 Elsevier.

evidence inefficiency consistent with the strong and semi-strong form of the efficient market hypothesis: excess volatility, fundamental risk, noise trader risk, implementation costs, index inclusions, Price Earnings Ratio effects, Book to Value Ratio effects, liquidity effect, stock repurchases, mergers, momentum. The presence of occurring anomalies in academic finance, was a sound contributor in developing of behavioral finance.

Practically, behavioral finance studies mainly two aspects: *cognitive psychology* and *the limits of arbitrage*. Psychologists discovered many patterns, *cognitive biases* regarding people behave:

Overconfidence and wishful thinking

Overconfidence in decision-making process manifests in a number of ways. One of them might be the too little diversification, because of a tendency to invest too much in something what one is familiar with (a chemist or a doctor may invest rather in pharmaceuticals industry, a banker may invest particularly in financial companies, a real estate agent the real estate companies or some of the investors may invest very much in the company they work for - Enron. One study, by Olson and Cox (2001), has shown that individuals with similar training, professional experience and information, formulate distinctive judgments regarding their risk perception and their reaction to risk. On average, the study has shown that men have lower returns than women, because they trade more actively. Woman professional investors, have a tendency to focus on risk reduction more than male investors in portfolio management.

Prospect Theory and Loss aversion

Prospect theory⁴⁴⁴ was developed by Daniel Kahneman, professor at Princeton University's Department of Psychology, and Amos Tversky in 1979 as a psychologically realistic alternative to expected utility theory. The theory describes how people make choices in situations where they have to decide between alternatives that involve risk, decision processes consisting of two stages, editing and evaluation. Prospect theory may also explain some illogical financial behaviors, such as the disposition effect, with refers to the tendency of people to save money in bank to earn interest, who refuse to work extra-time because they don't want to pay extra taxes. Many academic experiments demonstrated that a loss bothers investors twice as much in absolute term than a pleasure from an equal profit. Because of the **loss aversion**, investors refuse to sell at a loss. There is an ego in each of us. No one likes to admit that he is wrong so, instead of taking a small loss, investors tend to wait too much for the reversal of the stock and the loss may rise even more. Often could be more profitable taking the small loss (right after the mistake was first realized), and reinvest properly the money than hoping too much to get to breakeven with a losing position. "They say you never grow poor taking profits. No, you don't. But neither do you grow rich taking a four-point profit in a bull market"⁴⁴⁵.

Anchoring

The concept of anchoring refers to the tendency to attach or "anchor" the thoughts to a reference point. The most frequent anchor is a past event or trend. For instance, some investors could tend to invest heavily in the stocks of companies that have fallen "too much" in a "two short" period of time, regardless of the fundamental matters. Investors anchor on the recent "high" and consider that the price drop provides an opportunity to buy the stock at a discount. "This semi sucker is the type that thinks he has cut his wisdom teeth because he loves to buy on declines. He waits for them. He measures his bargains by the number of points it has sold off from the top."⁴⁴⁶ Anchoring on historical price could harm much the investor's portfolios.

Belief perseverance

⁴⁴⁴ http://en.wikipedia.org/wiki/Prospect_theory

⁴⁴⁵ Jesse Livermore, Ch 4, Reminiscence of a Stock Operator

⁴⁴⁶ Jesse Livermore, Ch 5, Reminiscence of a Stock Operator

Once people have formed an opinion, they cling to it too tightly and for too long. They rather search for the news and analysis that confirm their beliefs than for the ones that may contradict their beliefs. People tend to misinterpret evidence that goes against their hypothesis as actually being in their favor. “One of the most helpful things that anybody can learn is to give up, trying to catch the last eighth or the first. These two are the most expensive eights in the world. They have cost stock traders, in the aggregate, enough millions of dollars to build a concrete highway across the continent”. “A speculator must concern himself with making money out of the market and not insisting that the tape must agree with him. Never argue with it or ask it for reasons or explanations” – Jesse Livermore. “When you begin to believe that a stock can only go in one direction, that is when you will have your head handed to you” – Dan Zanger

Framing

Framing refers to the format in which a situation or choice is presented (for instance, the same question, presented in two distinct but equal means, could extract identical or different response). An example of frame could be saying “there is 50% chance of success” instead of “50% chance to fail” – the famous half-full or half-empty glass. Mental frames are often linked to the language used, to stress the positive or negative aspects with adequate words and the consequences could be deciding with blinders. Framing can have different origins: personal cognitive bias – occasional or a habit (internal framing), or outside misinformation (external framing) done involuntarily (because of the incompetence of the author), or voluntarily by the “informer”: in order to manipulate the auditor.

Representativeness

Investors can make judgments based on stereotypes. They make assumptions based on information that has no bearing on reality. For instance, if a company with a history of releasing poor results will be perceived as a lousy company, and will get poor results in the future, even if lately the improvements are visible. Representativeness leads to the “sample size neglect” bias: a small sample can be just as representative as a large one. Investors tend to believe that a money manager with outstanding record for a few years will have outstanding results in the future – so called “hot hand” phenomenon. Rabin (2002)⁴⁴⁷ calls this the “law of small numbers”, the belief that even small samples will reflect the properties of the parent population, and could lead to a “gambler’s fallacy” effect when investors do not know the data-generating process (odds) in advance.

Gambler’s fallacy effect

In the gambler’s fallacy, a person erroneously believes that the onset of a certain random event is less likely to happen following an event or a series of events. This judgment is incorrect. A very common example can be found with people’s relationship with slot machines⁴⁴⁸. Most of these people believe that every losing pull will bring them that much closer to the jackpot. Related to investing decision-process, investors tend to liquidate a position after it has gone up in a series of subsequent trading sessions, because they don’t believe that is likely to continue going up and vice versa (maintaining a stock that “has fallen too much” and further declines are “improbable”). Jesse Livermore said something very important about gambling in the stock market: “Don’t trade when the market isn’t acting right! ...When prices drift up and down without trend, like a ship without a rudder, and few positive indications develop, the percentage of losing trades is apt to be high. When this condition continues it is well to hold off until the character of the market changes”...“When I couldn’t play according to my system, which was based on study and experience, I went in and gambled. I hoped to win, instead of knowing that I ought to win on

⁴⁴⁷ Rabin, M (2002), “Inference by believers in the law of small numbers”, Quarterly Journal of Economics 117:775-816

⁴⁴⁸ Phung, A., Behavioral Finance : http://www.investopedia.com/university/behavioral_finance/default.com

form”. ... “There is the plain fool, who does the wrong thing at all times everywhere, but there is the Wall Street fool who thinks he must trade all the time. No man can always have adequate reasons for buying or selling stocks daily – or sufficient knowledge to make his play an intelligent play”.⁴⁴⁹.

Forecasting errors:

It is quite usual that on tops many people see that stock prices may never fall and on the bottoms that the stock market may never be recorded. The same thing could be seen with the oil prices: when oil was near 150\$ / Barrel many researchers and analysts predicted that there will be shortages of oil and the price will rise even more than 250\$/ Barrel in the near future term. But it went less than 50\$ in less than 12 months after those “predictions”. When reaching less than 40\$, many analysts forecasted that it could go even lower the price because of the world recession and the dumping global demand for oil – they were targeting the oil barrel price somewhere less than 25\$/barrel. Of course, that it did not happen that and the reversal to 80\$/ Barrel has begun. An interesting sample of excessive pessimism during the reversals, could be the following: “*But in November of 1974, I was newly married, and my husband and I decided that we should start saving. So we went to a broker and told him we wanted to buy some new shares. I still remember what he said: <<I really don't think this is a good idea, a nice young couple like you – you really shouldn't be putting your money into something as risky as stocks>>. “That's how you can tell it's a bottom”, added Allyn. “They don't even want to sell you the stuff”.*”

Conservatism

“A conservatism bias means that investors are too slow (too conservative) in updating their beliefs in response to recent evidence. Such a bias would give rise to momentum in stock market returns”- Bodie, Kane and Marcus (2005). Investors tend to under react and delay the needed changes in their portfolio composition when the market situation imposes, and financial analysts often adjust too slowly their previous estimates when new information should make them reanalyze the situation and prospects. The main causes could be: the inertia a quasi physical bias (neglecting, laziness, indifference, comfort found in keeping habits), emotional biases (self doubt, instinctive fear and mind paralysis, loss aversion, commitment, nostalgia, overconfidence, pride, ego), or cognitive biases (mental anchoring on an old reference or cognitive dissonance, like denial of reality).

The influence of worry

Worrying is a lasting concern with a past or an upcoming event. Investors feel fear (worry about uncertainties) and anxiety (the gut level feeling that accompanies uncertainty). In The Journal's Intelligent Investor column of September 30, 2008⁴⁵⁰, Jason Zweig, considered some of the arguments referring that investors hate uncertainty: <<“Investors hate uncertainty.” Well, that's just tough. Uncertainty is all investors ever have gotten, or ever will get, from the moment barley and sesame first began trading in ancient Mesopotamia to the last trade that will ever take place on Planet Earth. *If tomorrow were ever knowable with absolute certainty, who would take the other side of a trade today?* The financial future is no more uncertain now than it used to be; in fact, it's far *less* uncertain than it was in the summer of 2007, when the Dow shot above 14000, the future seemed bright, and utterly no one foresaw the disaster that would befall the financial system. The absolute certainty of blue skies ahead was an illusion then, and the notion that we all know that worse misery lies in store is an illusion now. The only true certainty is surprise.>> . “People tend to underestimate low probability events when they haven't happened recently, and

⁴⁴⁹ Jesse Livermore, Reminiscence of a Stock Operator

⁴⁵⁰ Zweig, Jason – “The Depression of 2008? Don't Count on it”, The Intelligent Investor Column, Wall Street Journal, 30. Sep. 2008 – <http://online.wsj.com/article/SB122272238714287459.html>

overestimate them when they have” – W. Buffett. “I don’t know whether I make myself plain, but I never lose my temper over the stock market. I never argue with the tape. Getting sore at the market doesn’t get you anywhere”. – Jesse Livermore

Mental accounting

Mental accounting refers to the tendency for people to separate their money into separate accounts based on a variety of subjective criteria, like the source of money and intent for each account. Investors divide their investments between a safe investment portfolio and a speculative portfolio in order to prevent the negative returns that speculative investments may have from affecting the entire portfolio. The problem is that the investor’s net wealth will be no different that if he had held one larger portfolio, because the money is fungible, regardless of its origins or intended use. It is just like having savings for a car, for a holiday while not paying the debts for the credit card, sometimes it makes more sense to liquidate the savings in order to pay off debt. Investors who tend to write – keep a journal of every transaction for a period of time, with individual profit or loss, tend to be more attentive with risks. Avoids gambling.

Confirmation and Hindsight Bias

In investing, confirmation bias suggests that an investor would rather look for the information that confirms his beliefs and ideas, rather for the one that contradicts it, even if all the information is against his beliefs, leaving investors with a false picture of the situation. Hindsight bias refers to situation where an investor believes (after the fact), that a past event was predictable and completely obvious, whereas in fact, the event could not have been reasonably predicted. The bias is very common after the bubbles burst. (Dot.com bubbles, South Sea bubble of 1711, Tulip bubble, the recent financial and economic crisis (2007), Crude oil price bubble (2008-2009). If the formation of an asset bubble had been obvious, it probably wouldn’t have escalated and burst like that. One of the old Wall-Street sayings is: “A bullish market is born amid pessimism, grows up under skepticism, matures with optimism and dies with euphoria”.

The role of affects – feelings

One of the major mistakes in investing, is falling in love with a stock. Investors are human, and humans don’t like to admit that are wrong. It happens to everyone. Never fall in love with a losing position and use a stop-loss order to protect against excessive losses. Some of the Wall-Street sayings are: “The market doesn’t know whether you’re long or short and it couldn’t care less”; “The more you lose in a trade, the less objective you become. EXITING A LOSING TRADE, clears your head and restores your objectivity”. One day, Marty Schwartz was asked: “Why do most traders lose money? Because they would rather lose money than admit they’re wrong. What is the ultimate rationalization of a trader in a losing position? “I’ll get out when I’m even”. Why is getting out even so important? Because it protects the ego. I became a winning trader when I was able to say, “*The hell with my ego, making money is more important*”. “I made a big mistake in not selling several of our larger holdings during The Great Bubble. If these stocks are fully priced now, you may wonder what I was thinking four years ago, when their intrinsic value was lower and their prices far higher. So do I” – Warren Buffett, 2003, Berkshire Hathaway annual report.

Herd Behavior

Herd behavior, refers to the tendency of people to mimic actions (rational or irrational), of a larger group. Some of the reasons for creating the herd effect could be: the social pressure of conformity (Dot.com bubble, maybe the most infamous financial event – bursting the internet bubble) – people are very sociable and have a natural instinct to be accepted by the group, rather than named to be as an outcast (following a group is an ideal way of becoming one of them). The second reason could be the common sense that “such a large group cannot be wrong”, “they must

know something that you don't". It happens to novices very often to follow the herd. Even professionals tend to follow the crowds, because if the strategy works, their clients will be happy, if not, he could justify his bad investment decision by pointing out just how many other investors were led astray. It is a good strategy to follow the herd, if you enter in the positions right at the beginning of trend. "When the market gets greedy, I get nervous; when the market gets nervous, I get greedy" – Warren Buffett. "By 1929, it seemed as though everyone, in all walks of life, and not just businessmen, was interested in the stock market. People took out second mortgages on their home and housewives sneaked money from household expenses to play the market. Some people invested everything they had in the market in the belief that there was no way they could NOT become rich"⁴⁵¹.

Conclusions

The greatest critique of behavioral finance is that it is not considered an actual science, like the quantitative finance. It is too general. It is not possible to calculate and quantify exactly behavioral factors neither for one person nor for a crowd. Behavioral finance should be regarded as a useful toolkit when trading because it could give a competitive advantage in trading and a better knowledge of it. As Jesse Livermore said, it is very important to learn from our mistakes and understand the market in a better way: "*It wasn't anything to be proud of, when you think I had been broke three times in less than two years. And as I told you, being broke is a very efficient educational agency. It is literally true, that millions come easier to a trader after he know how to trade, than hundred did in the days of his ignorance*" – Jesse Livermore.⁴⁵²

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⁴⁵¹ Lange, Brenda, "Milestones American History – The Stock Market Crash of 1929, The End of Prosperity" Chelsea House Publishers, Infobase Publishing, New York, 2007.

⁴⁵² **Jesse Livermore** (1877 - 1940), also known as the **Boy Plunger**, was an early 20th century stock trader. During his lifetime, Livermore gained and lost several multi-million dollar fortunes. Most notably, he was worth \$3 million and \$100 million after the 1907 and 1929 market crashes, respectively. He subsequently lost both fortunes. Apart from his success as a securities speculator, Livermore left traders an outstanding working philosophy for trading. – Source: http://en.wikipedia.org/wiki/Jesse_Lauriston_Livermore

NEUROFINANCE – GETTING AN INSIGHT INTO THE TRADER’S MIND

Dedu Vasile

The Bucharest Academy of Economic Studies

Turcan Ciprian Sebastian

The Bucharest Academy of Economic Studies

Much of the academic finance theory is based on the assumption that individuals act rationally and behavioral finance treats investors' choice based by behavioral biases. In contrast, neuro-finance (as a blending of psychology, neurology and finance) attempts to understand behavior by examining the physiological processes in the human brain when exposed to financial risk. Scientists map the mind to learn how fear and greed drive the financial markets. The paper, will briefly present why neurofinance is important and how will be able to provide in the near future a number of effective tools for improved financial decision making.

Keywords: Emotions, Behavioral finance, Neurofinance, Brain, Risk taking, Affect, Beliefs, Dopamine, fMRI

Jel Classification: D03, D81, D83,D84, D87, G11

Much of the **academic finance** is based on the assumption that individuals act rationally, consider all available information in the decision-making process and the expected utility theory represents the model for choice under certainty. In fact, when it comes to financial decisions, investors may not always be as rational as we think.

A new field of finance, called **behavioral finance** examines why some traders achieve phenomenal success while others gamble away fortunes. Behavioral finance that is, finance from a broader science perspective including sociology and psychology, represents a new approach to financial markets, in response to the difficulties faced by the academic finance. Behavioral finance attempts to understand and explain how emotions influence investing decisions. Humans differ very much with respect to concepts such as risk aversion, time preference and tastes. "Limits to arbitrage", form one of the two building blocks of behavioral finance. Psychology (behavioral biases) is the second building block of behavioral finance (people's beliefs and people's preferences). "Extraordinary Popular Delusions and the Madness of Crowds," written by **Charles Mackay** in **1841**, remains a Wall Street classic to this day. He shows how otherwise intelligent people sometimes succumb to mass idiocy. Mackay examined the history of alchemy, witch hunts, fortunetelling and speculative frenzies such as the **mania over tulips** that gripped Holland in the early 17th century, when the flower bulbs *traded at a higher price than gold*. Keynes coined a colorful term for one of the vital ingredients of economic prosperity, the naive optimism that prompts people to cast aside their fears despite all experience: "animal spirits."⁴⁵³

The explanation that human beings are irrational about money lies in the human brain and its multi-billion neuronal connections. Recently, behavioral economists have leveraged the findings from psychology and neurology developing new fields like **neuroeconomics**⁴⁵⁴ and **neurofinance**, in order to understand how people make economic decisions. By looking inside the brain, we may have a more realistic model of decision-making, and we'll be able to explain in a better way (compared to the standard model) a wide range of individual economic behaviors

⁴⁵³ **Levy, Adam**, "Mapping the trader's brain" – Bloomberg Markets, Feb. 01. 2006 – source: <http://www-psych.stanford.edu/~span/Press/bk0206press.html>

⁴⁵⁴ Neuroeconomics is an emerging transdisciplinary field that uses neuroscientific measurement techniques to identify the neural substrates associated with economic decisions" – **Zak, J. Paul** "Philosophical Transactions: Biological Sciences, Vol. 359, No. 1451, Law and the Brain (Nov. 29, 2004), pp. 1737-1748

and their effects translated into aggregate market phenomena. Neurofinance is a new science that analyzes financial markets by applying neurotechnology to trading behaviors⁴⁵⁵. The main objectives are: improving trading results and a better understanding of financial markets, by identifying which physiological traits affect trading behavior, correlating these traits (that occur in our brain and hormonal activity) with trading success or failure and developing tools, technology and training methods to improve trading performance. The main difference between neurofinance and neuroeconomics, though they use many similar techniques, is that neurofinance focuses more narrowly on trading and financial markets.

Decision-making process is fundamentally integrative, melding the complex cognitive processes through which causal relations between actions and consequences are encoded, retrieved and maintained in working memory, with the motivational processes that determine the value, or utility, of actions or sequences of actions. It is important to recognize the interaction of the cognitive, motivational and behavioral processes engaged during the course of specific decisions that cannot be reified to a single specialized circuit, cell type or intracellular process⁴⁵⁶. They are better understood at a systemic level. Brian Knutson was wondering ***why some of the traders get rich while others walk away losers***. The answer may lie somewhere in the approximately 60000 miles of neural wiring inside our brains. What lies behind a successful trader? There has to be something more than simply guts, self confidence to take a loss and move on, or understanding risk and reward at a simply and intuitive level. May neurofinance be able to understand the brain's electrochemistry of a successful trader? Why some of them gamble away fortunes on losing investments, averaging down or doubling when logic tells them to stay out, or letting winning positions ride when rational persons would cash out? Why smart guys like Paul Tudor Jones, Richard Dennis, Victor Sperandeo, Stanley Druckenmiller, Ed Seykota, Jesse Livermore, Bernard Baruch, Warren Buffett and so many others made multimillion and even billion-fortunes in trading securities? How come George Soros became known as "the Man Who Broke the Bank of England" after he made \$US 1 billion profit during the 1992 Black Wednesday UK currency crisis? What is that makes them so special?

It's not enough to be smart or highly educated. There are a lot of outstanding people, some of them geniuses, scientists who were honored with Nobel Prize in Economics, but nobody knows that some of them might have become rich (some of them never made a dime on the market) exclusively because of their discovered financial models or theories, except for conferences and interviews fees, selling books and teaching other people how to make money. It might be frustrating to see that others who dropped college have made multi-million fortunes on the market, and very well known scholars in the finance field, NOT. "*If all it took to beat the markets was a Ph.D. in mathematics, there'd be a hell of a lot of rich mathematicians out there*" - Bill Dries. "*No matter what kind of math you use, you wind up measuring volatility with your gut.*" Ed Seykota. Probably, the preeminent example that fundamentals are not everything is the collapse of the famous hedge fund founded by John Meriwether in 1994 – ***Long Term Capital Management (LTCM)***. John Meriwether was one of the first traders to bring quantitative finance to Wall-Street and gained a measure of fame in Michael Lewis' book *Liar's Poker*, where he is described by Lewis as a Salomon Brothers Uber-trader and master of *Liar's Poker*⁴⁵⁷. The failure of LTCM is a cautionary tale about hubris, arrogance, overconfidence and the limits of modern financial theory. *With an outstanding team* of quant finance traders and scientists, including two *Nobel Prize winners: Robert C. Merton and Myron Scholes*, LTCM used complex mathematical models to take advantage of fixed income arbitrage deals (termed convergence trades) usually with U.S.,

⁴⁵⁵ **Edwards, David** – "*What is Neurofinance*" – Brainwaves, Corante Weblog Columns, August 9, 2004 – source: - http://brainwaves.corante.com/archives/2004/08/09/what_is_neurofinance.php

⁴⁵⁶ **Balleine W. Bernard** – "*The Neural Basis of Choice and Decision Making*", The Journal of Neuroscience, August, 1. 2007, 27(31):8159-8160

⁴⁵⁷ Book Review of "*When Genius Failed: The Rise and Fall of Long-Term Capital Management* by **Roger Lowenstein**", Random House, September 2000 - http://www.bearcave.com/bookrev/genius_fails.html

Japanese, and European government bonds. Although from 1994-1996 LTCM returned more than 30% a year, and their funds swelled to more than US\$ 7 billion, in 1998, they crashed and burned, endangering the US financial system (Federal Reserve Bank of New York organized a bailout of \$3.625 billion by the major creditors to avoid a wider collapse in the financial markets⁴⁵⁸). Because of the small differences in value of the assets arbitrage, LTCM had to take highly leveraged positions to make a significant profit. *“But the system wasn’t designed so that most people could beat it”*. They ignored two underlying assumptions behind the market models they used: markets are always liquid and markets tend toward equilibrium where “mispricing” are corrected. True, but the assumptions failed to be true during a market panic. The panic caused by the Asian and Russian Financial Crisis (1997 and 1998), made LTCM to liquidate many positions causing large losses, including the arbitrage positions between Royal Dutch and Shell shares. Because of the liquidity dry-up of the panic and high-leveraged positions, LTCM had nothing else to do but crash and burn. They didn’t expect panic to happen. According to Nassim Taleb: *“Rare events are always unexpected, otherwise they would not occur”*.

Meriwether was so confident about his market opinions and his quantitative financial analysis, that even if the market would go against him, he would not change his opinion. Often he would increase the size of his position, despite of the market opinions. If his mathematical models showed a mispricing, he remained confident that fair value would return, over time, so he kept his positions and even added to it. He believed in nothing but fundamentals. Meriwether ignored completely an old trading adage: *“Ninety percent of what we do is based on perception. It doesn’t matter if that perception is right or wrong or real. It only matters that other people in the market believe it. I may know it’s crazy, I may think it’s wrong. But I lose my shirt by ignoring it”*⁴⁵⁹. As Keynes used to say: *“Markets can remain irrational longer than you can remain solvent”*

The collapse of LTCM gave markets a tuff lesson about pride, arrogance, defiance, greed and hubris, making some market players say memorable words, like the one of Kaufman and Lenzner : *“Meriwether and his sidekicks had a bad case of hubris. As Kaufman puts it: „There are two kinds of people who lose money: those who know nothing and those who know everything.” With two Nobel prize winners in the house, Long-Term Capital clearly fits the second case”*⁴⁶⁰. *„It seems LTCM could have survived one Nobel prize – winner, but with two, they were doomed”* – Frederic Townsend. As a conclusion, we might consider the Ed Seykota’s joke: *“Some people seem to like to lose, so the win by losing money”*.

Some recent examples of other astonishing loses are⁴⁶¹: Societe Generale (2008 – USD 7.2 bn – European Index Futures – Jerome Kerviel), Aracruz Celulose Brazil (2008 – USD 2.5 bn – FX Options), Sadia Brazil (2008 – USD 1.09 bn - FX and Credit Options), CITIC Pacific China (2008 – USD 1.89 bn – FX Trading), Amaranth Advisers (2006 – USD 4.6 Bn – Nat Gas Futures – Brian Hunter) and the list may go on. The collapse of Britain’s Barings Bank in Feb. 1995, is perhaps the most popularized financial collapse. Barings Bank was sold for 1 sterling pound to ING, because of the rogue trader, called Nick Leeson – a derivative trader on SIMEX.

Now, it is easily understandable why mapping a trader’s mind, why neurofinance is very important. Because of one single person, thousands of employees, several hundred thousands of customers and other collateral parties may go broke if the trader in charge does not perform well. And in most cases, the problem was not “outside” but “inside”. If Leeson lost, someone else won. Definitely won. Trading derivatives it’s a zero sum game. Will neurofinance be able to help us understand what was in Leeson’s mind? And in his counterpart’s mind? What made Leeson lose and what made the other one win? And how can we replicate the winner’s succes?

⁴⁵⁸ http://en.wikipedia.org/wiki/Long-Term_Capital_Management

⁴⁵⁹ *“Making Book on the Buck”* – Wall Street Journal, Sept 23, 1988, pg 17.

⁴⁶⁰ **Lenzner, Robert**, Forbes Magazine, Oct. 19, 1998 – source: www.streetstories.com/jm_forbes98.html

⁴⁶¹ http://en.wikipedia.org/wiki/List_of_trading_losses

Jack Schwager, wrote in one of his books: „*Time and Time again, those whom I interviewed for this book and its predecessor stressed the absolutely critical role of psychological elements in trading succes!*” When asked to explained what was important to success, Jack says: „*The Market Wizards NEVER talked about indicators or techniques, but rather about such things as discipline, emotional control, patience and mental attitude toward losing*”. The message is **CLEAR: The key to winning in the market is internal, NOT external**⁴⁶².

Neuroscience and neurofinance help us understand whether there is a mismatch between brain and financial markets, when trading. Although, in the decision theory and equilibrium theory, all risks are the same, the brain distinguishes at least two kinds of risk: risk generated by an unintentional source (a random generator, “nature”, a financial market without insiders) and the risk generated by an intentional source (a strategic opponent, a financial market with insiders). The difference between them, manifests in the engagement of different functional regions of the brain and attitudes toward the source.

Decision neuroscience has made important progress over the past ten years, following the discovery of the role of dopamine neurons in prediction under uncertainty. Some treat with skepticism this subfield of finance, because it cannot be considered science. Neurofinance is based mainly in laboratory experiments. Lack of external validity is perhaps the most important reservation that people can have about laboratory experimentation.

Tools available to neurofinance, allow for understanding how people make financial and economic decisions, by analyzing how the brain works when these choices are made. By looking inside the brain, we may create a more realistic model of decision making and able to explain a much wide range of individual economic behaviors compared to the standard finance models. Some of **the neurofinance tools** are: ERP that record electrical activity of the scalp („event-related potentials” that measure brain response that is directly the result of a thought or perception – measured with EEG - electroencephalographic), ERF („event-related field” – that measure brain response that is directly the result of an event – measured with MEG - magnetoencephalographic), TMS - Transcranial Magnetic Stimulation, PET scans - Positron Emission Tomography, MRI – Magnetic Resonance Imaging, **fMRI**⁴⁶³ - Functional Magnetic Resonance Imaging and other lesion brain studies. Neurofinance has progressed dramatically over the past years, following the discovery of the role of **dopamine**⁴⁶⁴ neurons in prediction choice under uncertainty.

Decision making by traders is highly emotional (Lo & Repin 2002), and it activates hormones such as testosterone and cortisol that have a direct influence on the very brain regions. Hsu et al⁴⁶⁵ (2005) has shown that dopamine projection in the ventral striatum is less activated under ambiguity than when probabilities of risk are known. Behavioral finance also confirms that

⁴⁶² **Schwager, D. Jack**, “*The new market wizards: conversations with America’s top traders*”. John Wiley & Sons, 1992 books.google.ro/books?id=LjivAz8xd3UC&printsec=frontcover#v=onepage&q&f=false

⁴⁶³ **Functional MRI or functional Magnetic Resonance Imaging (fMRI)** is a type of specialized MRI scan. It measures the hemodynamic response (change in blood flow) related to neural activity in the brain or spinal cord of humans or other animals. It is one of the most recently developed forms of neuroimaging. Since the early 1990s, fMRI has come to dominate the brain mapping field due to its relatively low invasiveness, absence of radiation exposure, and relatively wide availability. Source: <http://wikipedia.org>

⁴⁶⁴ **Dopamine** represents one type of neurotransmitter formed in the brain by the decarboxilation of dopa and essential to the normal functioning of the central nervous system. A reduction in it’s concentration within the brain is associated with Parkinson’s disease. Dopamine is the primary neurotransmitter involved in the reward pathways in the brain. Dopamine is released by naturally rewarding experiences such as food, sex, use of certain drugs and neutral stimuli that become associated with them. Thus, drugs that increase dopamine signaling may produce euphoric effects. Many recreational drugs, such as cocaine and amphetamines, alter the functionality of the dopamine transporter (DAT), the protein responsible for removing dopamine from the neural synapse. Source: www.wikipedia.org

⁴⁶⁵ Hsu M, Bhatt M, Adolphs R, Tranel D, Camerer CF. 2005. Neural systems responding to degrees of uncertainty in human decision making. *Science* 310:1680–83

humans treat pure risk and ambiguity differently. According to him, another activation emerges, namely, in the amygdala, that forms part of a circuit that has been associated with goal directed learning, a signal of a need to start learning. Amygdala has been for long time, viewed as the „fear center” of the brain. Fear may be the emotional expression of estimation uncertainty, just like arousal accompanies positive reward prediction errors (and relates to activation of the dopamine system). That is, fear may act as a dual signal, relaying both a caution not to bet on things unknown and a directive to find out more (Hsu et al. 2005)⁴⁶⁶. All these regions (amygdala, insula and the dopamine system) have in common perhaps the most important feature of the human condition: emotions. Studies have showed that subjects who fail to express emotional anticipation when making risky decisions (because of specific brain lesions) consistently opt for inferior financial choices.

Neurofinance literature analyses the role of affect in financial decisions. Lo & Repin⁴⁶⁷ (2002) found that professional securities traders experience emotional states characterized by high arousal market events such as high price volatility, using peripheral measures of arousal, like skin conductance and blood volume pulse. Lo, Repin and Steenbarger (2005) found that subjects whose emotional reaction to monetary gains and losses was more intense on both the positive and negative side, exhibited significantly worse trading performance⁴⁶⁸. **Kuhnen and Knutson**⁴⁶⁹ (2005) found that Nucleus accumbens activation preceded risky choices as well as risk-seeking mistakes, while anterior insula activation preceded riskless choices as well as risk-aversion mistakes. These findings suggest that distinct neural circuits linked to anticipatory affect promote different types of financial choices, and indicate that excessive activation of these circuits may lead to investing mistakes. So in another study of them in 2007⁴⁷⁰ they can predict what goods people purchase by measuring activation in the same areas of the limbic or emotional system. The manner a person likes a product, is correlated with activation in the nucleus accumbens, while charging excessive prices for the product, activated the insula. This is the main reason why companies have started to conduct **neuromarketing** and measure brain activation in order to see whether their products will be a success. In 2008⁴⁷¹ another study of them, affirmed that nucleus accumbens (NAcc) activation spontaneously increases prior to financial risk taking. Using event-related fMRI, they predicted and found that anticipation of viewing rewarding stimuli, cues influence financial risk taking by altering anticipatory affect, and so identify a neuropsychological mechanism that may underlie effective emotional appeals in financial, marketing, and political domains.

Behavioral and neural studies of **temporal discounting**, (Zak, 2004), states that one of the major behavioral differences that exists between human and other animals is the ability to postpone immediate gratification for a future (possibly larger) reward. It is interesting to see the main types of discounting: exponential discounting that implies a constant preference between rewards should exist over time, and the hyperbolic discounting, that show a clear tendency to discount expected outcomes proportionate to their delays exists and often there is a preference reversal

⁴⁶⁶ Bossaerts, P. “*What Decision Neuroscience Teaches Us About Financial Decision Making*”, The Annual Review of Financial Economics., Pg 391, 2009

⁴⁶⁷ **Lo, Andrew W. and Repin, Dmitry V.**, *The Psychophysiology of Real-Time Financial Risk Processing*” (October 2001). MIT Sloan School of Management Working Paper No. 4223-01; MIT Laboratory for Financial Engineering Working Paper No. LFE-1039-01.

⁴⁶⁸ **Lo, Andrew W., Dimitry V. Repin and Brett N. Steenbarger.** “*Fear And Greed In Financial Markets: A Clinical Study Of Day-Traders,*” American Economic Review, v95(2,May), 352-359, 2005

⁴⁶⁹ **Kuhnen, Camelia M. and Knutson, Brian,** „*The Neural Basis of Financial Risk Taking*”. Neuron, Vol. 47, pp. 763-770, September 1, 2005

⁴⁷⁰ **Knutson, B., Rick, S., Wimmer, G.E., Prelec, D. and Loewenstein, G.** “*Neural predictors of purchases*”, Neuron, 53, 147-156, 2007

⁴⁷¹ **Kuhnen, Camelia M. and Knutson, Brian,** „*The Influence of Affect on Beliefs, Preferences and Financial Decisions*” Journal of Financial and Quantitative Analysis, (Sep. 30, 2009).

between the immediate and the delayed reward in the period of time just before the reward is due. Knutson et al (2009) tested a „future self-continuity” hypothesis that individual differences in the perception of one’s present self as continuous with a future self would be associated with measures of saving in the laboratory and everyday life. Higher *future self continuity* predicted reduced discounting of future rewards and greater lifetime of accumulation of financial assets, promoting saving for the future⁴⁷². Shiv⁴⁷³ et. al. (2005) tested the “*Myopic loss aversion*” hypothesis and showed that the lesion patients would be less risk averse and would be more profitable, since their brain lesions mitigated the affect associated with fear of money loss. McClure⁴⁷⁴ et al (2004), used fMRI to show that decisions based on instant reward activated parts of the limbic system associated with the dopamine pathways. They found that tradeoffs involving delayed monetary rewards largely activated regions of the lateral prefrontal cortex, the brain region associated with cognitive introspection, illustrating the important of the limbic system in the human decision making. Bossaerts (2009) suggests that emotions play a crucial supporting role in the mathematical computations needed for reasoned choice, rather than interfering with it, even if emotions may not always be balanced appropriately. Tom et al (2007) analyzed whether loss aversion were predicted by a measure of neural loss aversion in several regions, including the ventral striatum and prefrontal cortex⁴⁷⁵.

Should computers replace humans in financial markets? Bossaerts (2009) says no, because humans with all the limitations and maladapted brains to certain situations, they are better at certain tasks. Neurofinance should identify these limitations and help people replicate success. Computers should overcome only when humans cannot adapt. (It is very well known that most of the banks that play their money on FX have impressive robots that trade under certain algorithms). Neurofinance is bound to impact all of finance, with impact on household, consumer finance, college and retirement plans, corporate finance, microfinance, most of the market professionals and many other subfields of finance. As Kuhnen (2007) concludes, findings from neuroeconomics and neurofinance may also be used by policy makers, in order to increase social welfare. If government wants to encourage workers to save more for retirement, it may design financial policies that trigger the right part of the limbic system to induce the desired behavior. Or if they want to discourage some activities, they should institute incentives that trigger people risk-averse part of the brain, knowing how brain works when faced with uncertainty.

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THE IMPACT OF EUROPEAN INTEGRATION ON THE ROMANIAN BANKING SYSTEM

Dragan (Santamarian) Oana Raluca
“Babes – Bolyai” University, Cluj Napoca
Faculty of Economics and Business Administration

This paper describes the evolution registered by the Romanian banking system over the last years in the context of accession to the European Union. The analysis presents the progress registered by our banking system, the main characteristics of Romanian banking activity after 2007 as well as a brief analysis of profitability indicators.

Keywords: European accession, banking system, profitability indicators

JEL Classification: G21

Introduction

The banking reform in Romania began in December of 1990 when the authorities have proposed the development of new banking legislation designed to obtain a modern banking system. In this way the old system was replaced with a system organized on two levels: the Romanian National Bank and commercial banks. Over the past years Romania's banking system experienced a dynamic economic development and economic growth.

One of the key elements in the process of nominal and real convergence imposed by the new economic environment was the National Bank of Romania. The accession to the European Union strengthened the performance of the reform, and NBR's activity became more and more efficient. Romania's adhesion to the European Union in January 2007 was a long awaited and prepared moment. It was neither the start nor the end of the long journey of European integration that the country had taken. Once Romania became a member of the European Union the National Bank of Romania became a member of The European System of Central Banks (ESCB).

Since 2007 the main preoccupations of NRB were: participation of our central bank in the ECB Euro system, improving banking supervision, implementation of Basel II principles, development and application of the convergence program, a monetary policy which aims at price stability.

National Bank of Romania, as a supervisor, acted in response to new threats caused by the financial crisis in the following way: by providing liquidity, by close monitoring of banks, implementing new measures to improve prudential regulatory framework and in collaboration with the Government signed some funding agreements with the International Monetary Fund and the European Union.

Consequences upon the banking segment due to the European accession.

Studies of the banking system performed within the field disclose positive results due to the accession. The financial and banking integration results are estimated from the following aspects: The union with a distinctive market of financial services and banking products, which offers business potential under the most encouraging terms, putting forward optimizing promises of the economic performances from the macro stabilization standpoint, of the higher efficiency levels and increasing people's wellbeing.

Macro economic stabilization under the circumstances in which banks operating in two countries may import assets in countries where there are financing opportunities, thus protecting thus national economy against possible bank distress.

Banking consolidation reflects structural modifications which might produce additional competitiveness within the monetary setting, increasing client's wellbeing, operational

effectiveness and profit in terms of reducing the expenses per product unit or bank service. Bank unions may improve the effectiveness of the entire activity of the banking segment.

The main characteristics of Romanian banking activity after 2007

The first year after the accession to the European Union was an excellent year for the banking market. The main result of the European accession was the increasing competition in the domestic market. Other favorable outcomes were the dynamic banking activity and the increasing attractiveness and diversification of banking products. There could be easily observed a competition between different banks in offering more sophisticated and complex services. There is a constant effort directed towards customer attraction and portfolio enlargement. Following this path banks began to offer “express” credits, by trying to tell in less than half an hour if the client is eligible for a credit.

There was an unmatched expansion of the banking network and specialized units dedicated to corporate and retail were opened. New agencies became operational for being nearer to the potential clients. The revitalization of banking products was successful due to the bank’s capability to offer promotional products which were easily accessible, and rapidly available. These are just a few signs that banks increase the market consistence.

The entry of the foreign banks on the Romanian national banking market improved the competition between banks, leading to high quality of services offered to clients by reducing costs, as well as requiring domestic banks to compete in their products range by creating new products and services. Levine Ross believes that foreign banks may improve the quality and availability of financial services in the domestic financial banking competition and may encourage the implementation of modern technologies. Foreign banks can serve to stimulate the development of the underlying banking supervisory and legal framework. They also can enhance a country's access to foreign capital.

In 2007 the Romanian market became a target for the European credit institutions. Romania’s addition to an integrative group as EU had a favorable impact on the banking system. Many foreign financial groups consider that the national market is favorable for the opening of new units. Several foreign banks opened bank branches in Romania. This operation was encouraged by restrictive monetary policy imposed by NBR. As the foreign banks must comply with the requirements of the country of origin they have significant cost advantages.

The presence of foreign banks raised the competition level and offered many new banking products and direct provision of services in Romania leading to changes in the structure of domestic banking system. The most spectacular market entry belonged to Millennium Bank, member of the Portuguese Millennium group. Also 2007 brought major changes for banks in the first echelon, at the middle of the year the largest merger on local banking market was completed. HVB Țiriac Commercial Bank merged with Unicredit Romania, whose newly established entity presently operates under the name of Unicredit Țiriac Bank S.A. It should be noted that in the same year BCR came under the control of Erste Bank. In the same period Belgium's Fortis received the operating authorization from NBR, The Iberian group La Caixa has opened a unit in the Romanian Capital. In addition, Finicredito Branch of the Portuguese group appears on the list of new branches. Beginning March 2008 the Romanian Branch of Blom Bank Egypt transferred its operations to the Romanian Branch of Blom Bank France S.A Paris.

In year 2008 has triggered the greatest financial crisis of the past 80 years. Originally called "credit crisis" by the specialists, this financial crisis is almost unprecedented. Although initially it was said that the Romanian banking system and economy will not be affected by this crisis, the negative impact has been felt since fall of 2008. Now, most opinions are leaning towards the conclusion that Romania is affected, but not directly and not as much as other countries that have a higher exposure to sub prime mortgage loans. At the start of the crisis, the Romanian economy had been driven through a period of several years of growth in high rates. The banking sector which has a dominant position in ours financial system had a good resistance to pressure manifested by the financial crisis. However, the global economic crisis had many negative effects

like: negative consequences on quality credit portfolio, worsening perceptions of risk, changes of interest rate of monetary policy, and interest rates charged on loans and deposits. Also a sharp contraction of non-government credit took place. Interest rates were changed and non performing loans increased. Tendency to extend the activity in new territory became lower and the number of employees became smaller.

In terms of banking structure the Romanian banking sector hasn't recorded significant changes in 2008 and the first quarter of 2009 (Table 1). DEPFA Bank Plc. Dublin opened a new branch in Bucharest and there were changes in the shareholding structure of ABN AMRO Bank, now called RBS Bank Romania S.A., after its takeover by the Royal Bank of Scotland. CitiBank România S.A. has changed its status becoming a branch of CitiBank Europe in Romania.

In 2009 in Romania there were 43 credit institutions, 32 Romanian legal entities and 11 branches of EU banking groups. In the context of the service market relaxation generated by Romania's accession to EU, BNR received notifications from 174 institutions from abroad willing to provide financial services directly in Romania.

Table 1: Romanian banking sector structure

	2005	2006	2007	2008	T12009
No. Credit institutions	40	39	42	43	43
No. banks with majority foreign capital	30	33	36	37	37
Branches of foreign banks	6	7	10	10	11
No. banks with majority private capital	38	37	40	41	41
Market share of top five banks	58,8	60,3	56,3	54,4	54,3
Herfindahl-Hirschmann index	1124	1171	1046	926	906

Source: Source: BNR-RSF 2008

The efficiency of the banking system is reflected in the degree of system's concentration. The degree of concentration is measured using the Herfindahl-Hirschmann index or market shares in terms of assets held for the five largest banks in the system. The banking systems with a higher degree of concentration are usually less exposed to a banking crisis. The Romanian banking sector was characterized by a high concentration degree even from the first years of the banking reform. Since 2006, the Herfindahl-Hirschmann entered on a slightly downward curve, giving the image of a moderate degree of concentration. In 2008 and first quarter of 2009 the concentration degree in Romania continued its decreasing trend and in March 2009 market share of top five banks in total assets recorded a decrease to 54.3 %. Market share of loans fell to 53.7 %. On the liability side, the degree of concentration for the top five banks in the system held a total of 53.91 % in deposits. In terms of share held by the five largest banks in aggregate assets Romania is close to the average of other EU Member States.

Impact of EU accession on bank intermediation in Romania

Banks are designed to mediate the relationship between those who registered a surplus and those who recorded a shortage of resources, transforming economies and monitoring credit lending processes. Along with Romania's EU entry an increase of financial intermediation was recorded, although growth of financial intermediation accelerated in 2007 it is still one of the smallest in the European Union. Financial intermediation quantified using credit indicator Non-government credit / GDP in 2008 reached a value of almost 40% of GDP. Romania recorded the lowest level

of financial intermediation among the new EU state members states at greater distance from the EU-15 (123,1%) or UE-25(118,9%). Financial intermediation quantified using the bank assets/GDP reached a value of 62% in 2008. Romania still exhibits a lower degree of financial intermediation compared to other countries in EU, indicating significant potential for future growth.

In terms of lending activity of the Romanian banking system over the past several years we can see some features. Even if in 2007 loan products abounded on Romanian banking market, the end of 2008 was marked by relative suppression of activity of private sector lending, retail and corporate alike. Retail credit has been affected by restrictive conditions imposed by the central bank new lending rules and by the economic-financial international context. Restricting lending to businesses was due primarily to the increase of difficulty to access bank funding. End of 2008 banking market had stiff competition in attracting deposits. Reached very high interest rates and led to increased credit costs. The first half of 2009 brought low-performing banking loans along with high financing costs, which generated economic pressure that recorded a sharp decline in the lending appetite.

The loans granted to the population registered a fast decrease in 2008 (only 30.5%, compared with 71 % in the previous year) and in the first quarter of 2009 (19% compared to end-March 2008). The same trend was noted in the case of credit non-financial corporations.

The non-governmental credit's structure registered after Romania accession to the European Union created some changes in terms of the currency in which the credit was granted. Analysis of credits given to population depending on the currency by 2006 showed a predominance of loans in lei. Since 2007 foreign currency loans dominated in a total of 53.05% share of total lending to the population. This tendency of loan currency is also seen in 2008. Foreign currency loans had a faster evolution than in local currency in most countries of Central and Eastern Europe. More attractive terms of financing and currency appreciation which tend to feature in transition countries may be possible explanations of growth in the foreign exchange component of non-governmental credit. Therefore, the predominant inclination in the structure of credits granted to population was the ones in foreign currency. In the area of the retail segment, the consumption credits represented 77, 1%, while the credits for dwellings held an inferior percentage of 19, 9% at the level of 2007, the last ones being mainly contracted in foreign currencies.

Within the retail component in 2008, the credit's structure according to their destination underwent major changes against the year of 2007. The consumption credits remained dominant, holding 74,3% from the total, with a slight preference for the national currency superior to the foreign currency one, while this component is much more represented in the dwelling credits holding up to the end of 2008 a percentage of 92,1% from the total of dwelling credits.

Specialists pay attention to analysis of bank performance, especially to concentration and profitability, because banking performance is best represented by profitability indicators.

Table 2: Evolution of indicators of profitability in the Romanian banking system in 2004 - 2009

Indicators	2004	2005	2006	2007	2008	2009
Solvency Ratio	20,6	21,6	18,1	13,78	12,34	14
ROA	2,4	1,9	1,5	1,3	1,4	0.2
ROE	18,5	15,2	11,7	11,4	15,9	2.7

Source: BNR-RSF 2008 and FMI, Global Financial Stability Report

A healthy bank system is built on profitable banks, this is the reason why understanding the profit sources and analysis of profitability indicators is really important. Since 2004 profitability indicators of our banking system had a descending trend. In 2007, the profitability of Romanian

banks followed the downward trend due to: the increase in the cost of investments and due to the narrowing of interest margins.

Solvency Ratio in the banking system in Romania registered a decrease in recent years. Solvency ratio or capital adequacy has been a constant preoccupation of bank management and prudential regulations because of its significance on the soundness and security of bank deposits. Solvency ratio remains at a higher level than the minimum threshold required by the prudential regulations applicable in Romania since 2007 and also on European and international level.

Return on assets – ROA is an indicator that best reflects the bank's management capability to use resources available in order to optimize bank's profit. This indicator finds a downward trend during the analyzed period for the Romanian banking system. In 2009 the ratio between net profit and total assets on annualized average dropped to 0.2% from 1.4% in December 2008.

Similarly, *Return on equity ROE* the indicator which constitutes the most significant expression of profit and highlights the results of bank management in its entirety, reached 2.7% at the end of December 2009 from 15.9% in December 2008.

Despite the decline recorded in the recent years for both indicators of profitability return rate on assets (ROA) and return rate on equity (ROE) evolution does not indicate deterioration of the banking sector profitability. The result of intensifying competition and the decrease of inflation lead to the decrease of the interest rates and implicitly of the income of the banks. In recent years banks accepted lower profit margins to consolidate market position.

Compared with EU countries Romanian banking system has a lower financial return than the European average, situation resulting from the reduction in recent years of spread between the assets and liabilities.

Conclusions

European Union can be seen as a well developed and solid economic structure. Romania's accession to the UE had a positive effect on the banking climate and also put pressure to achieve compatibility. The Romanian banking system suffered a major move on with the integration into EU, in terms of structure. The new banking entities appeared due to purchases and mergers, share of foreign capital participation has increased substantially and the presence of foreign banks raised the competition level. Despite this the international crisis had negative effects on the Romanian banking system and Romania's desire to adopt the euro revealed weaknesses in the system. To exit the crisis and to recreate a competitive, robust and efficient system a few changes must be made where weaknesses should be removed. Banks must prove that they are a trusted brand, their product portfolio must be constantly renewed and operate effectively in terms of costs. These are some requirements that banks must meet in order to remain competitive in the EU market. Due to the lack of external financing strongly felt because of the financial crisis, the banks should pay more attention to the selling activity.

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EUROPEAN MONETARY FUND - BETWEEN ILLUSION AND FUTURE INSTRUMENT FOR EUROPEAN FINANCIAL STABILITY

Fîrțescu Bogdan

Universitatea "Alexandru Ioan Cuza"

Facultatea de Economie și Administrarea Afacerilor

The finance crises that culminate with the Greece situation shows that majority of European countries are facing balance-of-payments difficulties and it is clear that actual mechanism couldn't face the situation. This paper wants to highlight some of the proposals related to the development mechanisms, such the creation of the European Monetary Fund or the design of the "European Mechanism for Financial Stability" (EMFS), which could include the EMF, showing also the actual mechanism of financing through International Monetary Fund (IMF). Some pro and counter arguments are furthermore taken into discussion.

Keywords: European Monetary Fund - EMF, International Monetary Fund – IMF, European Union – EU, sovereign defaults, financing mechanism, financial system.

Cod JEL: F36.

Actual stage of financial crises – foundation and argument for construction of the European Monetary Fund (EMF)

It is considered that actual financial crises have entered in a second phase, regarding the public debt crises, facing the threat of sovereign default. The case of Greece is frequently taken into discussion, but other countries are also confronting with large public debts. As Eurostat shows in its latest statistics⁴⁷⁶, in 2009, the government deficit and government debt of both the euro area (EA16) and the EU27 increased compared with 2008, while GDP fell. In the euro area the government deficit to GDP ratio increased from 2.0% in 2008 to 6.3% in 2009, and in the EU27 from 2.3% to 6.8%. In the euro area the government debt to GDP ratio increased from 69.4% at the end of 2008 to 78.7% at the end of 2009, and in the EU27 from 61.6% to 73.6%.

In 2009 the largest government deficits in percentage of GDP were recorded as follows: Ireland (-14.3%), Greece (-13.6%) the United Kingdom (-11.5%), Spain (-11.2%), Portugal (-9.4%), Latvia (-9.0%), Lithuania (-8.9%), Romania (-8.3%), France (-7.5%) and Poland (-7.1%). No Member State registered a government surplus in 2009. The lowest deficits were recorded in Sweden (-0.5%), Luxembourg (-0.7%) and Estonia (-1.7%). The data suggests a worsening in government balance relative to GDP in 2009 compared with 2008 in twenty-five states, and only in two (Estonia and Malta) an improvement.

At the end of 2009, the lowest ratios of government debt to GDP were recorded in Estonia (7.2%), Luxembourg (14.5%), Bulgaria (14.8%), Romania (23.7%), Lithuania (29.3%) and the Czech Republic (35.4%). Twelve Member States had government debt ratios higher than 60% of GDP in 2009: Italy (115.8%), Greece (115.1%), Belgium (96.7%), Hungary (78.3%), France (77.6%), Portugal (76.8%), Germany (73.2%), Malta (69.1%), the United Kingdom (68.1%), Austria (66.5%), Ireland (64.0%) and the Netherlands (60.9%).

The economic and financial evolution in EU16 and EU27 related to government activity evaluated in percentage of GDP for the last 4 years can be summarized in the table below (see Table 1):

⁴⁷⁶ http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-22042010-BP/EN/2-22042010-BP-EN.PDF, p.1-2, accessed on 23rd of April, 2010.

Table 1 – Government deficits (percentage of GDP) in 2006-2009

	2006	2007	2008	2009
Euro area (EA16)				
Government expenditure	46.7	46.0	46.8	50.7
Government revenue	45.3	45.4	44.9	44.4
Government debt	68.3	66.0	69.4	78.7
EU27				
Government expenditure	46.3	45.7	46.9	50.7
Government revenue	44.9	44.9	44.6	44.0
Government debt	61.4	58.8	61.6	73.6

Source: Eurostat, http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-22042010-BP/EN/2-22042010-BP-EN.PDF

Euro area annual inflation was 1.4% in March 2010, up from 0.9% in February, compared with the value recorded a year earlier the rate - 0.6%. The lowest 12-month averages up to March 2010 were registered in Ireland (-2.3%), Portugal (-0.8%) and Estonia (-0.7%), and the highest in Romania (5.0%), Hungary (4.8%) and Poland (3.9%)⁴⁷⁷. As shown above, macroeconomic indicators worsened in the last 2 years, suggesting the profound implication of financial crises in majority of the European States. These data indicates that actual European Union economic and financial mechanisms are still inadequate to face financial crises. As some authors suggested⁴⁷⁸, related to monetary policy of European Central Bank, an imperfect functioning may cause disproportionate inflation, while wrong fiscal policy decisions, such the excessive deficit procedure may induce a threat of sovereign default. It appears that Greece is the weakest, given its high public debt (about 120% of GDP) compounded by a government budget deficit of almost 13% of GDP, a massive external deficit of 11% of GDP, and the loss of credibility from its repeated cheating on budget reports.

Solutions for debt crisis and strengthening economic policy coordination in the Euro-zone

In actual case, it is suggested that given the intense pressure from financial markets, is likely that a tough fiscal adjustment agenda (or rather the promise that one will be forthcoming) might not be enough to avoid a ‘sudden stop’ of necessary external funding of the public sector. When this happens the EU will no longer be able to fudge the question of whether (and in what form) it can provide public financial support to one of its members⁴⁷⁹.

Some opinions propose that the crisis in Greece calls for standard remedies and the solution would be to bring in the IMF. A stand-by agreement involving conditional lending would provide financial assistance and fiscal adjustment measures which should restore confidence. However, Euro-zone and EU authorities appear to be against this⁴⁸⁰.

Another proposal came from The European Commission that appear to support the creating a European Monetary Fund (EMF) to help Euro-zone countries facing balance-of-payments difficulties. Officials of the EU agreed that “The Commission is ready to propose such a

⁴⁷⁷ http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-16042010-BP/EN/2-16042010-BP-EN.PDF. p. 1, accessed on 23rd of April, 2010.

⁴⁷⁸ see Varela D. – *Guvernarea Uniunii Europene*, Institutul European, Iași, 2008, p. 128.

⁴⁷⁹ Gros D., Mayer T. - *Towards a Euro(pean) Monetary Fund*, [http://www.dbresearch.com/ PROD/DBR_INTERNET_EN-PROD/PROD000000000253712.pdf](http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD000000000253712.pdf), p. 1.

⁴⁸⁰ see Pisani-Ferry J., Sapir - *The best course for Greece is to call in the Fund*, 2010, <http://www.ft.com/cms/s/0/01554c86-0f69-11df-a450-00144feabdc0.html>

European instrument for assistance, which would require the support of all euro area member states⁴⁸¹. Germany's finance minister, said in an interview that he would present proposals for a European monetary fund soon. He said that the Euro-zone needed an institution "for its internal stability". This new body would not compete with the International Monetary Fund, he said, but would benefit from the IMF's experience and have comparable powers to the fund, he said. He said that accepting financial assistance from the IMF would be an admission that the Euro-zone countries were unable to solve their problems by themselves⁴⁸².

An additional proposal came from the PES, together with the S&D Group at the European Parliament (on 2nd of March, 2010), suggesting a plan that implies a three step strategy to address the sovereign debt crisis and to strengthen economic policy coordination in the Euro-zone:

1. the Greek sovereign debt crisis must be solved without delay – it is necessary to establish an emergency credit facility mechanism at the European level, allowing Greece to re-finance its economy at a fair price;
2. the emergency mechanism must be converted, over the medium-term, into a permanent feature of the Euro-zone – creation of a crisis-management mechanism, the "European Mechanism for Financial Stability" (EMFS);
3. the development of further EMFS into a long-term framework for strengthened economic governance in the Euro-zone⁴⁸³.

As seen before, there are three possible mechanism:

- *International Monetary Fund (IMF) assistance*
- *creation of the "European Monetary Fund" (EMF)*
- *design of the "European Mechanism for Financial Stability", that could include the EMF (not discussed in this paper below).*

The financing through IMF and characteristics of the "European Monetary Fund" (EMF) are discussed below.

Financing Mechanism through IMF lending

Upon request by a member country, an IMF loan is usually provided under an "arrangement," which may, when appropriate, stipulate specific policies and measures a country has agreed to implement to resolve its balance of payments problem. The economic program underlying an arrangement is formulated by the country in consultation with the IMF and is presented to the Fund's Executive Board in a "Letter of Intent." Once an arrangement is approved by the Board, the loan is usually released in phased installments as the program is implemented⁴⁸⁴.

IMF Facilities

Over the years, the IMF has developed various loan instruments, or "facilities," that are tailored to address the specific circumstances of its diverse membership⁴⁸⁵. Low-income countries may borrow on concessional terms through the Extended Credit Facility (ECF), the Standby Credit Facility (SCF) and the Rapid Credit Facility (RCF). Non-concessional loans are provided mainly through Stand-By Arrangements (SBA), the Flexible Credit Line (FCL), and the Extended Fund Facility (which is useful primarily for longer-term needs). The IMF also provides emergency assistance to support recovery from natural disasters and conflicts. All non-concessional facilities

⁴⁸¹ Brunnsden, J., Taylor, S. - *Commission backs European Monetary Fund, 2010*

<http://www.europeanvoice.com/article/2010/03/commission-backs-european-monetary-fund-/67349.aspx>

⁴⁸² *ibid.*

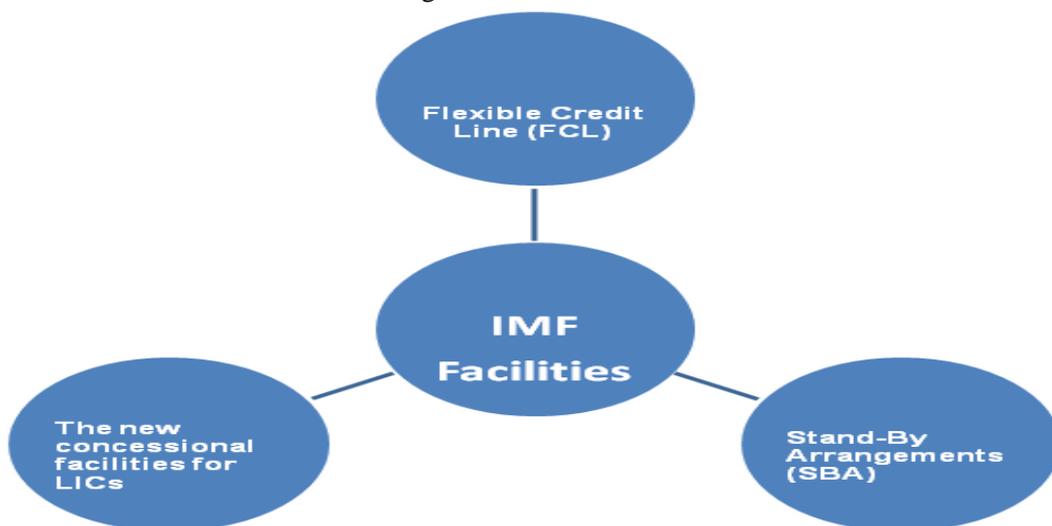
⁴⁸³ see http://www.pes.org/en/system/files/Adopted_PES_European_Mechanism_for_Financial_Stability_250310_EN.pdf

⁴⁸⁴ see*** - IMF Lending, IMF Factsheet, p.1- 4, <http://www.imf.org/external/np/exr/facts/howlend.htm>.

⁴⁸⁵ for information related to IMF financing see Voinea, Gh. – *Mecanisme și tehnici valutare internaționale*, Editura Sedcom Libris, Iași, 2004, p. 239-250

are subject to the IMF's market-related interest rate, known as the "rate of charge," and large loans (above certain limits) carry a surcharge. The IMF facilities can be grouped as shown in Figure 1.

Figure 1 – IMF Facilities



The new concessional facilities for LICs were established in January 2010 under the Poverty Reduction and Growth Trust (PRGT) as part of a broader reform to make the Fund's financial support more flexible and better tailored to the diverse needs of LICs. Access limits and norms have been approximately doubled compared to pre-crisis levels. Financing terms have been made more concessional, and the interest rate is reviewed every two years. All facilities support country-owned programs aimed at achieving a sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. Most important instruments are presented below.

The Extended Credit Facility (ECF) succeeds the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for providing medium-term support to LICs with protracted balance of payments problems. Financing under the ECF currently carries a zero interest rate, with a grace period of 5 ½ years, and a final maturity of 10 years.

The Standby Credit Facility (SCF) provides financial assistance to LICs with short-term balance of payments needs. The SCF replaces the High-Access Component of the Exogenous Shocks Facility (ESF), and can be used in a wide range of circumstances, including on a precautionary basis. Financing under the SCF currently carries a zero interest rate, with a grace period of 4 years, and a final maturity of 8 years.

The Rapid Credit Facility (RCF) provides rapid financial assistance with limited conditionality to LICs facing an urgent balance of payments need. The RCF streamlines the Fund's emergency assistance for LICs, and can be used flexibly in a wide range of circumstances. Financing under the RCF currently carries a zero interest rate, has a grace period of 5% years, and a final maturity of 10 years.

Stand-By Arrangements (SBA). The bulk of Fund assistance to middle-income countries is provided through SBAs. The SBA is designed to help countries address short-term balance of payments problems. Program targets are designed to address these problems and Fund disbursements are made conditional on achieving these targets ('conditionality'). The length of a SBA is typically 12-24 months, and repayment is due within 3%-5 years of disbursement. SBAs may be provided on a precautionary basis—where countries choose not to draw upon approved amounts but retain the option to do so if conditions deteriorate— both within the normal access

limits and in cases of exceptional access. The SBA provides for flexibility with respect to phasing, with front-loaded access where appropriate.

Flexible Credit Line (FCL). The FCL is for countries with very strong fundamentals, policies, and track records of policy implementation and is particularly useful for crisis prevention purposes. FCL arrangements are approved for countries meeting pre-set qualification criteria. The length of the FCL is 6 months or 1 year (with a mid-term review) and the repayment period the same as for the SBA.

Financing Mechanism through EMF

The mechanism should refer to an implementation in 2 stages. During Stage I: any member country could call on the funds of the EMF up to the amount it has deposited in the past (including interest). The government of the country in question could thus issue public debt with a guarantee of the EMF up to this amount.

In Stage II any drawing on the guarantee of the EMF above this amount would be possible only if the country agrees to a tailor-made adjustment plan supervised jointly by the Commission and the Eurogroup.

This proposed mechanism⁴⁸⁶ intends to limit the moral hazard⁴⁸⁷ problem, because only countries that breach the Maastricht criteria have to contribute. The authors propose that contribution rates would be calculated on the following bases:

- 1% annually of the stock of 'excess debt', which is defined as the difference between the actual level of public debt (at the end of the previous year) and the Maastricht limit of 60% of GDP. For Greece with a debt-to-GDP ratio of 115%, this would imply a contribution to the EMF equal to 0.55%.

- 1% of the excessive deficit, i.e. the amount of the deficit for a given year that exceeds the Maastricht limit of 3% of GDP.

Countries with exceptionally strong public finances would not need to contribute because they would carry the burden. Their backing of the EMF (and the high rating of their bonds in the portfolio of the EMF) would be crucial if the EMF were called into action.

Authors argued that taxing countries under fiscal stress to fund the EMF would only aggravate their problems and most of the contributions would materialize a long time before solvency problems become acute.

An illustrative calculation estimates that the suggested funding mechanism, the EMF would have been able to accumulate 120 billion euro in reserves since the start of EMU – enough probably to finance the rescue of any of the small-to-medium-sized euro area member states⁴⁸⁸.

There are some issues to be discussed related to this proposal. A pro argument for the EMF is one suggested by the authors themselves - the EMF could provide for an orderly sovereign bankruptcy procedure that minimizes the disruption resulting from a default. Some specialists suggested that such mechanism is only a redistribution of funds from a group of prudential country to non-prudential one. There is also a technical issue – the Treaties do not agree such an institution. Such mechanism has also to have consistency and interdependency with other related elements, as being part of financial system⁴⁸⁹. Finally, "EMF per se is not a solution for another crisis but could be part of a prevention mechanism, if it implements adequate support for

⁴⁸⁶ according to Gros D., Mayer T. – *op.cit.*, p.5

⁴⁸⁷ see also Gros D., Mayer T. – *How to Deal with the Threat of Sovereign Default in Europe: Towards a Euro(pean) Monetary Fund*, 2010, <http://www.ceps.eu/system/files/article/2010/04/064-095-Forum.pdf>

⁴⁸⁸ according to Gros D., Mayer T. – *op.cit.*, p. 6

⁴⁸⁹ see Fîrțescu, B. – *Sistemul financiar al României*, Editura Universității "Al. I. Cuza", Iași, 2010

reformed policies by Member States intending to tackle the structural root of the crisis"⁴⁹⁰. It is hard to pronounce that the EMF would be implemented in reality, because despite pro and cons, the creation of the EMF remain, in final, a political decision.

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⁴⁹⁰ Canfin P., cited from article *A European Fund to bail out countries?*, 23rd of March 2010, http://www.europarl.europa.eu/news/public/story_page/042-71017-081-03-13-907-20100319STO70945-2010-22-03-2010/default_en.htm

THE DEVELOPMENT AND IMPLICATIONS OF THE U.S. SUBPRIME CRISIS

Heteş Roxana

West University of Timișoara

Faculty of Economics and Business Administration

Miru Oana

West University of Timișoara

Faculty of Economics and Business Administration

Crășneac Alexandru

West University of Timișoara

Faculty of Economics and Business Administration

The changing characteristics of the international financial systems starting from the second half of 2007 came as no surprise. Looking at the events in a synthetic manner, the main factors that led to the triggering and amplification of the crisis can be identified in the dramatic increase of new and more complex financial instruments, with increasing lack of transparency, in the conflicts of interest between market participants, in the imprudent lending practices in the financial services industry, in the deficiencies of rating agencies, together with the excessive confidence in the market's self regulation, the unrealistically low risk attributable to certain investments and, the inability to respond to early warning signals or to learn from the lessons of the previous crises.

Keywords: crisis, subprime loans, securitization, rating agencies

JEL codes: G01, G10, G15, G21

Subprime loans, as a triggering factor of the crisis

While not all mortgage loans may be automatically placed in the category of subprime mortgages, one can observe the proliferation of this kind of loans in the 21st century. Approximately 21% of the total mortgage loans, between 2004 and 2006, fell into the subprime category, as compared to the 9% level in 1996 (Golsbee, 2007). In the third quarter of 2007, subprime mortgage loans with variable interest rate, represented only 6.8% of the mortgage loans, but accounted for 43% of the loans for which the right for mortgage repurchase because of unpaid obligations had stopped. The subprime mortgages with fixed interest rate accounted for 6.3% of the total mortgages and only for 12% of those with cancelled right of mortgage repurchasing.

Objectively speaking, as long as the risks involved with such loans is closely monitored by creditors, imposing higher interest rates and guarantees, one can say that there was no imminent danger related to such loans. But, as in many previous crises, the relaxation of lending standards was one of triggers of the initial losses. Often, it was allowed for borrowers to enter into the possession of large sums of money that would later increase the borrowers' expenses, once the period of low interest rates expired and once the repaying of rates of capital had started (Dodd & Mills, 2008).

The reasoning that lied at the basis of such loans was found in the *increasing prices of real estate*. Thus it is considered that potential repayment problems could be reduced and even eliminated by the market value of the presented guarantees. If borrowers failed to repay maturing rates on time, the high value housing could facilitate refinancing the loan.

Specific developments due to the process of financial innovation

Concretely, the disruptions relate to the developments in the U.S. mortgage market and, for a better understanding of the transformations suffered, one should make a brief foray into history.

Thus, after the 30's crisis, based on the "New Deal" program of the Roosevelt administration, a public body-the Federal National Mortgage Association was created, whose objective was to increase the volume of loans and mortgages, thus stimulating the economy by all the positive effects that the development of the construction sector may have on it. Fannie Mae took over from the initial lenders the default and liquidity risk, which it could manage much better than the first line distributors credits, as it had a portfolio of mortgages much more diverse and more widespread at the national level than the usual banking institutions. This body could borrow funds itself on longer term than banks, which was likely to reduce the liquidity risk. In 1970, the Government National Mortgage Association another governmental institution, began issuing bonds collateralized by mortgage debt, which enabled the transfer of risk of default to the subscribers of such titles and relieve the federal budget of a substantial part of the debt incurred for financing of public programs for the construction of housing. These titles are placed on the capital markets, and their redemption at maturity is done directly from the owners. Also, in 1970, a new body was established, the Federal National Mortgage Corporation (Freddie Mac), to issue securities based on classical mortgage loans, but also to create a competitor to Fannie Mae, which was to be privatized.

In time, these institutions were able to mobilize significant capital for mortgage refinancing, their main operations aiming at acquiring and holding assets in prime mortgages, as well as the transformation of mortgage loans in a variety of debt securities collateralized by mortgages. This operation is called *securitization*, generally, a *technique that transforms less liquid financial assets into negotiable securities such as bonds*.

Mortgage securities that are based on mortgage loans from one lender, are usually issued through swap transactions in which the lender changes the package of mortgages for MBS. Mortgage securities backed by multiple creditors allow some creditors to pack mortgages in exchange for the receipt of mortgage securities representing a proportionate part of a larger package (Cerna, 2008). Generally, mortgage securities tend to provide coupon rates higher than the treasury securities issued by the U.S. Government. In part, this is because the interest rates charged for mortgages are higher than the interest rates offered by the U.S. government. At the same time, however, the higher interest rates of the mortgage securities also reflect the level of investment risk raised by the uncertainty due to the advance repayments. In the U.S., these mortgage securities are guaranteed by the GNMA, FNMC and FNMA. The mortgage pass-through securities issued and/or guaranteed by the organizations listed above are the most numerous and, are characterized by an AAA credit rating.

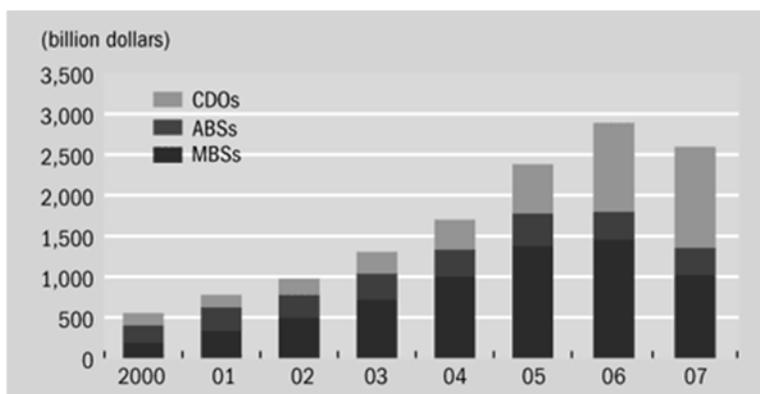
This structure of the market, based on organizations supported by the state, proved to be very profitable, and therefore attracted other financial institutions as well. Thus, if in 2003 the semi-completed 76% of the total issuance of debt securities backed by mortgages and other assets of the issuer, the remaining 24% representing the large financial corporations on Wall Street, in mid-2006, the share of the semi-public bodies decreased to 43%, while the share of private securities increased to 57% of the total. The major private issuers of this type of securities were the well known U.S. investment banks (Wells Fargo, Lehman Brothers, Bear Stearns, JP Morgan, Goldman Sachs, and Bank of America).

Parallel with this rapid and radical transformation of the market, there was a change in lending standards in the U.S. following the deregulation process. In this liberal framework, while Fannie Mae and Freddie Mac have continued to provide almost exclusively prime loans, the private corporations have increased their market share, mainly through the securitization of mortgages with high risk and of the so called "Alt-A loans" granted to solvent, but less reliable debtors than the first class customers. However, this increase in the quantity of securities backed by doubtful mortgages created a problem, because the main purchasers of such securities were institutional investors with a limited exposure to the holding of such securities. Consequently, only a small

proportion of claims with high risk could be sold to institutional investors in search of higher yields.

To address this issue there was adopted a strategy of dividing risks in more categories or "tranches" with separate administration, thus determining a widening of the market for mortgage debts with high risk. From a technical point of view, this operation consists in dividing the portfolio of claims into two parts: one characterized by a low risk level and, one with high risk level. To this end, firms on Wall Street have opted for a new financial instrument, created in 1987 by the financial investment firm, Drexel Burnham Lambert, called *collateralized debt obligations* (Bordo, 2007).

An essential difference between CDOs and other mortgage derivatives on one hand, and securities listed at stock exchanges and futures contracts on the other hand, is that the former are not traded on stock exchanges, but on over-the – counter markets (OTC). On these markets transactions are carried out directly between customers and dealers, unlike the stock market where sale or purchase orders are intermediated, as for the data about the volume of transactions and prices, these are not published officially. The price formation method has no transparency. It should also be noted that there does not exist a supervisory authority for OTC markets, that allows the identification of large or vulnerable exposures, nor do lenders of last resort exist, in order to provide the liquidity needed in special situations.



Issuance of structured credit instruments in the U.S.A and Europe

Figure no. 1

Therefore, the degree of risk involved by such securities has been ignored by investors who sought to obtain high profits. Until the spring of 2007, some top managers of financial companies have begun to concern about debt securities secured by subprime mortgages. But, given the still low interest rates and the high liquidity, the demand for structured credit products with AAA ratings and higher than normal yields, has continued to increase until mid-2007, as it results from Figure 1.

The development and generalized impact of the subprime mortgage crisis

The demand for real estate in the U.S. has increased considerably in the recent years, which led to a considerable increase in prices, which could be said that have almost doubled and even more from 1997 to 2006-2007. From 2003 to 2006 the property prices rose by no less than 30%, (Kodres, 2008).

Price evolution together with the exponential growth of prices after 2000 put the U.S. housing prices in a speculative bubble, the increase being determined by expectations regarding future price increases, rather than by economic foundations. The explanation lies in the fact that the homes were purchased for their future anticipated price level, price that could offset the initial yield offered. On the other hand, this increase was driven by the increased volume of mortgages granted, by the eased access to these credits and also by the development of the construction sector in the period of economic prosperity.

In 2005-2006 interest rates began to rise and housing prices to decline moderately in many U.S. regions. As a result, outstanding loans rose as the initial terms have expired and variable interest rates rose. The inability of borrowers to honor the installments of maturing mortgages resulted in the mass start of the sale of properties by property holders and credit institutions. The market was flooded of houses from liquidation of mortgages, while new houses were not sold so well either, which led to a further decrease in the value of homes. Selling these houses below their market value (and obviously the price of acquisition or accepted value of collateral) has increased the default rate of loans and the incapacity to recover the total claims by credit institutions (Bordo, 2007).

The mortgage market crisis actually began when investors with very large debts, such as hedge funds have tried to adjust their exposure or, to exit the losing positions, which made the high risk mortgage backed securities' market to become illiquid. In this way, in August 2007, hedge funds were seen stuck on unfavorable positions, and this just when they had to pay the premiums required by their brokers. The situation has worsened even further, because with the termination of transactions, there were no market prices any more, to serve as benchmarks, or other means to determine the value of the securities contained in various tranches of risk (Corbu, 2008). The consequence of the shown disruptions was that hedge funds stopped their transactions, while the CDO market and the credit related derivatives have virtually ceased to exist.

Regarding the banks financing the initial lenders, they have ceased their support, which made the latter unable to meet payment obligations related to the stock of mortgage loans granted. Finally, potential buyers and home owners could not get mortgages any more, which has put them in the situation of not being able to pay for construction work performed. In turn, constructors, which have previously got loans to build homes for sale, could not sell their homes and therefore could not repay loans, etc.

All these phenomena have resulted in a strong contraction of demand in the construction of housing, with all the series of negative implications for the economic growth. The fact that hedge funds and other investors did not buy high risk mortgage debt any more has shown that all these claims were no longer considered secure forms of investment. Accordingly, securities prices have dropped and their issuers have not been able to procure the necessary funds for the repayment of mortgages and other types of loans they have contracted from big banks and financial corporations. In this way, when the credit resources were exhausted, in the financial system appeared a new request for additional loans.

Taking into account the consequences of these developments, beyond the losses of the U.S. economy, spectacular bankruptcies, causing millions of unemployed and affecting all sectors, another more serious problem appears, namely the repercussions of the U.S. crisis on international financial markets and world economies. The propagation of the crisis effects appears as an unquestioned reality, through a simple fact that, currently, we can no longer speak of an isolated financial crisis in the U.S., but rather of a global financial crisis, which through the implications on the real economy, has become a generalized economic crisis.

The role of Rating Agencies in crisis triggering

The rating agencies have played an important role in the triggering of the crisis. A feature of this sector is the lack of a consistent standard for assessing the ratings for structured securities. Lack of such a standard of evaluation may lead to arbitrary decisions. The lack of single standards of evaluation, the lack of legislation to penalize the assessment practices that allow changing the rating from one day to another, the lack of competition, the conflict of interest that appears at the financing of a ratings evaluation project, are sufficient grounds to trigger a crisis of loan markets.

Rating agencies were in no position to rate securitized transactions (CDO and MBS), backed by subprime mortgages. The high ratings given to these securities were justified by various improvements in the lending sector, by the greater value of the collateral than of the loan itself, as well as by the existence of the investors in securities willing to take over the risk of losses. On the other hand, rating agencies have asserted that they only took into account the risk of default, and not liquidity risk or market risk, which investors often tend to neglect. Some critics of these agencies say that conflicts of interest also appeared in this process, because rating agencies are paid by companies that organizes and place such instruments to investors, companies like investment banks (Crainic, 2007).

Another criticism brought to rating agencies, is that these agencies have always been late in discovering the signals of a crisis. The situation is similar to that of Enron, when rating agencies have been unable to notify the company's tremendous exposure. Agencies' inability to distinguish signals of the subprime crisis has determined both the U.S. and the EU authorities to improve the regulatory and monitoring framework of their activities and, not least to make them legally responsible for their actions.

Conclusions

The financial crisis can be viewed, in a very broad way, as a state of imbalance, over certain limits, among different parts of the market. Some financial crisis may be predictable, while others are difficult to predict. The ongoing financial crisis, which has developed since the summer of 2007, according to many experts, was expected. The problem that developed was not whether it will actually happen, but when it would begin. The factor that triggered this crisis is represented by the U.S. subprime market.

During the pre-crisis period, low interest rates, high liquidity, low volatility of financial markets and a general feeling of satisfaction, have encouraged many categories of investors to assume much higher risks. The changing characteristics of the international financial systems starting from the second half of 2007 came as no surprise. Many supranational institutions (The International Monetary Fund, The Bank for International Settlements, The European Central Bank) have pointed out that risk is undervalued and that a reverse evolution is progressively more possible.

Looking at the events in a synthetic manner, the main factors that led to the triggering and amplification of crisis can be identified in the dramatic increase of new and more complex financial instruments, with increasing lack of transparency, in the conflicts of interest between market participants, in the imprudent lending practices in the financial services industry, in the deficiencies of rating agencies, together with the excessive confidence in the market's self regulation, the unrealistically low risk attributable to certain investments and, the inability to respond to early warning signals or to learn from the lessons of the previous crises.

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THE EVOLUTION OF THE ROMANIAN ECONOMY IN THE CONTEXT OF THE INTERNATIONAL CRISIS

Heteş Roxana

West University of Timișoara

Faculty of Economics and Business Administration

Miru Oana

West University of Timișoara

Faculty of Economics and Business Administration

The financial crises that have emerged and developed in the recent decades have been characterized, mostly of an international dimension, with shocks quickly propagating through capital markets, through the international banking activities and, through the money markets. Regarding the impact of the current crisis on the economy of Romania, the contagion effect was transmitted through several channels, but a proper framework in this respect was created by the internal context, mainly the excessive debt. To counteract the increasingly visible effects at the level of macroeconomic indicators, the measures taken by authorities have aimed primarily at the IMF support, being essential, in the following period, to register an improvement of the current situation because, otherwise, this could constitute a real threat towards adopting the euro, putting into question even the quality of Romania's EU membership.

Key words: crisis, recession, causes, policies, remedial measures

JEL codes: G01, G15, G18, G21, G28, E58

The international crisis context

The initial outbreak of the crisis on the U.S. market has highlighted a number of vulnerabilities of the mortgage market, which's overlap made the modest initial increase in the volume of loans outstanding to shake the entire U.S. financial sector - the largest in the world - and also to affect the whole world. In a synthetic manner, there can be identified as elements of vulnerability the following:

- the failure caused by placing the titles from tranches with high risk to investors who already had large debts themselves;
- the initiators of mortgages are poorly capitalized financial institutions and are not subject to prudential regulations;
- the lack of transparency of the OTC market, which resulted in the inability of market participants to identify the risk category which the various mortgages carried and the impossibility of quantification of respective risks according to their specifics;
- the OTC markets have also suffered an acute lack of liquidity. As a result, instead of being flexible to price volatility, as it is implied by the concept of "perfect market", these were closed just when the object of the transactions lost its attractiveness, and buyers began to withdraw.

The crisis has not stopped to the U.S. economy, but also propagated to Europe as well, the first country affected by events in the U.S. being the UK, with problems of Northern Rock, which caused a panic among bank depositors. In an overview, we can say that the current crisis has initially propagated only to developed countries, particularly through the acquisition by European banks of derivative products backed by subprime mortgages, as well as through the increasing market for securities backed by assets. Initially emerging countries have avoided a crisis, maybe

due precautions taken following the Asian crisis. But, when the crisis began to affect the real sector, emerging countries have also started to be affected through the trade links with developed economies. Also, through the presence of international financial institutions in these countries, the problems suffered by it in the parent country have passed on to the activities in emerging countries. The same has happened to the nonfinancial multinational companies (Dodd & Mills, 2008).

When the inevitable happened, all those exposed were caught, apparently unprepared. Both in the U.S. and in other countries affected by crisis, central banks have sought various ways to limit the effects of financial crisis and prevent its propagation in the real sector thus causing economic recession. However, not all measures have been successful. Starting with the U.S., central banks have used enormous sums of money to save banks from bankruptcy. In addition to the efforts of each individual central bank, given the systemic nature of the crisis, there can be identified several common lines of action of central banks in the U.S. and EU, respectively: banks' recapitalization, deposit assurance and interbank credit guarantee, takeover by the state from banks of toxic asset, the nationalization of banks and introduction of new regulations.

The EU wants the establishment of a centralized financial supervision; while officials from several countries require the application of more effective and accurate risk management practices. Implementing a more robust set of regulations regarding capital adequacy, strengthening liquidity management practices, improving the standards of risk classification and protection against them and, last but not least, creating a new global financial system, now represent, beyond any doubt, unquestioned needs.

Analyzing the causes, implications and generalized remedial measures promoted by the authorities, the following conclusions could be outlined regarding the current crisis:

- In the attempt of defining it as a real financial crisis or as a pseudo crisis, we may take into account the fact that the recent losses suffered by hedge funds and other players represent pseudo crises. However, the propagation of the crisis on the interbank market and the lack of liquidity for the banking system brought the threat of a real crisis, justifying the FED and ECB interventions. Unlike these, the Bank of England followed a strict Bagehot policy, maintaining its discount operations, but with a penalty rate. Massive withdrawal of funds from Northern Rock on September 14th, 2007 have not reflected the inability of the central bank to act as a lender of last resort, but the perceived problems of public deposit guarantee schemes and the uncoordinated actions from the Financial Stability Authority and the Bank of England.
- By reducing the interest rate between September and December 2007, the FED has acted properly by temporary moving from inflationary problems to recession problems. The relaxation of interest rates is not dangerous as long as the monetary policy is credible. However, once the danger of a recession disappears, the monetary authority should revert to anti inflationary policies and increase interest rates, in order to maintain credibility. The ECB and the Bank of England, although were facing a generalized lack of liquidity in the financial system did not initially reduce interest rates, but injected liquidity into the system through the money market.
- The FED reacted to the boom in asset prices in their bust period. It could have preventively acted to reduce the likelihood of sudden price fall, with adverse consequences on the economy.

- The financial crisis on the U.S. market could have been avoided if the FED would not have provided such high volume of cash in the 2001-2004 periods. It began injecting liquidity into the economy in response to shocks (dot.com crisis, terrorist attacks on 9/11) that could have led to financial crisis, but when they found that no such crises occurred, the additional funds remained on the money market.

The impact on the Romanian economy

The economic crisis which affects Romania today is mainly an internal crisis, with a main excessive debt as a main cause. The international financial crisis represents only the trigger for the Romanian crisis because it has affected the funding sources.

To understand why Romania faces an overconsumption crisis, a presentation of its premises is necessary. Thus, in the past nine years, Romania has shown economic growth and, in seven of them with annual rates that have exceeded 5%. Even if investments have risen in the recent years, the public and private sectors grew at a higher rate, therefore becoming the main driver for domestic demand. This alert evolution rapidly attracted significant changes mainly in the consumption standards of the population which aimed to be consistent with the evolution of the Romanian society. All these influences have led to a strong emphasis of external deficits.

If, however, we also consider the context in which the Romanian economy has helped consumption increase, it can be observed that the massive capital inputs have led to strong appreciation of the Romanian leu and supported favorable granting conditions for consumer loans for both population and companies. This has not been a concern because the expansion of small and medium sized companies is actually the engine of development of an economy. If you also add to it the bulk of foreign capital entry in the Romanian banking system (and financial system, as a whole) it becomes very clear that the rapid expansion of credit to non-government sector (households and businesses) was inevitable (Tătaru, 2008).

This phenomenon has occurred in the same manner as in all emerging economies in Central and Eastern Europe, as Romania had a real annual non-government credit growth (in lei and foreign currency denominated) of over 30-40%. It can also be observed that it is not the public budget that is liable for, first, the size of the external deficits, as the share of the budget deficit compared to the current account deficit is significantly reduced. The size of the current account deficit is the reason why the rating agencies have put Romania in the group of countries in which investments are very risky.

The current financial crisis has propagated to the Romanian economy through the following channels: trade, financial, trust, exchange rate and through the wealth and balance sheet effects. Through *the trade channel*, export growth slowed down, and even reduced. *The financial channel* has limited the access to external financing and, thus restricted the volume of credit generated, and created difficulties in the private external debt service. In terms of the exchange rate channel, the reduction in external financing was reflected in the national currency depreciation. Because of the *confidence channel*, investors exited from Eastern Europe. Therefore the monetary and exchange markets there were moments of panic and speculative attacks, such as in October 2008, which made necessary the intervention of the NBR. Finally, through the wealth and balance sheet channel the net assets of population and companies have deteriorated, as a result of higher share of credits in foreign currency (related with the depreciation rate) and reduced prices of titles and real estate from speculative, unsustainable values (NBR, 2009).

The analysis of macroeconomic developments in the Romanian economy indicates that the global crisis began to manifest in Romania in the fourth quarter of 2008, but will enlarge this year. Thus, the GDP fell in the first quarter of this year by 6.2% over the same period in 2008. Detailed statistics on the GDP in the first quarter of this year show a contraction of activity in all sectors of the Romanian economy, except the construction sector. Agriculture, forestry and fishery declined in the first quarter with 10.9% compared to the same period last year, industry with 11.1%, the activity of trade, hotels and restaurants, transport and telecommunications have compressed by 7, 6% and financial activities, real estate, renting and business services fell by 3.8%. Constructions and have increased their volume of activity by 4.7%, but face a strong loss of speed (INSSE, 2009). It is expected that the slowdown will worsen in following quarters, so the constructions will see losses (Figure 1).

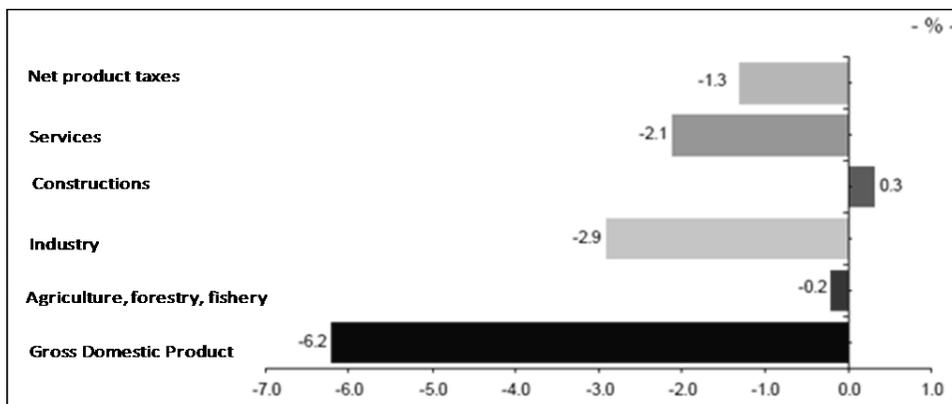


Figure 1 - Contribution of the main branches of activity to GDP (2009)⁴⁹¹

Regarding *the labor market*, it faces difficulties following the reduction of activity in the last quarter of 2008, especially at the level of registered unemployment. As a result, registered unemployment rate rose to 4.4% in December 2008, compared to 3.9% in September 2008. In the first quarter of 2009, the number of employees has continued to reduce. In April, however, the number of registered unemployed persons rose by just 1%, reaching 517.7 thousand persons (Figure 2).

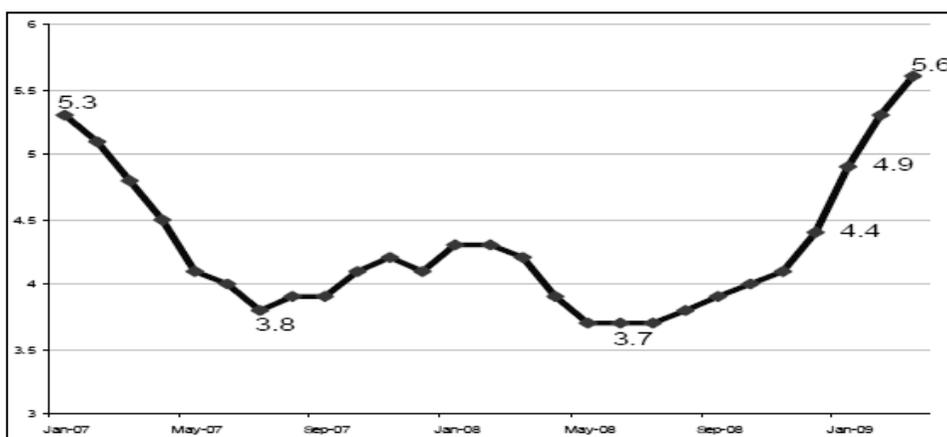


Figure 2 - Evolution of the unemployment rate (2007-2009)⁴⁹²

⁴⁹¹ INSSE, Buletin statistic lunar no.5, 2009

⁴⁹² National Bank of Romania, Financial Stability Report 2008

The current account deficit increased by 1.3% in 2008, reaching a level of 16.9 billion e (12.3% of GDP) being financed in a proportion of 58.4% by direct foreign investment, which have totaled a 9.8 billion Euros, compared with 7.3 billion Euros recorded in 2007. In the first quarter of 2009, the current account situation has improved, with its decreasing deficit by 82.1% to the value of 709 million Euros. The current account deficit was fully financed from foreign direct investment, which totaled 1.456 billion Euros compared with 1.691 billion in first quarter of 2008 (INSSE, 2009). According to the forecasts of analysts at Bank of America Securities and Merrill Lynch, the current account deficit of Romania will reach a level of 5% of GDP in 2009, and not at 8%, as it had been previously estimated. For 2010, analysts forecast a current account deficit of 4.1% of GDP, as compared with 6.5%, as had been previously announced.

The annual inflation rate reached 6.3% in 2008, exceeding the target of 3.8% plus / minus one percentage point. In the first 3 months of the year 2009, the annual inflation rate reached a level of 6.71%. In the first four months compared with the similar period of previous year, the national currency registered a depreciation of 13.4% in nominal terms against the euro. Analysts Bank of America Securities and Merrill Lynch believe that this year, inflation will also exceed the target set by the NBR, of 3.5% plus / minus 1 percentage point, as they anticipate that inflation could reach 5.2% in 2009, and 4% in 2010 (Figure 3).

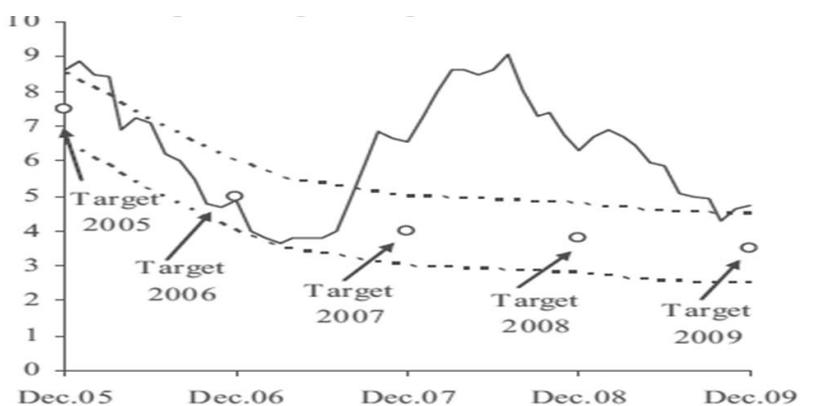


Figure 3- Inflation Developments, annual percentage change⁴⁹³

To face the crisis, Romania has completed an agreement with the International Monetary Fund for a loan worth 20 billion Euros. The expected benefits to be derived from this loan are currency appreciation, regaining investors' confidence in the local economy and improving the country rating.

The risks associated with the IMF loan are immense for both those who granted the loan, and for those who receive it. The IMF and the EU should look more determined than ever to force the Romanian authorities to respect the rules, otherwise risking to see Romania turning into a financial black hole. The game is more than the failure to maintain standards of life and help the country return to a favorable rating for investments. The failure to implement a healthy economic plan, associated with a two years loan, could plunge Romania into economic recession, mass unemployment and rising inflation.

⁴⁹³ National Bank of Romania, Inflation Report, february, 2010

Conclusions

Generally, the financial crises that have emerged and developed in the recent decades have been characterized, mostly of an international dimension, with shocks quickly propagating through capital markets, through the international banking activities and, through the money markets. Falling on the same trajectory, the subprime mortgage crisis has not affected only the U.S. economy, but has crossed the ocean, affecting a large part of European countries, showing large contagion effects.

Regarding the impact of the current crisis on the economy of Romania, the contagion effect was transmitted through several channels (commercial, financial, confidence, exchange rate, the wealth and balance sheet effects), but a proper framework in this respect was created by the internal context, mainly the excessive debt. In other words, the economic crisis that Romania is crossing today can be considered mainly a domestic crisis, with the international financial crisis representing only an accelerating momentum in a direction which, however, would have proven inevitable. To counteract the increasingly visible effects at the level of macroeconomic indicators, the measures taken by authorities have aimed primarily the IMF support, being essential, in the following period, to register an improvement of the current situation because, otherwise, it could constitute a real threat towards adopting the euro, putting into question even the quality of Romania's EU membership.

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MEASURING MODEL FOR BAD LOANS IN BANKS. THE DEFAULT PROBABILITY MODEL

Iuga Iulia

Universitatea „1 Decembrie 1918” Alba Iulia

Facultatea de Științe

Socol Adela

Universitatea „1 Decembrie 1918” Alba Iulia

Facultatea de Științe

The banking sectors of the transition countries have progressed remarkably in the last 20 years. In fact, banking in most transition countries has largely shaken off the traumas of the transition era. At the start of the 21st century banks in these countries look very much like banks elsewhere. That is, they are by no means problem free but they are struggling with the same issues as banks in other emerging market countries during the financial crises conditions. The institutional environment differs considerably among the countries. The goal we set with this article is to examine in terms of methodology the most important assessment criteria of a measuring model for bad loans.

Keywords: assessment criteria, „Default” model, collateral, Basel II Accord

JEL code: G21

1. Introduction

The role of financial intermediaries such as banks is to channel savings to investors. In a modern economy, banks do this by maintaining a delicate balance between risk taking and managing risk. Bankers face information asymmetries when they engage in lending since only the borrowers know about the 'true' risk of their investment projects. However, there are several covenants that bankers can include in their credit contracts to overcome information asymmetries. [Bester \(1985\)](#) showed that collateral can serve as a signalling device, so that borrowers reveal their true riskiness by the amount of collateral they are willing to offer. To ensure that devices like collateral can be effective, laws that define collateral relationships and adequate institutions for enforcement are essential. More reliable collateral laws and arrangements could result in greater use of collateral to overcome asymmetric information and an overall reduction of risk. In a poor legal environment, a borrower might use the same asset as collateral in several lending agreements or might refuse to surrender the collateral in case of default. In this view, a better institutional environment will be associated with a greater willingness to use collateralised loans and more lending. This is consistent with results in the law and finance literature that show a positive relationship between good creditor rights and credit market development ([La Porta, et al., 1997, 1998](#)).

Focusing more on individual banks, [Kager \(2002\)](#) shows that the problem of bad loans persisted in many banks in transition economies.

EU banks have smaller solvency ratios and loan loss reserves but they maintain more liquid assets. The use of contingent liabilities is rare except for EU region banks. Finally, there are some differences by bank size or share. There is clearly an inverse relationship between the solvency ratio and bank size or market share. Also, the very large banks and those with shares over 10% make fewer short-term loans than others.

Banks with greater confidence in the banking environment or in countries with an objectively better legal environment for banking might be willing to take on more risk.

Interestingly, there is no clear pattern between estimated default probability and the institutional environment (Rainer Haselmann and Paul Wachtel, 2007). When bankers have better perceptions

of the quality of law and when the laws are objectively better, their default probability is higher. This suggests that bankers are willing to take on risky lending when the legal environment for dealing with bad loans is better. However, better perceptions of the courts and better law enforcement are associated with lower default probabilities. Also no clear pattern could be detected for the relationship between bank risk and credit risk.

2. Measuring model for bad loans

Regarding the design decision and the economic efficiency of implementing a measuring model, the general framework for its assessment must be taken into account. The most important assessment criteria are:

- a) the expected value of the model shows how valuable the model is expected to be in certain situations, having as sub-criteria the instructive value of the model, as well as the economies resulting from decisions that are made faster and better on the basis of the model;
- b) the initial costs show how expensive is the implementation of the model in a given situation considering the cost of adaptation and the costs for collecting the initial data;
- c) the structure of the model has as sub-criteria: adaptability, completeness, ease of testing, ease of understanding and the model robustness. *The completeness of the model* shows the extent to which the representative users of the model consider that the model explicitly or implicitly allows the treatment of all phenomena important and relevant for the investigated problem.

The understanding ease of the model shows how well and fast the user can understand the general logic of the model.

The adaptability of the model shows the ease with which you can change the value of the patterns and the structure of the model as response to the new conditions in which the model is used.

The ease of testing refers to the existent opportunities for validating the model for current applications.

The robustness of the model shows the extent to which it is possible to obtain correct results when the input data of the model exceed a certain order.

- d) *the use features show how easy it is to use the model and has as sub-criteria the following: the ease of communication and control, the volume of the data input and the time of response;*
- e) the context of use shows the extension to which the specific conditions where the models is used favour its acceptance by the managers and takes into account: the field of the analyzed problem, the considered decision type and the use frequency;
- f) the validity of the model represents the major assessment criteria for the model. An invalid model is not consistent with reality and leads to erroneous conclusions regarding the performance of the system.
- g) the consistency of the model reflects the extent to which the component elements of the process modelled by the relations between them were presented;
- h) the quality of the model is given by following the next main criteria: coherence, precision, efficiency, completeness and the efficient use of the model.

The banking activity balances risk taking and risk management. In general, the loss owed to the credit risk of a portfolio is defined as being the difference between the current value of the portfolio and its future value at the end of a given time horizon. Therefore, estimating the probability density function of the current portfolio losses implies the current value of the portfolio and the probability distribution of future values at the end of the planned time horizon.

However, there is no single ideal method to measure the losses owed to credit risk. Two models for the loss owed to credit risk are used in practice:

1. default model (DM)

2. mark-to-market model (MTM).

„Default” model

To prevent the occurrence of bad loans, the Basel Committee on Banking Supervision elaborated an assessment model of credit risk (default model), which is recommended for all banks.

In general, the bad loans portfolio is defined as being the difference between: the current value of the portfolio and its future value at maturity.

In the case of this model, a credit loss occurs only when the borrower doesn't keep the day of maturity, meaning that he didn't reimburse the loan until maturity. In case the business fails, the loss of the credit would reflect the difference between the exposure of the loan and the present value of the future net recoveries. For this model, a bank must impose or estimate the possibility of risk distribution for each granted loan by taking into account three variables:

1. the associated exposure of the credit bank;
2. an indicator that shows the “default” possibility during the unfolding of the credit;
3. in the event of failure, the loss rate will be calculated. The lower the rate, the bigger the recovering rate of the credit.

The current and future value of credit instruments are defined for two states: *default* versus *non-default*. For a term loan, the current value is measured as bank exposure (accounting value). The future (uncertain) credit value depends on the whether the borrower will become unable to pay within the planned time horizon. If the borrower isn't insolvent, the future value of the credit will be measured as bank exposure at the end of the planned time horizon, adjusted so that it includes any payment of principal made during the planned time. Instead, if the debtor becomes insolvent, the future value of the credit (calculated as percentage of the credit value at the beginning of the time horizon) as will measured as:

$$1 - LGD,$$

where *LGD* presents the loss if the debtor becomes insolvent (*loss given default*). The lower *LGD* is, the bigger the retrieval rate of the credit will be.

There are expected losses of the credit portfolio and unexpected losses. An expected loss of the credit portfolio (μ) in the temporary assumed horizon is equal to the sum of expected losses for each type of credit (considered in its individuality) that forms the portfolio.

$$\mu = \sum P_i \times LEQ_i \times LGD_i$$

where, for the type of credit *i*:

LGD_i = loss in case of default; the expected loss rate in case of failure;

P_i = probability of default; unperformance probability (the expected “default” frequency);

LEQ_i = exposure to default risk; expected exposure of the loan.

The lower *LGD* is, the bigger the retrieval rate of the credit will be.

The standard deviation of the credit portfolio loss (σ) can be decomposed through the contribution brought by each type of individual credit:

$$\sigma = \sum \sigma_i \times P_i$$

where:

σ_i = the standard deviation of the losses of the type of credit *i*;

P_i = the correlation between losses of the type of credit *i* and the ones of the total portfolio.

The Π_i parameter holds the effects of the correlation of the type of credit i with the other types included in the credit portfolio of a bank. The higher Π_i is, the bigger is the standard deviation of the credit losses in the portfolio.

After the assumptions that:

1. exposure of a certain type of credit is known with certainty;
2. the failures of the client and the expected loss rates in case of failure are independent of each other;
3. the expected loss rates in case of failure are independent of the borrowers, the standard deviation of the credit losses for a certain type of credit i can be expressed as:

$$\sigma_i = LEQ_i \times \sqrt{\Pi_i (1 - \Pi_i) \times LGD_i^2 + \Pi_i \times VOL_i^2}$$

where VOL_i is the standard deviation of the expected loss rate in case of failure for the type of credit i .

These equations provide a conventional method to sum the risk of the total credit portfolio (within “default” mode) regarding the correlation between the losses of the i credit and the ones of the total portfolio, the expected loss rate in case of failure, the standard deviation of the expected rate in case of failure for the i type of credit and the expected exposure of the loan. They are also used to highlight those aspects of the credit risk estimation process that establish total trust in a credit risk model, namely:

- a) the accuracy of the parameter estimations as representations of the future;
- b) the validity of the presumptions of independence between variables (the presumption that certain variables are known without certainty) and the distributional presumption that introduces unexpected losses.

Regarding the aspect of the design decision and the economic efficiency, we found the “default” model elaborated by Basel Committee on Banking Supervision as being efficient.

In this model, for each granted credit, a bank must impose or estimate the possibility of risk distribution by taking into account three variables: the associated exposure of the bank credit; an indicator that will show the “default” possibility during the unfolding of the credit; the loss rate will be calculated in case of failure. The lower this rate is, the bigger is the retrieval rate of the credit.

The Basel II Accord acknowledges the techniques to reduce credit risk through collateral, securities and contracts derived on credit risk.

Regarding collateral, two methods to treat it are allowed:

- The simplest approach is similar to the one given by Basel I, according to which the risk weighting of the credit is replaced by the risk weighting of the collateral, which can be lower than 20%.
- The other approach to protect the bank against volatility of the collateral price is more advanced and relies on the adjusting of the collateral’s market price by introducing *haircuts*, which are either supplied by the supervisor (based on quantitative and/or qualitative criteria), or are calculated internally. Then, the value of the collateral adjusted by the market is deducted from the gross value of the given loan, thereby obtaining the adjusted exposure, which is afterwards multiplied with the associated risk weighting.

Thus, for a collateral transaction, the exposure after the *risk mitigation* procedure is calculated as follows:

$$E^* = \max\{0, [E \cdot (1 + H_e) - C \cdot (1 - H_c - H_f)]\},$$

where:

E^* represents the exposure value after the risk mitigation procedure;

E – the current value of exposure;

H_e – the haircut weighting applied to that exposure;

C – the current value of the received collateral;

H_c – the weighting applied to that collateral;

H_{fx} – the weighting applied to reduce *currency mismatch* owed to expressing exposure and the collateral in different currencies.

When the collateral consists of an assets cart, the weighting applied to the assets cart is:

$$H = \sum_i a_i H_i$$

where:

a_i represents the assets cart weighting (measures in monetary units)

H_i – the weighting applied to those assets.

According to both approaches, acceptable collateral represents:

- money or deposits;
- debt securities with at least a BB- rating, issues by governments or public entities;
- debt securities issues by corporations, with a rating of at least BBB-;
- equities or convertible bonds included on a main index;
- gold.

In addition, the advanced approach accepts convertible bonds that are not on the main index, but are transacted on a recognised stock exchange market, bonds without rating issued by banking institutions, collective investment schemes and mutual funds.

To accept these types of collateral, a bank must met standards regarding:

- the legal certitude of the used documents;
- the requirement that the assets used for risk mitigation will have a reduced correlation with the credits whose risk they reduce;
- the robustness of the management policies for collateral.

3. Conclusion

Certain groups of banks differ in their riskiness; for example, foreign, EU and large banks show a lower probability of default compared to their competitors. Nevertheless, these differences are not large and generally not statistically significant. This suggests that banking markets are relatively homogenous and no clear groups of banks with excessive risk taking can be identified.

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LIQUIDITY RISK MANAGEMENT IN CRISIS CONDITIONS

Mutu Simona

Babeş-Bolyai University, Faculty of Economics Science and Business Administration

Matiş Eugenia

Dimitrie Cantemir Christian University, Faculty of Economics Science

In order to measure the liquidity risk we have developed an analysis model, based on stress-testing scenarios, that shows the ability of the bank to face different types of liquidity crisis. The scenarios were designed for each balance sheet position for assets and liabilities: Ordinary Course of Business, Name Crisis (Mild Name Crisis and Severe Name Crisis), Market Crisis (Mild Market Crisis and Severe Market Crisis) that reflects banking sector crisis and persistent recession. This offers a dynamic image about the bank's liquidity in report with different types of liquidity scenarios, but also about the time horizon of analyze. The research also wants to highlight the most significant features to consider in order to implement an effective liquidity risk management and to achieve a more integrated supervisory framework.

Key words: liquidity risk, name crisis, market crisis, liquidity limits, gap analysis

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1. Introduction

A series of studies on liquidity management have appeared during the financial crisis, many of them comparing the funding liquidity with the market liquidity. Drehmann and Nikolaou (ECB, 2009) found that the funding liquidity risk has similar properties as the market liquidity risk, both showing persistence at low levels with occasional spikes, the evidence being more stronger after the beginning of the turmoil in August 2007. They have analyzed 135 main refinancing operation auctions conducted between June 2005 and October 2008 in the euro area from 877 participating banks in the relevant auctions. Brunnermeier and Pedersen (2007) discovered that higher funding liquidity risk implies lower market liquidity during the turmoil. Also, the bank which has to raise liquidity in the interbank market has to pay a higher price in order to obtain it. In the extreme, prices may even be infinite if a bank is credit rationed (Stiglitz and Weiss, 1981).

The credit institutions have elaborated their own models for following and limiting the liquidity risk. Their procedure regards the following elements: more restrictive internal limits for the liquidity indicator, limits for establishing and monitoring the liquidity risk in report to a single person or group of persons, the bank's own indicators for liquidity risk, an information system that monitors the liquidity that is used by the top management. In order to measure the liquidity risk there have been developed a series of models, based on these scenarios, that shows the ability of the bank to face different types of liquidity crisis. This offers a dynamic image about the bank liquidity in report with different types of liquidity scenarios, but also about the time horizon of the analysis.

The banks from the Romanian banking sector have aligned to the central bank's requirements and each of them has elaborated its own plan for forecasting and limiting the liquidity risk. The alternative financing plan represents an important part of the risk administration process, taking into account the scenarios applicable after the turmoil.

2. Methodological approach

In order to measure the liquidity risk we have developed an analysis model, based on stress-testing scenarios, that shows the ability of the bank to face different types of liquidity crisis. Taking into account that the duration of a crisis has an important impact on the level of liquidity, we have analyzed separately a short period (1 month) and a longer period (1 year). Also, for

each scenario we have taken into account the next perceptions:

- the internal perception, which is applied especially to the name crisis, when only the bank knows about the existence of liquidity problems, from the internal indicators and the information. At this level it is more easier for the bank to attract supplementary resource at a reasonable cost;

- the external perception, when the whole market know about the problems regarding the liquidity situation in crisis period. At this level, it is difficult to attract supplementary resources at a reasonable cost, independently on the type of crisis, name crisis or market crisis.

The internal and external factors that release crisis in the Romanian banking system, show evolutions, which indicated that there is a potential liquidity problem for the banks. Because of this, the analyze result of their level and evolution can motivate the activation of the financing alternative plan. Due to the *internal perception*, the future estimations regard the following: the estimated cash-flow for RON and foreign exchanges, the net cash-flow result for the next five days at for the whole bank. Due to the *external perception*, are taken into consideration the following: macroeconomic indices; qualifying ratings for Romania and for the bank; indices showing unfavorable evolutions for the bank, worsen profit and losses reports; indices showing unusual evolutions on the monetary market like the instantaneously increase of the interest rate level and of the spreads (the difference between the monetary policy rate of BNR and ROBID overnight); indices regarding the functionality of the monetary markets and capital markets.

The daily cash flow report is based on the estimation of the banks' current account balance opened at the National Bank of Romania. It includes the following: inflows and outflows resulting from the transactions on the monetary market, interbank transactions on the foreign exchange market, readily marketable assets, volatile liabilities, demand deposits, maturing assets, interest receivable, asset sales, drawdowns, maturing liabilities, interest payable, disbursements on lending commitments, early deposit withdrawals. During liquidity crisis the cash flow would be adjusted with the new conditions regarding the pessimistic estimation of the early deposit withdrawals, the delay of the interbank settlements and also with the negative effects that occurs from the foreign exchange operations. When large volumes of deposits are at stake, outflows of funds should be assessed on the basis of probability, with past experience serving as a guide.

The existence of multiple currencies increases the complexity of liquidity management. A bank may face difficulty in raising funds or in selling assets in foreign currencies in the event of market disturbances or changes in domestic monetary or foreign exchange policies. In order to meet these requirements, the Risk Controlling Division of a bank may calculate and monitor the next liquidity indicators, for EUR, USD and RON and also at cumulative level in equivalent RON:

- a) The liquidity indicator calculated as a report between the liquid assets for the next 7 days and the sight deposits of the individuals;

- b) The liquidity indicator calculated as a report between the liquid assets for the next 7 days and the sight deposits of the individuals and companies, including the correspondent accounts of other banks (LORO);

- c) The liquidity indicator calculated as a report between the liquid assets for the next 7 days and the total current accounts and the term deposits of the clients;

- d) The liquidity indicator calculated as a report between the liquid assets for the next 7 days and the total current accounts, the term deposits of the clients, individuals and companies, including the correspondent accounts of other banks (LORO).

In the Romanian banking system most banks implement the following analysis and liquidity limits, adapted to the market conditions: short term liquidity limit based on the net cash flow for the next five days, liquidity limits based on stress tests scenarios, long term intergroup funding limits and the GAP analyze.

This liquidity analysis on crisis scenarios is the practical part of the research done, by presenting the liquidity limits, the immediate effects after the crisis starts and the measures taken for

improving the situation, but also for analyzing the efficiency of the results obtained after the application of stress-testing scenarios.

3. Case study of the liquidity limit based on stress testing

There are five liquidity scenarios, for each balance sheet position for assets and liabilities:

- Ordinary Course of Business (OCB): there aren't any internal or external problems;
- Name Crisis (NC): which could take the form of a Mild Name Crisis (MNC) characterized by the decrease of the profit and/or a negative perspective or of a Severe Name Crisis (SNC) characterized by the deterioration of the rating score with more than two units;
- Market Crisis (MC): which could take the form of a Mild Market Crisis (MMC) with mild recession and mild political crises or of a Severe Market Crisis (SMC) characterized by the banking sector crisis, severely and persistent recession.

For each scenario were established three sets of hypothesis:

- hypothesis regarding the primary and the secondary activity: what percent represents these activities in a class of products;
- hypothesis regarding the renewal of the positions: what percent from a class of products would be renewed with the given scenarios;
- hypothesis regarding selling or quick transformation in collateral and unanticipated withdrawals: what percent from a class of products could be sold or used as collateral (from assets) or early withdrawn (from liabilities) before its contractual maturity.

In the next tables are presented the percents for the hypothesis defined above, for one month period and for all of the liquidity scenarios.

Table 1: Scenarios regarding the base activity and the secondary activity

	OCB	MNC	SNC	MMC	SMC
ACTIVE					
Nonbank clients with contractual maturity - primary	90%	90%	90%	90%	90%
Nonbank clients with contractual maturity - secondary	10%	10%	10%	10%	10%
Nonbank clients without contractual maturity - primary	100%	100%	100%	100%	100%
Nonbank clients without contractual maturity - secondary	0%	0%	0%	0%	0%
Cash and balances with the central bank – primary	0%	0%	0%	0%	0%
Cash and balances with the central bank – secondary	100%	100%	100%	100%	100%
Interbank assets – primary	10%	10%	10%	10%	10%
Interbank assets – secondary	90%	90%	90%	90%	90%
PASIVE					
	OCB	MNC	SNC	MMC	SMC
Nonbank clients with contractual maturity - primary	15%	15%	15%	15%	15%
Nonbank clients with contractual maturity - secondary	15%	15%	15%	15%	15%
Nonbank clients without contractual maturity - primary	85%	85%	85%	85%	85%
Nonbank clients without contractual maturity - secondary	15%	15%	15%	15%	15%
Interbank liabilities – primary	100%	100%	100%	100%	100%
Interbank liabilities – secondary	0%	0%	0%	0%	0%

Table 2: Renewal hypothesis at 1 month

	OCB	MNC	SNC	MMC	SMC
ACTIVE					
Nonbank clients with contractual maturity - primary	100%	100%	80%	100%	100%
Nonbank clients with contractual maturity - secondary	100%	70%	50%	75%	55%
Nonbank clients without contractual maturity - primary	100%	100%	80%	100%	100%
Nonbank clients without contractual maturity - secondary	0%	0%	0%	0%	0%
Cash and balances with the central bank – primary	0%	0%	0%	0%	0%
Cash and balances with the central bank – secondary	100%	70%	50%	70%	50%
Bonds	100%	70%	50%	70%	50%
Interbank assets – primary	100%	100%	100%	100%	100%
Interbank assets – secondary	100%	15%	5%	15%	15%
Loro/Nostro accounts	100%	100%	80%	100%	100%
Minimum reserve requirements	100%	100%	100%	100%	100%
Transition assets	100%	45%	0%	60%	25%
Less of interest assets	100%	100%	100%	100%	100%
PASIVE					
Nonbank clients with contractual maturity - primary	100%	80%	25%	100%	95%
Nonbank clients with contractual maturity - secondary	100%	90%	60%	100%	95%
Nonbank clients without contractual maturity - primary	100%	80%	50%	100%	90%
Nonbank clients without contractual maturity - secondary	100%	75%	20%	100%	95%
Interbank liabilities – primary	100%	100%	100%	100%	100%
Interbank liabilities – secondary	0%	0%	0%	0%	0%
Loro/Nostro accounts	100%	80%	70%	100%	90%
Subordinated debts	100%	60%	0%	75%	40%
Supplementary capital	100%	100%	100%	100%	100%
Less of interest liabilities	100%	100%	100%	100%	100%
Swaps	100%	100%	100%	100%	100%

Table 3: Selling/transforming hypothesis at 1 month

	OCB	MNC	SNC	MMC	SMC
ACTIVE					
Nonbank clients with contractual maturity - primary	0%	0%	0%	0%	0%
Nonbank clients with contractual maturity - secondary	0%	0%	0%	0%	0%
Nonbank clients without contractual maturity - primary	0%	0%	0%	0%	0%
Nonbank clients without contractual maturity - secondary	0%	0%	0%	0%	0%
Cash and balances with the central bank – primary					
Cash and balances with the central bank – secondary	100%	97%	97%	95%	85%
Bonds	100%	97%	97%	95%	85%
Interbank assets – primary	0%	0%	0%	0%	0%
Interbank assets – secondary	0%	0%	0%	0%	0%
Loro/Nostro accounts	0%	0%	0%	0%	0%
Minimum reserve requirement	0%	0%	0%	0%	0%
Transition assets	100%	97%	97%	95%	85%
Less of interest assets	0%	0%	0%	0%	0%
PASIVE					
Nonbank clients with contractual maturity - primary	0%	10%	60%	0%	3%

Nonbank clients with contractual maturity - secondary	0%	7%	50%	0%	3%
Nonbank clients without contractual maturity - primary	0%	10%	40%	0%	5%
Nonbank clients without contractual maturity - secondary	0%	12%	65%	0%	5%
Interbank liabilities – primary	0%	0%	0%	0%	0%
Interbank liabilities – secondary	0%	0%	0%	0%	0%
Loro/Nostro accounts	0%	10%	80%	0%	5%
Subordinated debts	0%	0%	0%	0%	0%
Supplementary capital	0%	0%	0%	0%	0%
Less of interest liabilities	0%	0%	0%	0%	0%
Swaps	0%	0%	0%	0%	0%

The results of the liquidity limit, for a Romanian commercial bank, are presented for each combination between crisis scenarios, time horizons and currency (the final results include the 1 year scenarios):

- the volume of the outflows could be covered by the inflows generated by secondary liquid assets (A);
- the volume of the outflows could be covered by the inflows generated by the total liquid assets , primary and secondary (B);
- the volume of the outflows is higher that the inflows generated by the total liquid assets , primary and secondary (C)

Table 4: Liquidity limits

1 month	OCB	MNC	SNC	MMC	SMC
All currencies	A	A	B	A	B
RON	A	A	B	A	B
EUR	A	A	B	A	B
1 year	OCB	MNC	SNC	MMC	SMC
All currencies	A	B	C	A	B
RON	A	B	C	A	B
EUR	A	B	C	A	B

4. Conclusions

Preoccupation with obtaining funds at the lowest possible cost and with insufficient regard to maturity distribution can greatly intensify a bank's exposure to the liquidity risk. Moreover, in practice, it is difficult to obtain funding when a dire need for it exists, especially that some unexpected situations also may have impact on liquidity risk, including internal or external upheavals, increased market activity, sectarian problems and economic cycles. All banks are influenced by economic changes, but sound financial management can buffer the negative changes. Management must also have contingency plans in the case that its expectations tend to be wrong, which identify the minimum liquidity needs and the alternative courses of action under different scenarios on short term liquidity limit based on the net cash flow, liquidity limits based on stress tests scenarios, long term intergroup funding limits and the GAP analyze. These scenarios may take into consideration, for each balance sheet position for assets and liabilities the ordinary course of business, but also the name crisis and the market crisis, from the mild ones to the severe ones.

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THE BUCHAREST STOC EXCHANGE IN THE CONTEXT OF ECONOMIC CRISYS

Răscolean Ilie

University of Petrosani

Faculty of Sciences

Szabo Robert

University of Petrosani

Faculty of Sciences

The economy is a complex, which acts on many external factors, but internal and complex factors, depending on who can create economic balances or imbalances. An important element is capital to be managed carefully and seriously because it caused imbalances are among the worst in the economy and may even lead to economic collapse in one country. The existence of capital market is driven by demand for capital for current cash needs and investment and also be subject to a real process of saving as the foundation of capital supply. Fundamental institution of secondary capital market is the stock of securities.

Keywords: Stoc Exchange, shares, crisis, market economy, capital, capital market, futures, options, investments, investment funds;

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The economic crisis that has shaken up the world currently has the focus or epicenter of the United States and then crossed the U.S. border is being felt around the world from Europe to Asia. Causes the onset of the crisis originated in the U.S. and experts know how the crisis began. It's actually part of the fall of the American financial system, could continue to affect the entire financial system in the world. It took the four oldest investment banks to be bought ridiculous amounts or declaring bankruptcy, as a giant insurance industry to be taken by the State, as two old mortgage credit institutions to enter bankrupt and the federal government to announce a rescue plan 700 billion dollars', to understand the mechanisms of the crisis.

There are specialists in the Romanian press, forming an analogy between the economic downturn we are going through and what happened in 1929 - 1930, both in terms of causes and its possible effects. From regulatory perspective, the current economic downturn has occurred and is evolving quite differently from the crisis that occurred 79 years ago. Causes of the 2008-2009 recessions are not the same as those from 1929 to 1930. Institutional mechanisms for intervention have evolved in recent decades, the global economic structure has changed profoundly, and the states cooperate with each other, which in 1929-1930 has not happened. However, the crisis appears to be controlled, but with a fairly high cost. In 1929 nobody has questioned an internationally coordination or market interventions, because dominant economic culture was different.

Global economic crisis is amplified each day and Romania felt that economic recession, which economists from major global and fail to find an antidote. And the man will feel the crisis in the companies in Romania. On the one hand those who have loans for development work or cover other needs, will awaken to the inability to repay these loans, while the possibility of undue payment of suppliers, especially for those who have made payments currency. Moreover, as global stock markets collapse and the Bucharest Stock Exchange lost a few days over two billion, the companies can not count on them as sources of funding, another option to cover financial needs is totally blocked. The first signal was registered by the capital market, which has experienced since the middle of last year, with the withdrawal of major foreign investors from all emerging markets.

The existence of capital market is driven by demand for capital for current cash needs and investment and also be subject to a real process of saving as the foundation of capital supply. Link capital market issuers of securities and other financial instruments for individual and institutional investors through financial investment companies. Capital market thus operates as a liaison mechanism between those who manifest the extra capital (investors) and those who need capital (broadcasters).

Capital markets are all mechanisms through which relationships and capital available and dispersed in the economy are managed by public and private entities The applicant any funds. In terms of its scope of coverage in the literature two approaches have been structured on the capital market: design of Anglo-Saxon and Continental European conception (of French origin). In Anglo-Saxon conception of capital market issue with money market and insurance market is known as a comprehensive term, financial market. The design classic continental European capital market has a complex structure, which includes money market, mortgage and financial markets. In this view represents the money market and short-term capital market environment, as represented by the interbank market and negotiable securities market and financial market is long-term capital market, which are issued and traded securities that serve as the underlying exchange capital. Mortgage market is a specific market financing of housing. Practice in Romania highlights option for Anglo-Saxon conception, that the capital market is part of the financial market.

Capital market is presented as a liaison mechanism between investors and issuers, whose decision to invest are given by two complementary objectives, namely: profitability, namely high fructification of capital and liquidity, ie recovery of capital stock as invested. Seen in the light production and marketing of equity securities market comprises two segments namely: the primary market, the market where newly issued financial instruments are traded for the first time, and the secondary market, the market traded financial instruments which are already in circulation.

Premises occurrence capital market in Romania have been created along with the promulgation of Law no. 31/1990 on trading companies, which provided the necessary legal birth and development of joint stock companies and also established a clear framework for the main products used on the capital market: shares and bonds. Under that law firms could share the savings calls for public funding or to increase capital. Thus we can define 1990 as the time of the primary capital market.

Then an important milestone was the adoption of Law no. 58/1991 on the privatization of companies, which need further revealed the existence of a secondary market, because financial markets brought a massive amount, bearer securities, which securities were not considered although they acted as to familiarize the public with securities. Fundamental institution of secondary market capital stock of securities. Against the backdrop of a tradition for over 70 years of commodity exchanges, which worked on the model of Western scholarship, the history of Romania recorded in 1881, the emergence of the first stock exchange.

This was due to the adoption of Law on scholarships, exchange mediator and mediator of goods. Made after the French model, the law governing the creation, by royal decree, the stock exchanges and commodities. Opening the Bucharest Stock Exchange, following the adoption of this law was held on 1 December 1882, the Chamber of Commerce building. Evolution of regulatory framework on capital markets was marked by the following steps: year 1904 - a new law that stock exchange operations are clearly defined and, as an immediate consequence, the public is increasingly convinced of the efficiency of investments in securities value; 1929 brings the law on stock, known as "Law Madgearu, who represented the unification of legislative grants regime in Romania and also a modern approach to the instrument.

After the conclusion of the economic crisis 1929 - 1933, with economic recovery, "Exchange effects, stock and exchange in Bucharest," and she knows an upward trend, representing the 1939 peak in the interwar period. Mentioned that at the time of 1939, traded, only 56 titles in banking

and transport insurance. End of the World War II, to turn around policy for Romania, meant the end of the capital market and stock market. Coup de grace for this highly dynamic sector of the economy was the economy of the nationalization process in 1948, which meant that by establishing state ownership disappears specific products: stocks, corporate bonds, domestic and foreign government securities (the equivalent in Lei - Gold). Revolution of 1989, which meant an important event in the history of Romania, stressed the reform program that followed it and needed to rebuild capital market and its institutions, including the Bucharest Stock Exchange. In Romania, the stock market was the reason why the emergence of creation to a market that match the needs of Romanian and foreign investors regarding investments and the role they played in the restructuring and privatization.

The fact that Romania has benefited from a stock market for half a century has made the development process to start from scratch without the benefit of their experience in the field. To create the stock market started to experience Romania and practice in developed countries, but also benefited from the help of international organizations in the U.S., Canada, UK, EU. Stock Exchange, as a basic component of the capital market in Romania, was reconstituted in 1995 and was financed at first by the state budget, provided that within three years of the establishment of fees applied to reimburse the transaction, the amount required to set up. B.V.B. is organized and operates in accordance with Ordinance 28/2002 and issued under its provisions.

Thus B.V.B. performs the following functions: The regulated market, providing investors systems, mechanisms and procedures for transactions in securities and other financial instruments as provided by law, performs and related trading activities, such as compensation, settlement, registration of rights and constitution transfer rights to the securities and financial instruments and all their related operations, conducts, and markets systems administrates specific stock exchange, is the training body for the purposes of the CNVM Regulation no. 1 / 2003, the professional certification of operators and specialists for regulated markets, organizing training courses for participants in the regulated market.

Bucharest Stock Exchange has become the top sectors affected by the crisis. From the beginning, the main market capitalization lost over ten billion, approximately 42% of the total. Limit exposure to the foreign investment funds collapsed, practically the most liquid stock quotes. Prices of securities issuers that make up the basket BET lost, on average, over 70%. But the most volatile segment during this period was the financial investment companies (SIF). Once, in 2006 and 2007 BET-FI mark assessments and 32.4% respectively 24.8% from the same stock early reports indicate a decline of over 85%. The global capital market history, links with the Bucharest Stock Exchange (BSE). He was born in 1881, following the adoption of the Law on scholarships, exchange mediator and mediator of goods, which provides for the establishment, by royal decree, the stock exchanges and commodities.

BSE crossed, in turn, the history of tough financial times. In 1929, Law Madgearu was adopted legislative regime governing the unification of Romania scholarships. After the crisis of the '30s, stock exchange effects and action in Bucharest, as was known, the highest increase in the history of wars. In 1939, 56 securities traded in banking, transport and insurance. With the establishment of the communist regime, specific securities transactions ceased capitalism. Nationalization of the Romanian stock exchange stopped work. Revolution of 1989 led to rebuilding and restoration of capitalism in Bucharest Stock Exchange by a group of specialists. BSE was re-established in 1995, the first trading day is November 20, 1995. Since reopening, has seen a continuous development. Currently, the BSE listed about 60 companies, including SNP Petrom, the Romanian Bank for Development, the 5 financial companies, BT, BRD, etc. October 8, 2008, "Black Wednesday". Loss of 2.5 billion dollars per minute. The financial crisis has affected U.S. and Romanian capital market. On October 8, for the first time in history, trading session on the Bucharest Stock Exchange was closed. Transactions were suspended due to a fall over the critical threshold of 15%. Since its opening meeting, the BET index lost more than 14.43 percent. Transactions at the Sibiu Commodities Exchange were also suspended. Two days later, the BSE

announced that it has extended status. Transactions were postponed until the end of the day. Closely linked to developments in the stock market, stock funds have fallen fast. Under these conditions, the net assets managed at end-September of the 17 equity funds was only 183.18 million lei, decreasing by about 54% to nearly 400 million lei as operated 14 funds in late 2007 . Further pension fund returns, but the insurance with investment component declined as a result of stock market exposure.

Bucharest Stock Exchange is also vulnerable as external financial disaster. Share value fell more than 7% and the stock market recorded the biggest loss in the last 3 years. BRD titles have seen the greatest decline - 14%, close to the minimum allowed by the Bucharest Stock Exchange. Value of firms listed on the Bucharest Stock Exchange increased by 10.15 billion lei in April, the second month in a row of solid growth but the market expects first-quarter financial results to assess the soundness of firms and their future developments. In late April, the regulated market capitalization stood at 48.6 billion lei (11.2 billion euro's), up 26% compared with the end of March, from 38.45 million lei. In the last week of April, the BSE listed shares jumped 3.7%.

The increase in April comes after that - even spectacular - in March, when the BSE's capitalization had risen to 39.5% (10.9 billion). "In April was the second month of explosive growth on the BSE, following which the market prices recovered earlier this year, and segment SIF (Financial Investment Companies) whether prices reached in mid-October 2008 Following a strong upward path, "said the weekly report of House of Prime Brokerage Transaction. Liquidity of the Stock Exchange regulated market has soared in April, up from 534.4 million lei, exceeding 13% turnovers made in February and March combined. In February, the stock exchanges amounted to 164.27 million lei, in March, they totaled 306.7 million lei. But after two months of strong growth, which followed the trend of foreign markets, the Romanian market of shares is made before the test in the first quarter financial results, which indicate the extent to which Romanian companies face a difficult economic period.

If's(Investment funds) increased by 71.8%, BET, which shows the evolution of the most liquid ten titles (blue chips) listed on the BSE, rose by 28.78% in April, up 3048.92 points, while market composite index, BET-C, reflecting the evolution of shares listed on the first two sections of the Exchange except If's, won 25.7%, to 1949.17 points. In April, SIF increased much more than the rest of the market sector reflects the BET-FI index, which reached 18,524.97 points at the end, marking an advance of 71.78% - 7740 points . At the end of March, investors could buy shares of SIF Banat-Cri (SIF1) the quotation of 0.481 lei, which would have brought a return of 112.06%, if they would be closed the last trading session April, when the price of securities reached 1.02 Euro / unit.

Turnover achieved in April with IF Banat-Cri actions amounted to 32.2 million lei. Although in April, SIF 1 titles have made the greatest efficiency of the market, most wanted their sector were SIF Oltenia (SIF5), which resulted in a liquidity of RON 97.18 million and it rose by 86 48% after their price jumped to 0.91 lei at the end of April, from 0.488 lei in March 31. Also, SIF Moldova (IF2) have leapt 79.81% in the last month and reached 0.775 RON quote, background of the third market liquidity, by 60.67 million lei. IF Transylvania (IF3) rose by 57.44% to 0.455 lei, while the value of these securities transactions was 32 million. SIF Muntenia (SIF4) recorded moderate growth of the SIF titles last month by 40.63% after their quotation rose to 0.6750 lei following exchanges of 26.15 million lei. In total, the actions of the five financial investment companies (SIF) in April drew total 248.3 million lei exchange, representing half the total market liquidity in this period.

BRD titles in the banking sector were the most stable. The banking sector has attracted between April 1 to 30 exchanges of 167.07 million RON, representing one third of stock market turnover. BRD - GSG (BRD) generated last month of stock market liquidity first, almost 100 million lei, and their quotation grew 16.8% to 7.30 lei. Instead, actions Of Transylvania Bank (TLV) have leapt 39.24% to the price of 1.10 lei onto a turnover of 51.4 million. Titles Erste Bank (EBS) rose

by 27.12% in April, to quote from 66.10 euro / unit and value traded amounted to 14.1 million. Bank shares trade Carpatica (BCC) totaled only 1.57 million lei, but their price rose the most in the banking sector, with 50.5%, to 0.124 lei. Observing changes in the last week of the year, BRD shares were noted, with an appreciation of 6.57%, while Erste Bank titles won only 0.30%. Instead BT and Bank Carpathian titles registered decreases of 5.98% and 8.15%. In April, were also noted several actions which, although not among the most liquid, could bring substantial gains to investors. Actions Altur Slatina (ALT) had one of the best developments in the market last month, with an appreciation of 110.94% to RON 0.0405, after exchanging only 809,370 lei.

Also, titles Biofarm Bucharest (BIO) have leapt 98.5% to 0.159 lei, support for 11.02 million lei transactions and actions Impact Bucharest (IMP) 2.4 drew liquidity million, and their price has climbed 84.5% to 0.369 lei. However, titles Oltchim (OLT) gained 81.18% to RON 0.308, after 663,700 lei exchange, while securities Broker (BRK) reached quotation of 0.196 lei, increasing by 67.5% the price set in late March 2009.

In conclusion the general trend of the Bucharest Stock Exchange in 2009 was a bad transaction to produce significant gains and spectacular stock with a downward trend. However in March April and May of 2009, financial investments companies (SIF), and showed positive developments, and shares of banking companies that have stable trends as investors who invested in these segments could earnings that may be considered important in terms of a global economic crisis. In early 2010, the major stock exchanges across Europe and the U.S. show signs of recovery, the New York Stock Exchange in early April 2010 showed even an increase that brought significant gains on certain segments of this market.

With all these signs Bucharest Stock Exchange has oscillating trend on average maintain neither increase nor decrease, for e.g. a week of indices increases, the decrease corresponds to a week or increases are quite small. However BSE can be seen as positive developments and investment in IF, the actions of the banks or in shares of pharmaceutical companies can bring in the first two quarters of significant gains in 2010.

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EURO – CHALLENGES AND PERSPECTIVES FOR ROMANIA

Sandu Carmen

„Al. I. Cuza” University of Iași

Faculty of Economics and Business Administration

The process of preparation and adoption of the European single currency is one of the most important challenges that Romania has to face in the first decade as a full time member of the European Union. This process will test both the political and the administrative capacity, requiring very clear programs for the adaptation of European regulations and directives that will ensure real and nominal convergence. This process will surely prove to be a difficult one and it will bring a high degree of pressure upon the economic system in general. The worldwide financial crisis is making the process of single European currency adoption even more difficult for Romania. Although its effects are not directly felt in Romania, the disorder created within international markets can easily transform the management of economic and currency politics into an insecure and extremely difficult task.

Keywords: exchange rate, euro, Economic and Monetary Union, Euro Zone, convergence criteria, ERM II, NBR, ECB, financial crisis

Cod JEL: F15, F36

1. Introduction

More than 10 years ago, in May 1998, EU leaders took a historic decision, to secure an irrevocable economic integration in the Community: introduction, starting with the 1st of January, 1999, of the European single currency - euro. Today, the euro is the currency used daily by over 300 million citizens in 15 countries constituting the euro area (Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, Spain) and enrolled in a fierce competition with the U.S. dollar to gain supremacy in international financial markets.

The accession to the euro area will represent a second step of great importance for Romania, after the accession in the EU at January 1st 2007. The period 2007-2014 (2015) of preparation for the euro adoption represents a great opportunity to continue the reforms and reduce economic disparities, maintaining in the same time the macroeconomic equilibrium.

If the accession to the euro area is itself a strategic objective of great importance, the schedule for euro adoption represents a timing optimization problem in which the speed should be dictated by a costs-benefits analysis with the following restrictions: the fulfillment on sustainable bases of the Maastricht criteria, the accomplishment of a satisfactory level of real convergence and reducing the participation in ERM II at the compulsory period of two years.

The benefit of a country's accession to a monetary union is the enhancement of foreign trade, which then leads to a faster economic growth. Equally noteworthy are the positive effects resulting from an increased financial discipline, the significantly improved access to the capital and the stability offered by the capital market forming at a union level.

The crisis affecting at this moment the international financial system introduces an additional factor of uncertainty and if prolonged, it may complicate the process of adopting the euro in Romania. On one hand, the management of the real and nominal convergence process becomes more difficult; on the other hand, the current crisis may prove to be the most serious test for the European financial system and its currency, the euro.

In the following I intend to summarize and make some comments on the issues major process-related training to adopt the euro, on the timing of implementation and impact of the euro on the Romanian economy.

2. The strategy of transition to the single European currency

It is my opinion that before engaging in any discussion on the future adoption euro by our country, a strategy should be elaborated in order to identify the requirements for the Romanian economy to fully benefit from the adoption euro, the succession of measures to be taken in ensuring the fulfilment of these requirements and their implementation calendar.

The measures ensuring the fulfilment of nominal convergence criteria (Maastricht criteria) will be thoroughly examined and the adequate economic policies for the transition period through ERM2 will be established. The analysis of other countries' experience in passing through the process of adopting the euro currency or which are about to do so would be particularly useful to us, keeping however in mind the unique situation of each country.

After the adhesion to the European Union, the next strategic target for the Romanian authorities concerning the macroeconomic domain is related to the adoption of the euro currency. Estimated for the 1st of January 2015, the Euro Zone entry implies meeting some performance requirements concerning the macroeconomic indicators (nominal convergence stipulated in the Treaty of Maastricht). Although in order to fulfil nominal convergence it is necessary to observe 5 criteria, the macroeconomic theory shows that a consolidation of the disinflationary process would result in a high sustainability of the macroeconomic equilibrium, especially in Romania's case, where observing the convergence criteria concerning inflation rate and budget deficit remains one of the delicate problems at the economic level.

Table no.1: The Maastricht criteria at the level of Romania

(Nominal convergence indicators)

<i>Nominal convergence indicators</i>	<i>Maastricht criteria</i>	<i>Romania 2009</i>
Inflation rate (percent, annual average)	<1.5 pp above the average of the most performant 3 EU members	5,6
Consolidated budget deficit (percent of GDP)	below 3%	7,9
Debt (percent of GDP)	below 60%	21,0
Exchange rate (RON/EUR) (maximum procentual appreciation/depreciation compared to the average over 2 years)	+/- 15%	+1,6/-18,2
Long-term interest rates (percent per year)	<2 pp above the average of the most performant 3 EU members	9,7

Source: Eurostat, BNR (National Bank of Romania)

One of the superior forms of European integration and at the same time the most ambitious and risky project of European construction is the Economic and Monetary Union. Accordingly, any state adhering to the European Union intends to take part in this project sooner or later. On January 1st 2007, Romania and Bulgaria, the last two members adhering to the European Union, set themselves the same objective. When becoming an EMU member, Romania will replace the national currency – leu with the european single currency; but until reaching this advanced stage, it will have to meet all the criteria required by the adhesion to the Eurozone.

Adopting the euro implies participating to the Exchange Rate Mechanism II for at least two years, during which the national currency would have to show a high degree of stability as opposed to the euro. In establishing a coherent calendar for the adoption of the single currency, two fundamental decisions must be taken concerning the entry moment to ERM II and the duration of participation to this mechanism.

The European Central Bank recommends that acceding to ERM II mechanism should take place after the accession of the concerned countries to the European Union and that the duration of participation should not exceed the compulsory period of 2 years, which means that the country is to have a consolidated macroeconomic stability at the moment of accession. Furthermore, it is essential to sustainably fulfil the nominal convergence criteria.

As far as Romania is concerned, adopting the euro currency implies three stages. During the first stage – which precedes the entry to ERM II mechanism – it is necessary to consolidate disinflation, develop domestic financial market on a long term and achieve convergence of interest rates, to relatively stabilize leu exchange rate close to the long term equilibrium level and especially to deepen structural reforms.

The second stage – entering the ERM II mechanism – is estimated by BNR to take place in 2013. The moment has been chosen considering the need of fulfilling the nominal convergence criteria simultaneously with achieving significant progress in the real convergence process (convergence of GDP /inhabitant to purchasing power parity, convergence of income, productivity and socio-educational standards etc).

The last stage – Euro Zone entry – will take place around 2015. From that moment, Romania will take part in the coordination mechanisms of Euro Zone economic policies, having to observe the stipulations in the Stability and Growth Pact (mainly concerning public finance). Then, Romania will also adopt the common monetary policy of the European Central Bank, it will have to possess mechanisms of automatic economic balance (the flexibility of prices and salaries, a high degree of financial intermediation, business cycle synchronisation, labour market flexibility, perfect capital mobilization etc) and to increase the speed of fiscal policy reaction in order to absorb the symmetrical/asymmetrical shocks that domestic economy will have to face.

Adopting the euro currency in 2015 should represent one of the strategic objectives for Romania. Observing the stipulations in the Convergence Programme concerning the Euro Zone entry would represent a possible “reconciliation” between achieving nominal and real convergence⁴⁹⁴. However, adopting the euro would become a more and more unlikely objective, unless Romania proceeds to a consolidation of the disinflationary process, an increase in Romanian export competitiveness, predictability and performance of fiscal policy on a medium term, a higher absorption of European funding and a consolidation of structural reforms.

There are certain factors that could optimize the Euro Zone entry. Meeting nominal convergence criteria plays an important part, but those factors which facilitate a solid performance in the Monetary Union are even more important. They include flexibility in product/service markets and markets of factors of production, consolidation of pension system and social security reforms and a fiscal policy focused on the mobility of factors of production under unique market conditions, including labour force migration.

In order to fulfil the criteria of real and nominal convergence it is necessary to continue making efforts in:

- consolidating a decreased inflation;
- forming long term domestic capital markets and achieving convergence of interest rates with those stipulated by the Treaty. On the grounds of capital

⁴⁹⁴ The Maastricht Treaty does not mention explicit criteria for real convergence, which involves reducing disparities between the countries on the price level and productivity, involving increase revenue in developing countries rising to the existing level in developed countries.

account liberalization and of emergence of private pension funds, it is necessary to develop government bond market;

- achieving a relative stability of the leu exchange rate on the market. A higher degree of exchange rate stability can be reached by increasing credibility of the convergence process and by stabilizing prognosis regarding long term exchange rate.

In 2008, worldwide economy entered the most severe crisis since the Great Depression of the 1930's. The high degree of synchronization of the crisis affecting both developed and emergent countries proved the extent of interdependency between world economies. Beginning with the last trimester of 2008, the financial crisis spread quickly in Romania as well, in the context of a world economy evermore globalized and more precisely, in the context of a Romanian economy strongly related to the European one, making any negative external shock spread rapidly at an internal level.

During the first nine months of 2009, the evolution of the real economy was severely damaged by the economic and financial crisis, given the fact that we are a relatively small economy with a high degree of openness. Consequently, while in the IVth trimester of 2008, GDP increased by only 2,9% since the same period in 2007, during the Ist trimester of 2009, gross domestic product – in real terms, gross series – decreased by 6,2% from the Ist trimester of 2008, and this tendency continued to increase in trimesters II and III when the economy contracted 8,7% and 7,1% respectively.

Comparing with other EU member countries, analysts estimate Euro Zone entry date to 2015 for Romania and Bulgaria, 2013 for Lithuania and Poland and 2014 for the Czech Republic and Hungary. However, the estimates for these countries are not definite, since the adoption of euro could be either advanced or delayed. Euro Zone countries would want to be certain that they will not let “another Greece” join the club. According to analysts, only Estonia is likely to adhere to the Euro Zone in 2011. All the possible delays for the countries aspiring to the Euro area entry are caused by the financial turbulence in Greece.

With the opportunity of entering the Euro zone after over a decade of getting used to the single currency, ten European Union member states, including Romania, will have much to learn from the experience up to this point. But for this, economic reform measures will have to be taken early in order to ensure the achievement of a long term level of sustainable real convergence without which the path towards the euro could turn into a relatively bumpy road.

While some neighboring countries wish to rapidly benefit from the euro, National Bank of Romania representatives state that we would be unable to precipitate the adoption of the single currency. Some banking specialists claim that the transition to the euro would bring us more benefits than losses. For example, we would pay much smaller interests for loans and significantly smaller commissions on money transfers operated through banks. Many analysts think that the adhesion to the Eurozone should be accelerated. The real economy has “de facto” adopted the single currency up to 80%, given the fact that prices for many products and services are listed in euro and over half of the bank loans are in foreign currency and the corresponding interests are up to three times smaller than those in leu. A Deutsche Bank report also indicates that for some Eastern Europe countries, a more rapid euro adoption would mean certain advantages, given the actual problems of financial stability, thus eliminating the exchange rate risk. At the same time, both the government and the population would gain access to cheaper loans from a more liquid market.

3. Effects of euro adoption

In the first decade following the introduction of the single currency, the Eurozone enjoyed a significant decrease in inflation and long term interest rates but also an increase in employment and consequently a substantial correction of budgetary imbalances. At the same time, however, economy registered growth levels comparable to the decade preceding euro adoption, gross

domestic product per capita in the Eurozone still reaching only 70% of the one registered in the United States. The introduction of the single currency is obviously not the only one accountable for these facts which are also the consequence of a wide range of internal factors (community policies, including those introduced by the Economic Stability and Growth Pact, Lisbon Strategy but also individual policies and developments of member state economies) and external factors (deepened economic globalization, accentuated financial market integration).

Some positive effects of the introduction of the single currency which are undoubtedly found at several levels are particularly noteworthy and worth analyzing.

Firstly, the introduction of euro played a particularly important part in insuring macroeconomic stability. Founded with the primary objective of maintaining price stability in the Euro zone (defined through maintaining inflation rate under but close 2% on a medium term), the European Central Bank firmly implemented the single monetary policy leading to a consolidation of euro's credibility, to a long term price anchoring and to creating premises for sustainable economic growth.

Concurrently, introducing the single currency encouraged a decrease in financing costs both for private and governmental economic actors in the states that adopted it. Last but not least, euro improved Eurozone endurance to international financial turbulence, such as, for example, the "dot-com" crisis, the problems following 9/11 terrorist attacks and, more recently, in the context of the actual international financial crisis.

Secondly, euro contributed to intensifying economic and financial integration in the Euro zone. Commercial trade between Eurozone states now forms a third of the GDP corresponding to the Euro zone, against a quarter ten years ago, mostly due to the elimination of exchange rate volatility.

Moreover, foreign direct investment between participating states now reach a third of the Euro zone GDP, against approximately 20% ten years ago, up to two thirds of this increase being directly put on the account of the introduction of the single currency. These developments have, in turn, attracted many positive effects such as intensified competition and efficiency. As far as financial markets are concerned, the adoption of euro lead to a full integration of interbank money markets, as well as a deeper integration in securities market (mainly stocks and bonds). However, retail financial markets still remain fragmented mainly because of legislative and linguistic barriers.

Thirdly, the single European currency strengthened European identity worldwide. The euro became the second international currency and is used in 37% of the international currency exchange, constituting approximately one quarter of the international reserves, according to available statistics (many Asian countries do not publish their data on currency reserves). Keeping in mind the prospective broadening of the Eurozone through the adoption of the single currency by other ten states in the European Union, in the following years, euro will become the currency of the widest economic space in the world. But beyond its tangible effects, euro has become a symbol of united Europe with more than half of Eurozone citizens associating the European Union to the euro.

The risks generated by the introduction of the single currency in Romania are relatively few but they have a direct impact on everyday life and on the financial system. The most popular risk is related to the generalized price increase which would be due to the population's lack of familiarity with the new prices shown in the single currency and to the speculations regarding approximation errors.

Another risk related to the transition of the Romanian economy to the euro, as it is for all countries which make this step towards integration in the Eurozone, is establishing the proper quantities of short term liquidities in euro at the banking system level, considering a demand in cash of the single currency.

Another disadvantage deriving from the participation to the Monetary Union is losing the possibility to choose inflation rate and losing exchange rate as an instrument in eliminating macroeconomic imbalances.

At the same time, it should be mentioned that changing the national currency in favor of the single currency would mean losing control and power of decision concerning monetary problems and flexibility in taking decisions which would protect Romanian economy from external shocks. Finally, considering both the benefits and the risks regarding the transition of the Romanian economy to the single European currency, we can undoubtedly assert that the direction towards integrating the European Economic and Monetary Union, chosen by the Romanian political class is the right one and that on a medium and long term, this will contribute to obtaining certain advantages for the entire Romanian society.

4. Conclusions

Maintaining the credibility of the single European currency is a particularly complex process with a continuous development, which needs much more than a good functioning of monetary mechanisms inside the Eurozone.

It is not accidentally that the three phase integration process aims at constituting the “Economic and Monetary Union”. The two components are mutually conditioned: the effective implementation of economic policies and obtaining sustainable economic growth essentially depend on euro stability and credibility; to the same extent, maintaining inflation in the Euro area at a minimum level is conditioned by the existence of a coherent mix of economic policies which would facilitate reaching ECB primary objective. This last correlation is all the more difficult to optimize in practice as ECB single monetary policy coexists with fiscal, income and decentralized structural policies of the member states.

The current international financial crisis could also have negative effects upon the exchange rate, which is significant in terms of the convergence criteria, to have access to the Euro area. And from this perspective, the Romanian authorities consider the exchange rate to be essential in adopting the single currency. However, some analysts on financial markets have calculated that the rate could record huge fluctuations that might come into conflict with applications for convergence to the Euro area.

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STUDY OF CORRELATION BETWEEN AVERAGE INTEREST RATE AND NON-PERFORMING LOANS IN THE ROMANIAN BANKING SYSTEM DURING 2006- FEBRUARY 2010

Socol Adela

*“1 Decembrie 1918” University of Alba Iulia
Faculty of Science*

Iuga Iulia

*“1 Decembrie 1918” University of Alba Iulia
Faculty of Science*

This paper aims to examine the correlation between average interest rate and non-performing loans in the Romanian banking system during 2006-February 2010. We based our approach on the Pearson correlation coefficient and we realized an empirical study, which demonstrates how these relevant banking elements are connected. Also, the result of this research suggests that there are other indirect channels which affect the non-performing loans.

Key Words: Pearson correlation coefficient, Non-performing loans, Average interest rate, Credit-risk provisions.

JEL Codes: G21, E22, D63.

1. Introduction

Romania was affected by the deteriorating of the external economic environment, associated with the international financial crisis. Unfortunately, since 2007, we frequently use and hear the notion of financial crisis and the various causal factors at the heart of the crisis. There are in the specialized literature multiple trials to explain the elements contributing to the deterioration of the economic conditions, in their acceptance of the premises of the crisis.

We remark the major vulnerability of the banking domain, derived from its key position in the financial system. The loan portfolio quality deteriorated during the past periods and the bank reported higher levels of overdue and doubtful loans. We attend to a worsening of the payment behaviour of the banking borrowers. Romania is in a particular situation regarding the banking loans reporting. The national reporting standards impose higher coverage by provisions of bad loans in the annual financial reporting statement of the credit institutions from Romania than European requirements.

Based on these clues, the paper identifies the worsening of the banking loan portfolio and presents this deterioration like a matter of concern. An empirical study is included to demonstrate how the average interest rate and non-performing rate are connected. We develop a research hypothesis Pearson's correlation coefficient and we study the situation of the Romanian banking system during 2006-February 2010.

2. Theoretical background

In Romania, the non-performing loans⁴⁹⁵ reveal past due amounted to 49.101,60 Bn lei in February 2010, and were up from 4.879,70 Bn lei in January 2006. The first variable of our study is the average interest rate. According to the National Bank of Romania's publications⁴⁹⁶, starting with January 2007, average interest rates on deposits and loans and average interest rates on new business are calculated based on the provisions of National Bank of Romania Norms No.

⁴⁹⁵ National Bank of Romania, *Monthly Bulletins*, February 2010.

⁴⁹⁶ National Bank of Romania, *Monthly Bulletins*, 2006-February 2010.

14/2006⁴⁹⁷ concerning the statistics of interest rates applied by credit institutions, transposing the provisions of Regulation ECB/2001/18 concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non-financial corporations. Average interest rates are calculated as an arithmetic mean of annualized agreed rates weighted by the outstanding amounts of loans/deposits at the end of the reported month or by the extended/taken amounts during the reported month in relation to new business. The annualized agreed rate is the interest rate agreed between the credit institution and the customer for a deposit or loan, converted to an annual basis and quoted in percentages per annum. According to the provisions of the above-mentioned Norms, average interest rates are determined for the institutional sectors “Non-financial Corporations” and “Households” as well as for the following balance sheet items: loans (total), bank overdrafts, loans for house purchases, consumer loans, loans for other purposes (including loans for business consolidation extended to freelancers and household associations), overnight deposits, deposits redeemable at notice, deposits with agreed maturity and repos.

Regarding to the second variable of our research, we underline that Romania has a primary regulatory framework governing loan classification and provisioning since 2002⁴⁹⁸ and multiple amendments. Any credit institutions have to classify their loans in one of the following categories: Standard, Watch, Substandard, Doubtful, Loss. In 2009 National Bank of Romania issued a new regulation⁴⁹⁹, which established the more flexible criteria for loan classification and provisioning. According to this settlement, the collateral relating to exposures representing the principal of loans/investments classified under “loss”, where the debt service outstanding exceeds 90 days and/or where legal proceedings were taken against the operation or the debtor, shall be adjusted by applying the coefficients set by the lender for each type/case. The level of coefficients may not be higher than 0.25. The lender must have the laying-out documents for setting the level of coefficients laid down in the regulation. In accordance with the new regulation, the collateral relating to exposures representing the current/outstanding interest on the above-mentioned loans/investments shall not be taken into consideration, and the coefficient applied to the collateral amount shall be equal to zero. The amendment will translate into lower provisions for such assets, as the surplus is to be recorded under income, thus benefiting the health of financial and prudential indicators⁵⁰⁰.

The role of the interest rate in the banks is recognized by many authors. The values of assets and liabilities of financial institutions are considered subject to fluctuations in interest rate by Cox and Prasad⁵⁰¹. They studied the differential impact in interest rate changes between assets and liabilities which is referred to, in banking, as interest rate risk. Of all threats to bank competitiveness this risk dwarfs all others. Banks traditionally have dealt with interest rate risk by restructuring their loan portfolios. The authors developed a model to measure interest rate risk, called the Degree of Interest Rate Sensitivity (DIRS), and demonstrated its effectiveness for banks to compete. The others authors⁵⁰² examine the interest rate risk management (IRRM) practices of UK-listed companies. In particular, they examined the significance of interest rate

⁴⁹⁷ Published in Official Gazette of Romania no. 679/2006.

⁴⁹⁸ Regulation no. 5/2002 issued by the National Bank of Romania, regarding the classification of loans and investments, as well as establishment, adjustment and use of credit-risk provisions, published in Official Gazette of Romania no. 626/2002

⁴⁹⁹ Regulation no. 3/2009 issued by the National Bank of Romania, published in Official Gazette of Romania no. 626/2009

⁵⁰⁰ National Bank of Romania, *Financial Stability Report*, 2009, p. 33

⁵⁰¹ Cox, R.A.K., Prasad, R.M. (1995). Bank competitiveness in the face of interest rate risk, *Competitiveness Review: An International Business Journal incorporating Journal of Global Competitiveness*, Vol. 5, Issue 2, pp. 84-89

⁵⁰² Dhanani, A., Fifield, S, Helliar, C. and Stevenson, L. (2008). The management of interest rate risk: evidence from UK companies, *Journal of Applied Accounting Research*, Vol. 9, Issue 1, pp. 52-70.

risk (IRR) to these companies as well as the risk management practices adopted, including: the methods used to assess the level of IRR and the types of interest rate forecasts used in the process; derivatives activity; and corporate governance, reporting and control. The results of this research suggest that IRR is important to UK companies and that their IRR hedging strategies are geared towards managing shareholder considerations and protecting banking covenants and corporate credit ratings.

We identify the studies that seek to explain the evolution of the non-performing loans in the banking industries. For example, Hall⁵⁰³ presented his opinion about the truth in the scale of the Japanese bank's bad debt and tried to answer to the question: if the situation manageable? The author explained a concept of "accounting forbearance", which is used to mask the true level of the banks' bad debts. The banking industry's ability to handle the continuing bad debt problem, in the face of a significant impairment of economic capital and the market's relentless drive for full disclosure and transparency, also is assessed.

The others authors⁵⁰⁴ examined the factors which affect loss provision for loans and investment in Murabaha, Musharka, and Mudarabah for banks in the Gulf Cooperation Council (GCC) region. The effect of prior period earnings, legal and statutory reserves, size of the bank, level of debt, and loan and investment to deposit ratio on the loss provisions of banks are examined for the period 2000-2003.

In 2007, Bandyopadhyay, Chherawala and Saha⁵⁰⁵ empirically calibrated the default and asset correlation for large companies in India and elaborate its implications for credit risk capital estimation for a bank.

3. Empirical findings and interpretations

We studied the correlation between average interest rate and non-performing rate, based on the Pearson correlation coefficient.

$$p = \frac{n(\sum XY) - (\sum X)(\sum Y)}{\sqrt{[n\sum X^2 - (\sum X)^2][n\sum Y^2 - (\sum Y)^2]}} \quad (1)$$

It indicates the extent of relationship by a number between 1.00 and -1.00. The correlation is computed from pairs of scores for each individual in the sample; each individual has a pair of scores, one on each of the two variables on which the correlation is being computed. A correlation of one indicates a perfect relationship such that if we know that the individual has the highest score on one variable, we also know she has the highest score on the other. With a negative correlation, they track one another inversely. A correlation of less than one, either positive or negative, indicates that each member of a pair of scores attracts the other less than perfectly so that the highest score on one variable in a positive correlation might be accompanied by a medium high score on the other variable. The fact that the relationship exists as shown by a correlation does not allow us to infer that the relationship is causal. Often the relationship is the result of a third variable or a combination of other variables. Regardless of whether a relationship is causal, a correlation allows prediction; thus such relationships are extremely useful. An extensive body of literature describes predictors of various kinds: to enhance learning conditions,

⁵⁰³ Hall, M.J.B. (2000). What is the truth in the scale of the Japanese bank's bad debt? Is the situation manageable?, *Journal of Financial Services Research*, 17:1, pp. 69-91

⁵⁰⁴ Zoubi, T.A., Al-Khazali, O. (2007). Empirical testing of the loss provisions of banks in the GCC region, *Managerial Finance*, vol. 33, No 7, pp. 500-511

⁵⁰⁵ Bandyopadhyay, A., Chherawala, T., Saha, A. (2007). Calibrating asset correlation for Indian corporate exposures: Implications for regulatory capital, *Journal of Risk Finance*, vol. 8, issue 4, pp. 330-348

to increase the effectiveness of teaching, to predict the stock market, to forecast college success. Unless the correlation is perfect, however, the predicted value is always less extreme - that is, closer to its mean - than the value from which it was predicted (Kratwohl, 1998). Our study is based on the real data, extracted from the annual reports published by the National Bank of Romania and the Monthly Bulletins from the mentioned period. We obtain in the case of the active banks from Romania, the following results for the Pearson correlation coefficient between average interest rate and non-performing rate.

Table no. 1 – The Pearson correlation coefficient between average interest rate and non-performing rate from Romania

<i>Year</i>	<i>The Pearson correlation coefficient</i>
2006	-0.76
2007	-0.71
2008	0.97
2009	-0.95
2010	-1

Figure no. 1 - Correlation coefficient between average interest rate and non-performing loans at the level of Romanian banking system during 2006-January 2010

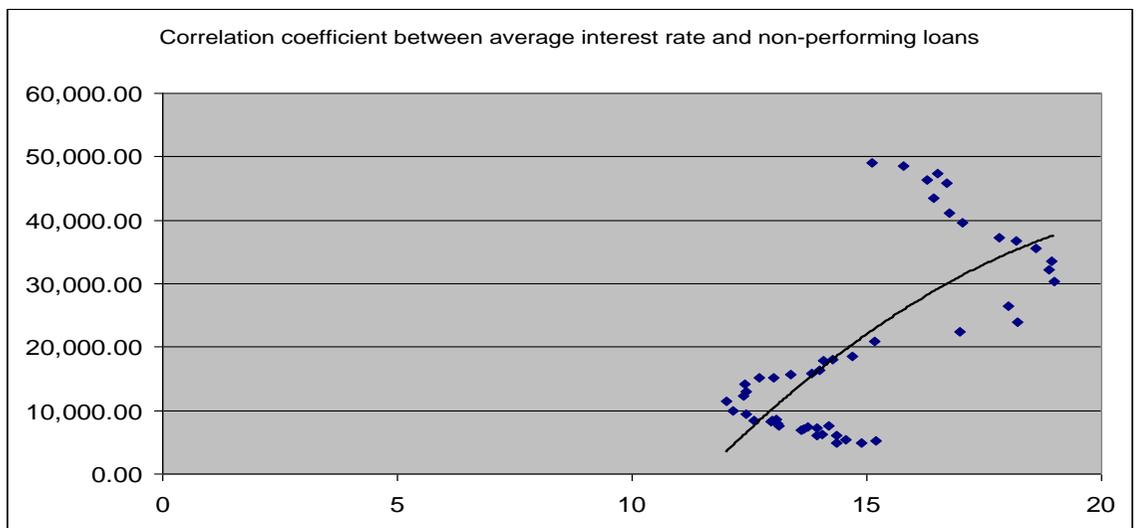
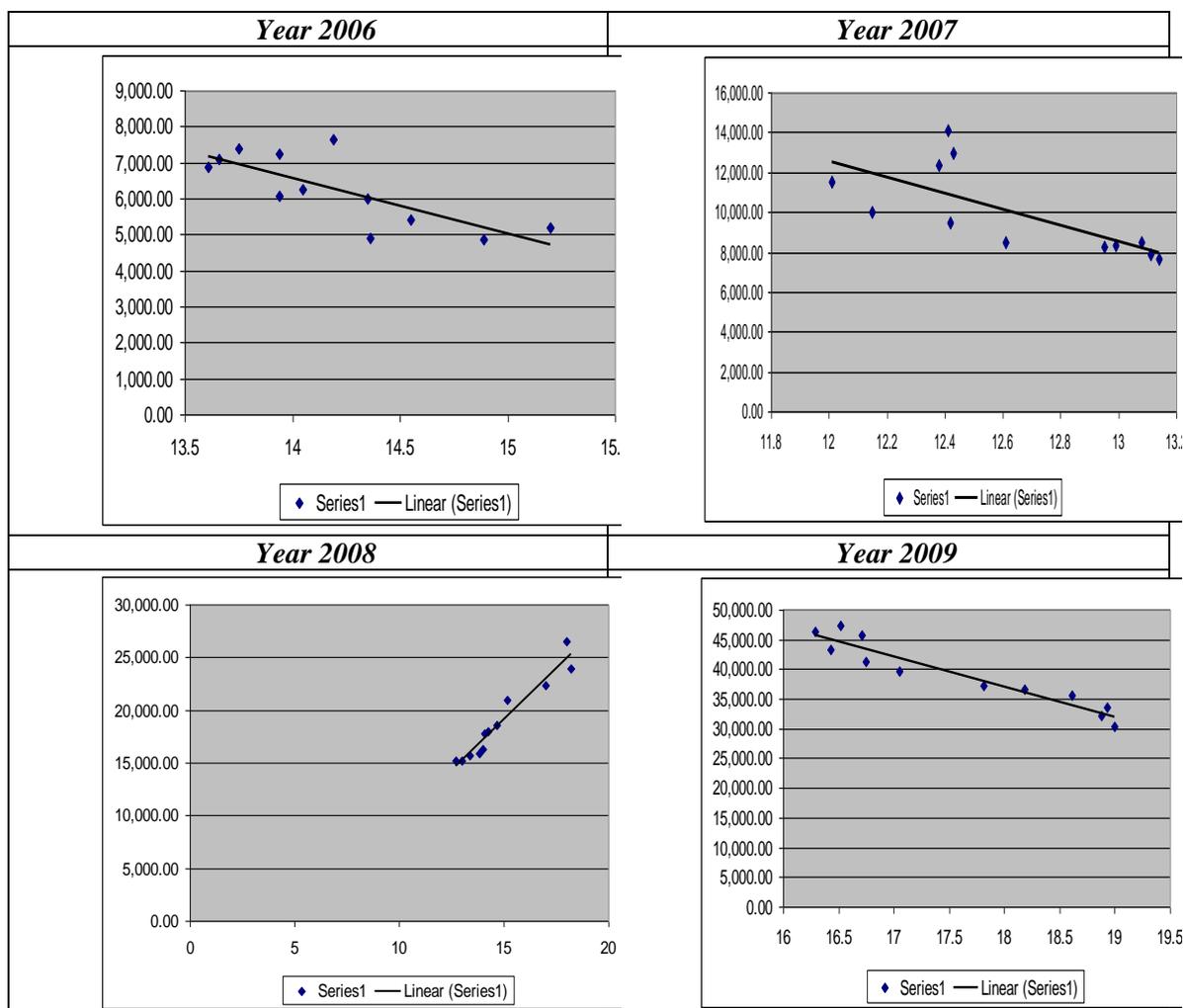


Figure no. 2 – Annual Correlation coefficient between average interest rate and non-performing loans at the level of Romanian banking system



4. Conclusions

In 2006 and 2007, the values of the Pearson coefficient correlation show a connection between variables. We suggest that there is an inverse correlation between the average interest active rate (cause variable) and the value of the non-performing loans (effect variable). In these conditions, we identify the others conditions that affect the debt service of the borrowers. The lack of banking settlements and regulation, in the mentioned period the primary banking legislation was improper⁵⁰⁶. Since 1st of January 2007, the new banking legislation⁵⁰⁷ lays down the principles concerning the taking up and pursuit of the business of credit institutions and financial investment companies within Romania's territory and their prudential supervision, as well as supervision of payment systems and financial instruments settlement systems.

During 2008-2010 (February), the different values of the Pearson correlation coefficient were obtained. The values very close to +/-1 show a direct and strong connection between variables.

⁵⁰⁶ Law no. 58/1998 on the banking activity, republished in Official Gazette of Romania no. 78/2005, as subsequently amended and supplemented

⁵⁰⁷ Emergency Ordinance no. 99/2006 on Credit Institutions and Capital Adequacy Published in Official Gazette of Romania, no. 1027/2006

We also suggest that there is an inverse correlation between variables, explained by the following causes: the fall of the prices of the loan collaterals, especially real estate; inflation pressure that contribute to the growing of the non-performing loans; unemployment and economic contraction.

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BANKING PROBLEMS IN A.D. XENOPOL'S WORK

Ștefănescu Florica

Universitatea din Oradea, Facultatea de Științe Socio-Umane

Many of Xenopol's studies, articles and economic papers fully prove his permanent interest in this area, so important for the life of a country. By means of the measures suggested, he intended to give a new orientation to the economic development of agriculture, industry and commerce in the financial-banking field as a premise for the growth of the people's living standard, but also as a necessary condition for the political and cultural progress. In their essence, all these measures were intended to change the structure of Romania's economy.

Key words: taxes, budget, national wealth, consumption, public debt, money, banks

Classification JEL: B19, G17, G21

In what the overprice of gold is concerned that increased the annuity of the much debated public debt, it is analyzed and explained by Xenopol from the point of view of the causes that generated it. In his opinion these were both of a monetary as well as an economic nature.

The main monetary cause of gold's overprice was represented by the devaluation of silver, the latter being determined by a series of historical events combined with economic events. They represented the financial consequences of the French-German war, namely the obligation imposed on France to pay Germany 5 billions as war reparations. Germany used this sum, most of it in gold, to replace "its old currency the useless, effaced, silver dollars"⁵⁰⁸ with gold coins. Germany's devalued silver went to France or Belgium where it was transformed into coins of five silver francs. Being aware of the danger of being flooded with these coins, in 1873 France suggested to the other countries from the Latin monetary union established in 1865 (France, Italy, Belgium, Switzerland, all joined by Greece in 1868) for a first stage the restriction of the five francs coins battery, and later on the suspension of this coin battery, thus giving a strong blow to silver. Meanwhile, the discovery of a silver mine in the U.S.A. would enhance silver production with 2 million kilos a year, which would determine a supplementary devaluation of silver.

The final result of this series of events was according to Xenopol, the introduction of monometallism, joining England and Germany; later on it was introduced in the Latin union too. But Xenopol would prove using examples that this was only one of the causes of gold's overprice, but not the only one. He suggested an amendment to Gersham's law according to which the bad currency drives away the good currency. His amendment stated that the law was valid only when "the productive powers of a country are not capable of holding to the latter" (gold-our note).⁵⁰⁹

How else could one explain the fact that in France for example, despite the circulation of both 4.5 billions in gold and of 3.5 billion silver francs at the same time, there was no overprice; while in Greece, a country from the Latin union, thus practicing a monetary policy similar to that of France, the gold overprice was at about 20-24% as a consequence of military spending caused in 1884 by the prospect of a war. Therefore, it was obvious that the economic cause used to accompany the monetary one in generating gold overprice; in other words, according to Xenopol: "gold is retained in those countries where it can be retained by the nation's productive powers and is driven away from those countries where such powers are not sufficient enough".⁵¹⁰

⁵⁰⁸ A.D.Xenopol, "Situația financiară a României sub guvernul liberal în 1887", p. 233, (Our translation).

⁵⁰⁹ Id., (1967) *Opere economice*, Ed. Academiei Republicii Socialiste România, p. 235, (Our translation).

⁵¹⁰ Ibid., p. 236, (Our translation).

This fact was visible in our country too, because each time the export grew in size, the gold's overprice dropped, but when the settling day arrived for the rent bonds or the land loans bonds, it rose again.

Xenopol believed he was right when he concluded that in our country the overprice was not due to silver circulation, but to the incapacity to hold on to gold, considering that the expenses were bigger than the production, our country being compelled to give away to foreign countries more gold values each year than it received back. Due to this aspect we did not have overprice until 1876, as long as the balance of trade was on surplus; the overprice appeared and held constant with an unfavorable balance of values, encouraged by the conditions of the Commercial Agreement with Austria-Hungary.

Xenopol's theory regarding the causes of gold's overprice was opposed to those who believed that the overprice was the result of the monetary policy of the liberal government which introduced the silver standard to replace the gold one on the occasion of the rubles' demonetization, of the foundation of the National Bank, of the issuing of the 30 million treasury notes and of some excessive operations of title loans (Lombard loans). Xenopol maintained that if this would have been the true cause of the overprice, then it would be easily removed by introducing the gold standard. But such a measure would have caused all the gold money to disappear from the country in a short interval of time, first of all in order to pay for the differences in the values' balance. This fact, showed Xenopol, would have also happened in the case of the issuing a large quantity of golden coins. Therefore he endorsed the maintenance of bimetallism in our country, because this would keep the coins inside the country, even if they were silver ones; and he also supported abandoning monometallism in Europe because in his opinion this would be the culprit for the gold's overprice. As underlined by G. Gane too, this idea, although a mistaken one, was quite widespread in Europe in the second half of the 19th century.⁵¹¹ Yet meanwhile Xenopol argued in favor of the improvement of our economic state, which would make the country keep the gold and thus diminish or even remove the gold's overprice.

Considering that money is "that special nerve of all things" always having "the strongest influence on the evolution of all business"⁵¹² and believing that "money isn't made but through work, and the work should reflect the degree of civilization that you want to represent"⁵¹³, Xenopol gave a particular attention in his writings to the problems represented by loans, usury, banks and the monetary system. The first emissions of coins were made in Walachia during the reign of Vladislav I (1364-1377); in Moldavia during the reign of Petru Mușat (1375-1391); in Transylvania during the reign of Ioan Zapolya (1510-1540). The coin that was used in Walachia and Moldavia in the second half of the 17th century and in the first half of the 18th century was the "leu", a species of old dollar, a coin issued in the Netherlands, widely circulated in Central Europe. In our country the leu had Turkish monetary submultiples in Romanian terminology; 1 leu equaled 40 pennies, and a penny equaled 30 coins ("bani"). As a follow-up of the amassing money, the old leu disappeared from circulation, yet holding its status as calculation currency.⁵¹⁴ For a long time a real monetary chaos ruled in the Romanian principalities, characterized by the usage of 70 foreign currencies, most of them effaced, worn out, pierced, without a regular currency exchange rate. They also were part of the mixture between the commercial capital with the usurious one in the usury houses, a fact that created a great confusion and caused great damages to producers. The Constitutional Regulations sanctioned this system where, next to a fictitious monetary standard represented by the calculation leu or reckoning, there were used

⁵¹¹ G. Zane, "Conceptia economică a lui Xenopol", in *Viața Românească*, XXV, 1972, nr. 9/September, p. 109.

⁵¹² A. D. Xenopol, "Situatia financiară a României sub guvernul liberal în 1887", p. 209. (Our translation).

⁵¹³ Id. "Revista economică a anului 1900" in *Evenimentul*, December 13, 1900.

⁵¹⁴ Maria Mureșan, *Istoria economiei. Epoca modernă și contemporană*, Ed. Economică, București, 1995, p. 200.

many foreign coins. Alexandru Ioan Cuza's attempt to create a national currency "the romanian", made of silver using the French model failed because "the issuing of coins was considered by the Turks as an attribute of sovereignty"⁵¹⁵, but also due to the diplomatic troubles it would have caused, combined with the lack of financial resources.

Only in April 1897, through the Law for the establishment of a new monetary system and for the making of national coins, the old nominal leu was replaced with a real currency, also called leu but guaranteed by gold protection. This law expressed the Romanian monetary doctrine and had a political importance since it expressed the right of the principalities to their own monetary system, and an economic one since it assured a regular monetary circulation. Between 1867-1873 there have been introduced into circulation first of all the copper coin, then the silver one, and when they were about to introduce the gold coin the Russian-Romanian-Turkish war broke out. On a monetary level, this event had two major effects: the issuing of mortgage bonds, paper money and that of receiving in Romania rubles at a higher exchange rate than their real value, i.e. of 4 lei per ruble rather than 3.70 lei.⁵¹⁶

Harshly criticized by the conservatives, the measure of issuing 30 million mortgage bonds was taken by the liberal government in the context of the budgetary deficits inherited from the conservative government and in the context of the impossibility to negotiate a loan while at war with the Turks. The operation proved to be a success, the bonds holding their exchange rate ad pari until they were withdrawn by the National Bank founded on the 1st of December 1880, without causing the state to suffer any loss. In addition, this operation made Romania be acquainted with paper money, get used to fiduciary circulation, thus being able to exit "the savage economic state where only the jingling metal is valued" and entering "the more cultivated economic life of civilized peoples".⁵¹⁷ Only that the result obtained by issuing mortgage bonds was cancelled by the effect of introducing in our country the rubles, "bad foreign money", which next to the devaluation of silver on international markets and next to the unfavorable balance of trade, starting with 1876, led to the emergence, then the growth of gold's overprice. Even if, immediately after the peace treaty of San Stefano, the ruble was transformed into a coin of 5 Romanian lei, the situation was not mended because the new coin really valued only 4.5 lei, thus becoming a "Romanian ruble, even more dangerous as it was no longer a foreign one, but it endorsed our national form."⁵¹⁸

As a consequence, this situation promoted usury, perpetuated the money lenders' abuses. These people were considered by Xenopol to be the conservative element regarding the capitals, since they opposed any law which would have established a maximum for the interest rates and any bank which would have decreased the interest rate.

At the same time Xenopol believed that usury was "one of the worst evils"⁵¹⁹ while the money lenders – a "greedy" and rather widespread category of "parasites" which dealt in "dishonest speculations".⁵²⁰ This "evil" affected city dwellers as well as village dwellers, usury having various facets: from very high interest money lending to loans demanded by farmers on special situations: marriages, funerals, poor crops from land agents or land owners, loans that most often had to be paid back in work. But this work was poorly valued so that the farmer was in a constant debt.

⁵¹⁵ Andrei Oțetea, *Istoria poporului român*, Editura Științifică, București, 1970, p.262, (Our translation).

⁵¹⁶ A. D. Xenopol, "Raport la lucrarea 'Politica monetară și a băncilor României' by Traian Mihaiu, București, 1907, in *Analele Academiei Române. Dezbateri*, s.II. t.30, 1907-1908, p. 387.

⁵¹⁷ Id. *Studii economice*, p.131, (Our translation).

⁵¹⁸ Id. "Raport la lucrarea 'Politica monetară și a băncilor României', vol I, by Traian Mihaiu, in *Analele Academiei Române. Dezbateri*, p.II, t. 30, 1907/1908, p.387, (Our translation).

⁵¹⁹ Id. "Mijloacele de îndreptare ale stării țărânilor române" in *Arhiva*, XVIII, 1907, nr. 6/June, p. 309, (Our translation).

⁵²⁰ Id. *Studii economice*, p. 133, (Our translation).

As a consequence, Xenopol welcomed the measures taken by the liberal government against usury: one concerned the “cancellation of the penalty clause” and the reduction of the “conventional percentages provided by the legal limit”, and the second one, “defended wages’ surveillance and the aq pensions thus declaring them necessary and untraceable.”⁵²¹

On a monetary level, the most efficient measure proved to be the foundation of the banks, first of all that of the National Bank of Romania. The first Romanian bank was the National Bank of Moldavia, founded in 1857 and bankrupt only three years later, a bankruptcy motivated by Xenopol through the employment by the above named bank of two types of incompatible banking operations: “land credit and discount”.⁵²²

In 1861 the liberal minister Golescu – Brătianu suggested establishing the Discount Bank, an ineffectual proposal due to the revocation of this ministry. The proposition was renewed in 1873, but this time by the conservative government; yet due to the lack of interest of the “conservative party” for the economic problems, it was ineffectual this time too, believed Xenopol.⁵²³

Only in 1880 the National Bank of Discount and Circulation is established, having two thirds private capital and one third state capital. This bank, the most important financial institution in the country, had supported industrial and commercial development and had given to the state convenient loans, thus contributing to the capitalist evolution of the Romanian economy and on a social level, to the development of the bourgeoisie.

As predicted by Xenopol, the National Bank proved to be extremely beneficial for farmers too. First of all because withdrawing from circulation mortgage bonds and replacing them with its own bonds, the bank would allow the state to gradually sell from its property small parcels especially to newlywed couples, thus canceling the mortgage bonds. Giving land to newlyweds and therefore passing a part of the state property in the hands of the petty farmers – all this done with the help of the National Bank – was meant to give a new boost to agriculture. But the National Bank was able to help farmers in another manner too, according to Xenopol. Thus, storing their crops in docks in exchange for some receipts (called “warande”), which certified the amount of grains deposited there, the farmers could have discounted the receipts for a minimum interest, i.e. obtaining a cheaper credit.

Another financial institution supported by Xenopol was the rural bank the foundation of which was accompanied in our country by the opposition of the land owners, who thus would have lost their quality of creditors for framers. It is beyond comprehension, said Xenopol that the land owners, once they have enjoyed the benefits of the establishment of the Land Credit which saved them from the menace of usury, did not admit of a similar measure for farmers. This was due to the fact that “what previously the money lenders represented for the property, now the land owners and the land agents represented for the farmers.”⁵²⁴ In Xenopol’s view, “the rural bank would be meant to help either communities or individuals with loans contracted under the best clauses possible, first of all the leasing of land properties and second the purchasing of land”⁵²⁵. At the same time with the facilities offered by the bank, to the Romanian farmer one should make very clear the clauses for refunding the loan, any delays or respites being excluded, excepting those stipulated by the law. According to Xenopol all this happened because of the “great flaw of the Romanian character” which is the “inaccuracy of fulfilling one’s duties”.⁵²⁶ At the same time Xenopol planed in view of the economic rebirth of our country, “a special bank for helping

⁵²¹ Ibid., p. 133, (Our translation).

⁵²² Id., Raport la lucrarea “Politica monetară și a băncilor României”, de Traian Mihaiu, p. 587.

⁵²³ Id., Studii economice, p.131

⁵²⁴ Ibid., p.148, (Our translation).

⁵²⁵ Id., Banca rurală, in *Românul literar*, L, 1907, t.6, nr. 21, p.281, (Our translation).

⁵²⁶ Ibid., p. 282, (Our translation).

Romanian craftsmen and tradesmen”⁵²⁷, having as a goal stimulating the small and medium industry in Romania.

As a conclusion we can say that Xenopol’s studies, articles and economic papers fully prove his constant interest for such an important domain in the life of a country. This interest was motivated by the importance for Xenopol of the people to which he belonged, its needs and hopes. This made him research the economic state of the Romanian people, its causes, and also formulate among the most realistic solutions possible for the improvement of this state, for the reduction of the gap that separates us from the economically developed countries. By means of the measures suggested, he sought to give a new direction to the economic development of agriculture, industry and commerce; all of this being a necessary condition to the increase in the people’s living standard. It was also necessary for the political and cultural progress which would ultimately determine the changing of the economic structure of the people’s life. The same reason made him get involved in politics, without having a special talent in this activity and without wanting to make for himself a political career. Yet this way he was able to assume an attitude, he could influence decision making on the economic level which he considered to be beneficial for the country.

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⁵²⁷ Id., “Regenerarea economică a țării noastre”, in *România viitoare*, București, I, 1910, nr. 2 from December 15, p. 67, (Our translation).

CORPORATE VALUATION USING TWO-DIMENSIONAL MONTE CARLO SIMULATION

Tarnóczy Tibor

*University of Debrecen, Faculty of Applied Economics and Rural Development
Institute of Accounting and Finance, Department of Finance*

Fenyves Veronika

*University of Debrecen, Faculty of Applied Economics and Rural Development
Institute of Accounting and Finance, Department of Controlling*

Tóth Réka

*University of Debrecen, Faculty of Applied Economics and Rural Development
Institute of Accounting and Finance, Department of Accounting*

In this paper, we have presented a corporate valuation model. The model combine several valuation methods in order to get more accurate results. To determine the corporate asset value we have used the Gordon-like two-stage asset valuation model based on the calculation of the free cash flow to the firm. We have used the free cash flow to the firm to determine the corporate market value, which was calculated with use of the Black-Scholes option pricing model in frame of the two-dimensional Monte Carlo simulation method. The combined model and the use of the two-dimensional simulation model provides a better opportunity for the corporate value estimation.

Keywords corporate valuation, free cash flow to the firm, real options, Black-Scholes option pricing model, two-dimensional Monte Carlo simulation, R statistics

JEL code: G32, C15

1. Corporate valuation

There is an ever-increasing need for financial valuation services pertaining to nonpublic companies and subsidiaries, divisions, or segments of public companies. Nowadays, the main purpose of the companies to increase their corporate value. In order to measure the value creation of a company, namely the increase in value compared to previous one, it is necessary that we can properly estimate the company's current value. The new reality presents a challenge to business managers: the need to manage value and to focus as never before on the value their corporate-level strategies are creating. Copeland-Koller-Murrin (2000) write in their book: „*We believe that clear thinking about valuation and skill in using valuation to guide business decisions are prerequisites for success in today's competitive environment. ... Underlying it is our basic belief that managers who focus on building shareholder value will create healthier companies than those who do not. We also think that healthier companies will, in turn, lead to stronger economies, higher living standards, and more career and business opportunities for individuals.*”

The valuation plays a key role in many areas of finance - in corporate finance, mergers and acquisitions and portfolio management. In general, there are three approaches to valuation. The first, discounted cashflow valuation, relates the value of an asset to the present value of expected future cashflows on that asset. The second, relative valuation, estimates the value of an asset by looking at the pricing of 'comparable' assets relative to a common variable such as earnings, cashflows, book value or sales. The third, contingent claim valuation, uses option pricing models to measure the value of assets that share option characteristics. (Damodaran, 2002)

To build our company valuation model we have used a kind of the combination of the methods above-described by Damodaran. The combined methods were designed to obtaining more accurate results and to taking into account the forecast uncertainty during the calculations. Still combining of the methods are needing, because the company valuation is a complicated process.

As business structures become more complicated, business valuations become more complicated. As transparency in corporate financial reporting becomes more desirable and less attainable, business valuations become more complicated. And, as securities market cycles become more exaggerated and less predictable, business valuations become more complicated. (Reilly-Schweih, 2004)

The corporate valuation is also important to measure the performance of the management. Value creation is the ultimate measure of performance for a management team. (Copeland-Koller-Murrin, 2000)

2. The corporate valuation model

There are only three approaches to value any asset, business or business interest:

1. the income approach;
2. the market approach;
3. the asset approach.

There are no other approaches to value. However, there are numerous methods within each one of the approaches that the analyst may consider in performing a valuation. All three approaches should be considered in each valuation. However, it is not common to use all three approaches in each valuation. (Hitchner, 2003)

To determine the market value of the company we have developed a combined model whose main stages are presented in the *Figure 1*. On behalf of the more efficient estimation we had combined more known methods and the corporate value as the final result was calculated using the so-called two dimensional Monte Carlo methods with utilization of intermediate results of the specific methods. The raw data necessary to the modeling was collected from the financial statements some of the companies listed on the Budapest Stock Exchange. We chose companies belonging to the stock exchange with the intention to compare the calculated results with the stock market capitalization of the firms.

The value determination was carried out for five companies. However, due to size limitations of the article the details of the calculation are only presented for one company (*Danubius*).

2.1. Calculation of free cash flow to the firm

To preparation of forecasting which is necessary to determine the asset value of a company we have used the last five years data (2004-2008) of the firms downloaded from the Budapest Stock Exchange web-page. The calculations have been performed in Microsoft Excel 2007 and the R statistical system. R statistical system is an integrated suit for software facilities for data manipulation, calculation and graphical display. R is an environment within which many classical and modern statistical techniques have been implemented. (Venables-Smith, 2009) The commands of R can be executed from the Microsoft Excel, and we have used this possibility.

During the forecasting we have calculated those values which were necessary to determine the free cash flow to the firm (FCFF). We used the company's growth ratio to make the forecast of the data. The forecast was based on the company growth rate⁵²⁸ and marginal taxation rate⁵²⁹. To generate the latter rates we have used the normal distribution with parameters based on the averages and standard deviations of the previous years' data. (*Table 1*)

The forecast results are in the *Table 1*. The FCFF values were calculated using the after-tax operating profit, as follows

$$FCFF = \text{After-tax operating profit} + \text{Depreciation} - \text{Investments} \\ - \text{Changing in non-cash working capital} \quad (1)$$

⁵²⁸ mean=9.14, sd=2.23

⁵²⁹ mean=22.55, sd=6.93

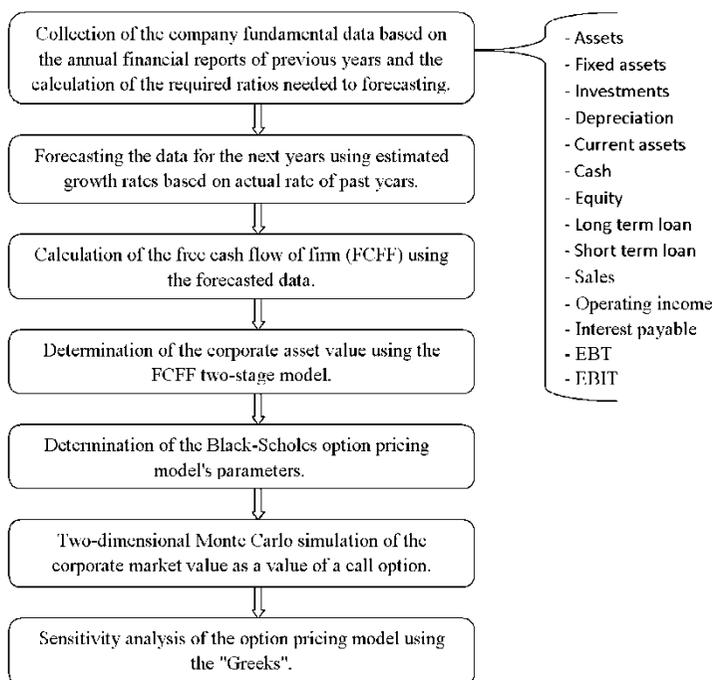
In case of Formula 1, the cash flow does not include the benefits arising from the interest payments, since the tax-saving effects of the credits has been taken into consideration in case of the determination of the cost of capital.

The corporate asset value was calculated by using of the Gordon-like two-stage valuation model, in consideration of the following relations:

$$V_A = \sum_{t=1}^n \frac{FCFF_t}{(1+r)^t} + \frac{P_n}{(1+r)^n} \quad (2)$$

$$P_n = \frac{FCFF_n * (1+g)}{(r-g)} \quad (3)$$

Figure 1: The process and the raw data of the corporate valuation



The growth rate (g) used to the determination of the terminal value (P_n) was calculated as an average of the forecasted growth rates (*the growth rate from 6th year* - Table 1). (Formula 3) The weighted average cost of capital (r – *required rate of return* – Table 1) was calculated as an average of the yearly weighted average costs of capitals. (Formula 2, 3)

2.2. Real options in corporate valuation

The calculation is essentially based on the assumption that the market capitalization of a company determines the market value of a joint stock company. Two essential factors play an important role in general to elaborate the market price: the actual performance of the company and the investor expectations. The riskiness of a company reflects in the volatility of the stock prices.

The new economy provides a challenge for the corporate decision-maker. Corporate valuation may no longer depends on traditional fundamentals but rather on future expectations. Investment strategies with high risks and uncertainty or irreversible corporate decisions coupled with managerial flexibility provide the best candidates for real options. Real options is a systematic approach and integrated solution using financial theory, economic analysis, management science, decision sciences, statistics and econometric modeling in applying options theory in valuing real

physical assets, as opposed to financial assets, in a dynamic and uncertain business environment. (Mun, 2002)

To determine the corporate market value we have used the Black-Scholes options pricing model. The value of a real options depends on five basic variables:

1. the value of underlying risky asset (**S**) – *corporate asset value*;
2. the exercise price (**K**) – *face value of the outstanding loans*;
3. the time to expiration of the option (**t**) – *weighted average maturity of loans*;
4. the standard deviation of the value of the underlying risky asset (**σ**) – **variance of the firm’s share**;
5. the risk-free rate of interest over the life of the option (**r**) - **treasury bond yield rate adjusted to the option lifetime**. (Copeland-Antikarov, 2003)

Table 1: The corporate asset value calculation based on forecasted data
million HUF

Titles of data	Forecasted years				
	1	2	3	4	5
Growth rate	10,57%	8,49%	9,44%	8,22%	7,42%
Assets	91 363	99 124	108 482	117 398	126 111
Sales	49 417	53 615	58 677	63 499	68 212
Operating profit	2 324	2 521	2 759	2 986	3 208
Marginal taxation rate	32,35%	18,82%	29,02%	11,66%	28,10%
After-tax operating profit	1 572	2 047	1 958	2 638	2 306
Invested assets	83 767	90 882	99 462	107 636	115 626
Depreciation	4 937	5 357	5 863	6 344	6 815
Investments	4 685	5 083	5 563	6 020	6 467
Changing in non-cash working capital	274	297	325	351	378
Free Cash Flow to the Firm	1 551	2 023	1 933	2 610	2 277
Terminal price					38 625
Present value of FCFF	1 340	1 512	1 248	1 457	1 098
Corporate asset value	45 279				
growth rate from the 6. year	9,26%				
required rate of return	15,70%				

The weighted average maturity of loans was estimated with the using of the notes of the accounts of corporate annual reports. The variance of the firm’s shares was calculated with the using the closing price of the company's shares what was downloaded from the web-page of the Budapest Stock Exchange. (Table 2)

To calculate the corporate value we have used the following formulas of the Black-Scholes model:

$$\text{value of the call option} = S * N(d_1) - K * e^{-rt} * N(d_2) \quad (4)$$

$$d_1 = \frac{\ln\left(\frac{S}{K}\right) + \left(r + \frac{\sigma^2}{2}\right) * t}{\sigma * \sqrt{t}} \quad d_2 = d_1 - \sigma * \sqrt{t} \quad (5)$$

2.3. Two dimensional Monte Carlo simulation

A two-dimensional (or second-order) Monte Carlo simulation is useful to estimate the “uncertainty” in the risk estimates stemming from parameter uncertainty. A two-dimensional Monte-Carlo simulation is a Monte-Carlo simulation where the distributions reflecting ”variability” and the distributions representing ”uncertainty” are sampled separately in the simulation, so that ”variability” and ”uncertainty” in the output may be estimated separately.

The developers of the two dimensional simulation model write in their model application guide (Pouillot, R. et al., 2010) the followings: „a QRA (Quantitative Risk Assessment) should reflect the „**variability**” in the risk and calculate the “uncertainty” associated with the risk estimate. The “variability” represents temporal, geographical and/or individual heterogeneity of the risk for a given population. The “**uncertainty**” is understood as stemming from a lack of perfect knowledge about the QRA model structure and associated parameters.” On basis of Cullen and Frey book (1999, p.3.), what can be regarded as the theoretical background of two dimensional simulation, the previous definition is supplemented by the followings: „In general, variability can not be reduced by additional study and measurement. Random and systematic measurement errors as well as reliance on models and surrogate indicators, all sources of uncertainty. ... In confronting variability and uncertainty a decision-maker stands to better understand the degree of variance in the full distribution of exposure or risk, the impact of various assumptions, data gaps, and model choice on decision making, and the most fruitful avenues for further study.” The input parameters of the simulation model are presented in Table 2.

Table 2: The input value of the simulation model

Corporate asset value		45 279	million forint
Average maturity of loans		5,54	év
Variance of the corporate shares	U		
minimum		8,85%	
mean		9,78%	
maximum		10,70%	
Outstanding loans	V		
minimum		21 310	million forint
mean		23 966	million forint
maximum		27 511	million forint
Five-year treasury bond yield	U		
minimum		4,50%	
mean		6,00%	
maximum		8,50%	

To estimate the stochastic variables marked U (*uncertainty*) and V (*variability*) letters we have used the triangular distribution with the parameter values in Table 2. (Kotz-van Dorp, 2004)

3. Results of simulation

To execute the simulation model we have used the 'mc2d'⁵³⁰ package of R statistical system.

The simulation statistical results are presented in Table 3. The statistical indicators of Table 3 show that the value of the coefficient of variation is very low, and the interquartile range⁵³¹ is relatively small, which show that the estimated values are located in a relatively narrow interval around the mean and median around. All these can be easily seen in the boxplot diagram.

To determine a confidence interval for the mean and median the program was used the one sample t-test and the Wilcoxon signed rank test with continuity correction. The calculation results are shown the Table 4. We can see that the intervals have a very small scale.

To measure how the value of an option will change when one of the input variables changes while the others remain the same, we have used the „Greeks” (*delta*=0.7021, *gamma*=6.86*10⁻⁷).

Table 3: The statistical results of the simulation

⁵³⁰ Monte-Carlo à Deux Dimensions

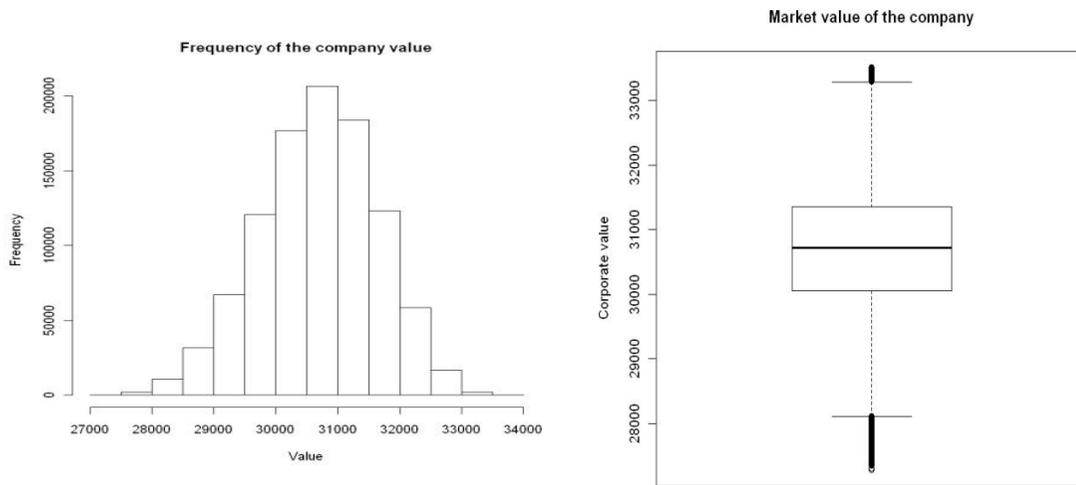
⁵³¹ interquartile range = 3rd quartile – 1st quartile

Statistical indicators	Minimum	1st quartile	Median	Mean	3rd quartile	Maximum	Standard deviation	Coeff. of variation	Inter-quartile range	Kurtosis	Skewness
Value of the company	27 290	30 060	30 720	30 680	31 350	33 510	939	3,06%	1 290	-0,2228	-0,1972

Table 4: Confidence interval estimation for mean and median

Statistical indicators	confidence interval (95%)		estimated value
	lower bound	upper bound	
mean	30 683	30 687	30 685
median	30 700	30 704	30 702

Figure 3: The diagram results of simulation⁵³²



4. Conclusions

The performed calculations show that the constructed model can be applied in determining the market value of companies. The stock market capitalization of the company's shares was HUF 29,330 at the end of 2008, which is 2.49% less than the estimated average value. The model slightly over estimates the current market value.

The sensitivity tests carried out have confirmed the applicability of real options.

Probably we get better results of the corporate value if we would have a more accurate internal company information. We have obtained similar values in case of the other analyzed companies too. In each case, the estimate is well approximated in the current market value.

We believe that the presented model is useful to determine the value of the companies whose shares are traded on the stock exchange.

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⁵³² The result variable contains 1 million piece of the estimated value.

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„BLACK-SCHOLES MODEL USED TO EVALUATE STOCKS OPTIONS”

Turcan Radu

University: University of Oradea

Faculty: The Faculty of Social and Human Sciences

Partial differential equation, parabolic Black-Scholes type:

$$\frac{\partial V}{\partial t} + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} + rS \frac{\partial V}{\partial S} - rV = 0$$

is used in evaluating equity options, that paying constant and continue dividends or in evaluate options in which interest rate, volatility and dividend are dependent on time.

Keywords : stocks, asset-support, options (call and put), contracts (futures and forward), portofolio, model

JEL Classification: G12, G13

1.1 Black-Scholes equation

Further we intend to Black-Scholes equations, capitalizing above the strategy used by Paul Wilmott:

$$\text{Be } \pi = V(S;t) - \Delta S \quad (1)$$

a portfolio consists of option, with value $V = V(S;t)$
and quantity: ΔS (ie: „short” position, for asset-support: S).

Also, consider the value of „ Δ ”:

$$\Delta = \frac{\partial V}{\partial S} \quad (\text{random component: } \Delta(\text{„delta”})) \quad (2)$$

Replaced, value of „ Δ ”: $\Delta = \frac{\partial V}{\partial S} \Leftrightarrow \Delta - \frac{\partial V}{\partial S} = 0$,

in his expression: $d\pi$, we obtain:

$$d\pi = \left(\frac{\partial V}{\partial t} dt + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} \right) dt + \underbrace{\left(\frac{\partial V}{\partial S} - \Delta \right)}_0 dS \quad (3)$$

or equivalent:

$$d\pi = \left(\frac{\partial V}{\partial t} dt + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} \right) dt \quad (4)$$

(ie: „increase” of π portofolio, free of risk)

But the variation of π , ie: $d\pi$ can write (using the nonarbitration principle) in the form:

$$d\pi = r\pi dt \quad (5)$$

Conclusion:

Replaced the relations: (1), (2) and (4) \rightarrow (5), we obtain:

$$\left(\frac{\partial V}{\partial t} dt + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} \right) dt = r \left(V - S \frac{\partial V}{\partial S} \right) dt \quad | : dt \neq 0 \quad (6)$$

$$\leftrightarrow \frac{\partial V}{\partial t} + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} = r \left(V - S \frac{\partial V}{\partial S} \right) \quad (7)$$

Ordering the terms in relation (29'), we obtain finally equation seeking, respectively:

$$\frac{\partial V}{\partial t} + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} + rS \frac{\partial V}{\partial S} - rV = 0 \quad (\text{Black-Scholes equation}) \quad (8)$$

1.2 Interpretation of the notions:

O_1) Black-Scholes equation (deduced above), was written for the first time in this form, in 1969, but published 4 years later, in 1973, when Fischer Black and Myron Scholes proved the correctness of this equation.

O_2) Black-Scholes equation models a very important financial and economic phenomenon: the assessment of stock options.

O_3) The Black-Scholes equation, there are very important variables and parameters, respectively:

- $S = S(\mu; \sigma) \rightarrow$ stochastic variable (is the value of the asset-holder)

Where:

$\mu =$ drift (or unexpected return)	}	parameters associated asset price „S”
$\sigma =$ asset volatility		
$t =$ time (deterministic variable)		
$r =$ interest rate (without risk)		
$V = V(S; t) \rightarrow$ call option value (option to purchase).		

O_4) Terms: $\frac{\partial V}{\partial t}$; $\frac{\partial V}{\partial S}$ and $\frac{\partial^2 V}{\partial S^2}$, which appeared in Black-Scholes equation, is: „indicators of sensitivity” to change the option value „V”, respectively:

$$\Delta = \frac{\partial V}{\partial S} \rightarrow \text{pointer „delta”, stands for:}$$

„percentage of modified (percentage of modified (∂V) option value V, depending on the value of asset-support (∂S)”

or even: $\Delta = \frac{\partial V}{\partial S} \rightarrow$ „hedge delta” useful (theoretical and practical) to eliminate the risk of a portfolio;

$$\theta = \frac{\partial V}{\partial t} \rightarrow \text{pointer „theta”, is:}$$

„modified of option price (∂V), depending on the variation of time (∂t)”

$$\Gamma = \frac{\partial^2 V}{\partial S^2} \stackrel{\text{def}}{=} \frac{\partial}{\partial S} \left(\frac{\partial V}{\partial S} \right) \rightarrow \text{pointer „gama”, is}$$

„sensitivity (excessive sensitivity) of $\Delta = \frac{\partial V}{\partial S}$, to price variations of asset-support S”

O_5) Finally, in the Black-Scholes equation, deduced previously, appear two terms: $rS \frac{\partial V}{\partial S}$ and rV , where:

- term: $rS \frac{\partial V}{\partial S}$, is the *convection* term of equation;

- term: rV , is the *reaction* term (which balances the first term of the equation $\frac{\partial V}{\partial t}$).

O_6) In conclusion, bringing together the 4 (four) terms:

$$\frac{\partial V}{\partial t}; \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2}; rS \frac{\partial V}{\partial S} \text{ și } rV;$$

terms characterized briefly, above, we obtain Black-Scholes equation:

$$\frac{\partial V}{\partial t} + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} + rS \frac{\partial V}{\partial S} - rV = 0$$

equivalent to a special equations of fluid mechanics, type: „reaction-convection-diffusion”.

1.3 Black-Scholes equation solving

General overview:

Method for solving Black-Scholes equation:

$$\frac{\partial V}{\partial t} + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} + rS \frac{\partial V}{\partial S} - rV = 0 \quad (9)$$

aimed at obtaining the solution (exact) for the partial differential equation, parabolic type.

In literature, there are two broad categories of methods of solving this equation (ie: this type of partial differential equations).

- analytic methods
- numeric methods.

The analytical methods we can mention:

Method I: Transforming equation (8), in an equation with constant diffusion coefficient, using the change of variable:

$$V(S; t) = e^{\alpha x + \beta \tau} \cdot U(x; \tau)$$

In finally, „function”/solution $U(x; \tau)$ satisfy the basic equation of diffusion:

$$\frac{\partial U}{\partial \tau} = \frac{\partial^2 U}{\partial x^2} \quad (10)$$

(equation easier to solve than Black-Scholes equation (9)).

Method II, using Green function:

$$V'(S; t) = \frac{e^{-r(T-t)}}{\sigma S' \sqrt{2\pi(T-t)}} e^{\frac{[\log(\frac{S}{S'}) + (r - \frac{1}{2}\sigma^2)(T-t)]^2}{2\sigma^2(T-t)}} \quad (11)$$

Observations:

1) In the limit (when $t \rightarrow T$, and $T-t \rightarrow 0$ and $e^{-r(T-t)} \rightarrow e^0 = 1$) function (derivative I of V , given by (11) becomes *Dirac delta function*, ie:

„A function that is one (zero) everywhere except one point where it is infinite, so that”:

$$\int V'(S; t) dt = 1 \quad (12)$$

2) Function given by (11) is called *Green function*, which by integration, becomes:

$$V(S; t) = \frac{e^{-r(T-t)}}{\sigma \sqrt{2\pi(T-t)}} \int_0^\infty e^{-\frac{[\log(\frac{S}{S'}) + (r - \frac{1}{2}\sigma^2)(T-t)]^2}{2\sigma^2(T-t)}} \cdot \text{Payoff}(S') \frac{dS'}{S'} \quad (13)$$

where:

$\text{Payoff}(S) = V(S; T) \rightarrow$ ie: „profit/or loss for S is equal to the option V , at time $t=T$ ”

(14)

There are other analytical methods to assess Black-Scholes equation, for example: Fourier and Laplace transformations.

The methods numericede solving partial differential equations, parabolic type (that is, and the equation: Black-Scholes), we can mention:

Finite difference method with the following:

- explicit finite difference method and

- implicit finite difference method

Very popular in the literature (to category: „numerical methods”) is the *Crank-Nicolson method*, which performs: „mean between the explicit and implicit method”.

Explicit method, applied Black-Scholes equation, to implement Black-Scholes model is applied to options: call and put European-style (or American type).

Default method, Crank-Nicolson equation applied to options: call and put European type, is more difficult to program, but has greater precision.

Final conclusion:

Black-Scholes Equation $\frac{\partial V}{\partial t} + \frac{1}{2} \sigma^2 S^2 \frac{\partial^2 V}{\partial S^2} + rS \frac{\partial V}{\partial S} - rV = 0$ represents a partial differential equation, parabolic type which corresponds to the Black-Scholes Model published by the American economists Fischer Black and Myron Scholes in 1973. This model may be used with success in evaluating equity options.

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THE POLICY OF THE EXCHANGE RATE PROMOTED BY NATIONAL BANK OF ROMANIA AND ITS IMPLICATIONS UPON THE FINANCIAL STABILITY

Vechiu Camelia

“Constantin Brâncoveanu” University Pitești, Faculty of Management-Marketing in Economic Affairs, Brăila

Enache Elena

“Constantin Brâncoveanu” University Pitești, Faculty of Management-Marketing in Economic Affairs, Brăila

Marin Carmen

“Constantin Brâncoveanu” University Pitești, Faculty of Management-Marketing in Economic Affairs, Brăila

Chifane Cristina

“Constantin Brâncoveanu” University Pitești, Faculty of Management-Marketing in Economic Affairs, Brăila

The more profound world economic crisis has strongly marked the evolution of the Romanian financial system.

The size of current account deficit, the relatively high external financing needs and the dependence of the banks on it, the high ratio between loans in foreign currency and deposits in foreign currency made of the Romanian economy, a risky destination for investors. In these conditions, since the end of 2008 and throughout 2009, the government's economic program was focused on reducing the external deficit in both public and private sector, on minimizing the effects of recession, on avoiding a crisis of the exchange rate and on cooling the inflationary pressures.

Keywords: monetary policy, exchange rate, external financing, budget deficit

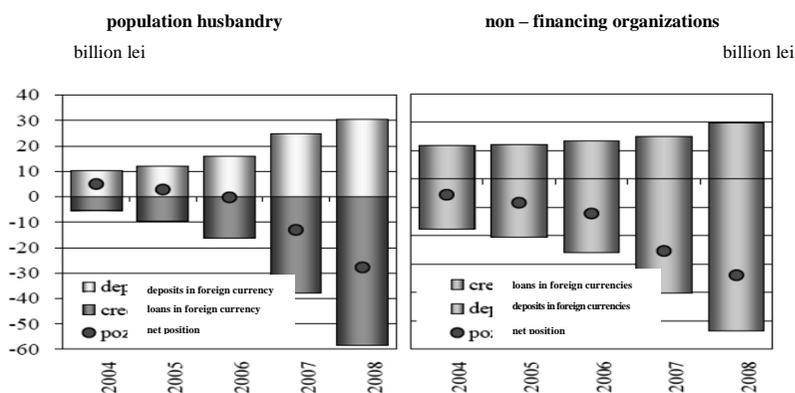
JEL classification: E58

1. The interventions of NBR on the foreign exchange market

Supported by the global financial crisis, the evolution of the Leu rate has raised major problems. As in the period 2005-2007, the currency incomings have overestimated the Romanian national currency way above the level indicated by the fundamental factors of the exchange rate, the reduction of the foreign financing and the incertitude have afterwards determined an unjustified depreciation of the Romanian Leu. In spite of the high acquisition of currency in the anterior period, The National Bank of Romania has managed only to attenuate the unsustainable appreciation of the Leu, although the challenges in the bank system were very big. In the period 2004-2008, the continuous dynamics of the currency credits would have created negative effects at the level of the bank system under the circumstances of a rapid and excessive depreciation of the Leu (Chart 1).

Between October 2008 and April 2009, the Leu depreciated by 12% in comparison with the Euro (and by 21% in comparison with the Dollar), while the volatility exceeded 30% (Chart 2). These powerful contrasts between the two periods of 2008 could not have been anticipated, considerably affecting the reaction of the members of the economic environment and the business plans.

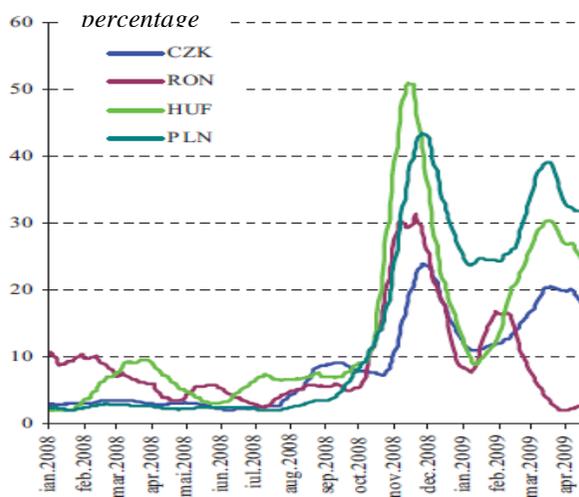
Chart no. 1. Deposits and loans in foreign currencies



Source: National Bank of Romania

The factors which contributed to this interruption in the dynamic evolution of the exchange rate were: **global** – a high incertitude regarding the situation of the global monetary system and the possible repercussions upon the emergent countries and **specific** – the worsening of Romania's qualification credit (of sub-investment) by two rating agencies (Fitch Ratings and Moody's). As one can notice from Chart 2, the volatility of the national currency, although in a significant progress, has remained under the level of other currencies in the region, and at present it registers some of the lowest values.

Chart no. 2. The Conditioned Volatility of the Main Currencies EEC compared to the Euro (percentage, average on a period of 20 days)



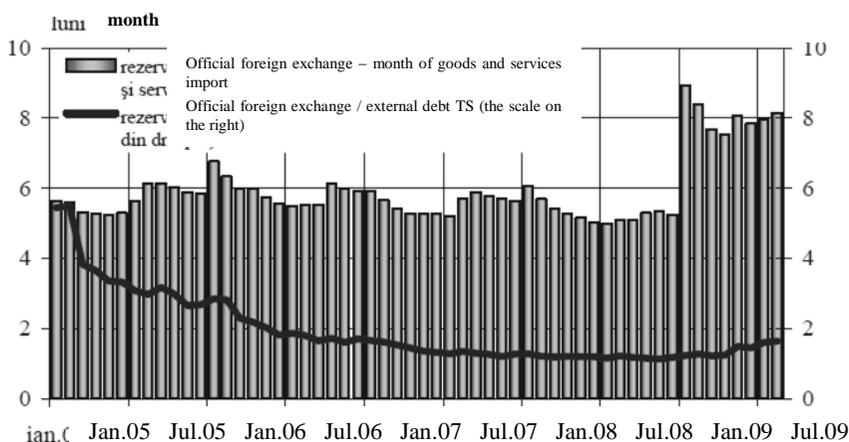
In this context, the Source: NBR calculations. **aiming at interventions on the foreign exchange market** was oriented by the idea that a higher volatility of the exchange rate is detrimental to both the objective regarding inflation and the solidity of the real and financial sectors. Even more as the Romanian economy considered to be of small dimensions and with a high degree of openness is permanently exposed to the danger of some unfavourable capital movements at the level of the financial and especially the foreign exchange market. The option of the National Bank of Romania to intervene on the foreign exchange market was not singular in Central and Eastern Europe, the system of managed floating of the national currency being practiced by other Central Banks too, their foreign exchange interventions being amplified after the beginning of the global financial crisis. Under the circumstances, the National Banks

from the Czech Republic, Poland and Hungary, which have a flexible foreign exchange system have pronounced themselves against the excessive depreciation of the local currencies which could create destabilizing movements, promising, in their turn, to intervene in order to combat the phenomenon.

These interventions of the National Bank of Romania on the foreign exchange market have been aimed at the excessive depreciation of the national currency and the depreciation level was correlated to the progress registered by the adjustment of the current account.

These foreign exchange interventions were adjusted according to the **foreign exchange reserves** too. The foreign exchange reserves constituted due to the interventions from the period of overrating (2004-2008) and the sums received as a result of the financing agreement with the International Monetary Fund, the European Union and other international financial institutions have offered the central bank the possibility to support the national currency. Romania's National Bank aims at both the absolute value of the foreign exchange reserves and the derived indicators, respectively the foreign exchange reserve expressed in months of imports of goods and services and the report between the foreign exchange reserve and the short term foreign debt (Chart 3).

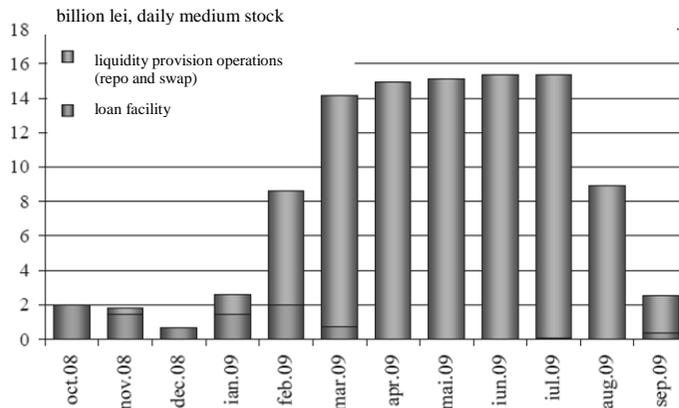
Chart no. 3. Foreign exchange reserves at NBR: derivative indicatives



Source: National Bank of Romania, National Institute of Statistics

The strategy of the National Bank of Romania to reduce the effects of the crisis has been aimed at both the correlated **amount and the moment of the foreign exchange interventions** and **the liquidities control on the monetary market**, under the circumstances in which the financing of the budgetary deficit was mainly done through the usage of the sums received from the International Monetary Fund and the European Union. In 2009, the National Bank of Romania supplied liquidities to the banks after it had been a net debtor towards the bank system due to the liquidity surplus generated by the massive capital inflow in the Romanian economy in the period 2004-2008. The foreign exchange intervention generated by the National Bank of Romania had as a purpose the attempt to avoid the reversal of its position as a creditor towards the bank system, a situation which could have caused problems for the implementation of the monetary policy (Chart 4).

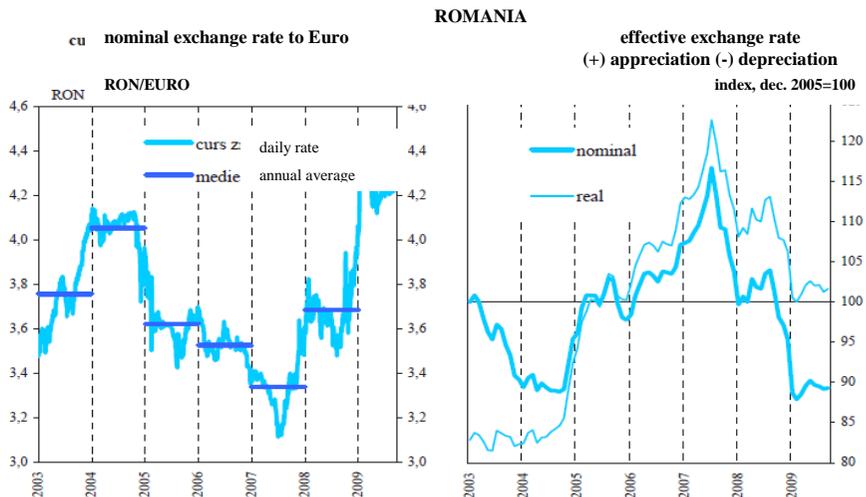
Chart no. 4. Liquidity provision operations



Source: National Bank of Romania

In this context, we can say that the foreign exchange interventions were necessary not only to maintain the exchange rate but also to properly manage the liquidities on the monetary market (Chart 5).

Chart no. 5



Source: BCE, BRI

Diminishing the depreciation of the Romanian Leu and implicitly the inflation pressures which appear by means of the exchange rate together with the fiscal consolidation efforts have allowed the National Bank to pass on to the **cautious relief of the monetary policy** ever since the beginning of 2010. The National Bank has taken the following **measures**: decreasing the monetary policy interest rate to 6.5%⁵³³ per year, maintaining the present levels of the minimum reserves rates applied to both domestic and foreign currency liabilities of the crediting institutions

⁵³³ During the meeting on 29 March 2010, the Administrative Board of Romania's National Bank decided to reduce the monetary policy interest rate to 6.5% per year.

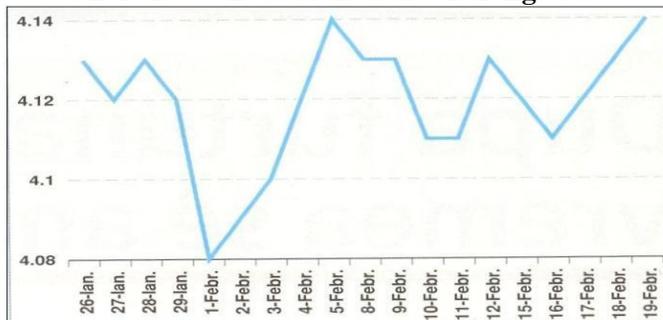
(15%, respectively 25%), firm administrating of liquidities in the bank system in order to consolidate the signals sent by the monetary policy.

2. The measures adopted by NBR to support the exchange rate

The beginning of 2010 marked for the national currency the highest appreciation in Europe as regards Euro and one of the highest level in the world, it only being overpassed by the Japanese yen.

Among the factors that sustained the appreciation of our currency – “leu” – in January can be mentioned: the unfavourable international opinions to European currency which has registered significant depreciation as regards many other currencies such as dollar, yen or the currency met in East European area, as well as the events on the internal level such as the declaration of IMF representatives as to the funds granted to Romania (Chart 6).

Chart no. 6: Evolution of the exchange rate



Source: NBR

In the years to follow, the exchange rate had contradictory evolutions, the depreciation being influenced by the publication of data regarding the evolution of the Romanian economy in the latter half of the year and by the information regarding inflation in January.

Therefore, the 4th term of the 2009 year did not mark the end of recession, but a deeper contradiction in comparison to the former term, and the inflation proved to be quite alert (+0,5pp. as to December 2009).

The analysts foresee for the end of this year a rate of 3.95 lei / Euro on the background of improving the economic basis. The positive signals will not cease to appear, the appreciation of “leu” being influenced by the positive perception of the investments for Romania drawn by high rentability as well as by low risks as a result of the positive answer connected with the receipt of financial instalments from national investments.

3. The Agreements with the International Monetary Fund and the European Union - a Support for the Consolidation of the Macroeconomic Balance and the Financial System

Under the circumstances of a slow recovery from the crisis, **the loan agreements** negotiated with **the International Monetary Fund** and **the European Union** and with the Global Bank and other international financial institutions purport to financially support the Government’s economic program of macroeconomic and financial consolidation. The agreement with the International Monetary Fund and the European Union indirectly aims at an ordered adjustment of the foreign deficit with direct positive effects upon the exchange rate and implicitly upon the financial position of the companies, the population and the bank sector. These agreements have a clear preventive character ensuring **a higher degree of credibility to the Government’s economic program** as well as the financial resources for **the correction of the macroeconomic lack of balance**.

Taking into consideration the general positive evaluation regarding the bank sector, the agreements with the International Monetary Fund and the European Union aim at ensuring the

solvency of the Romanian banks in order to have a safety margin in front of some possible new pressures generated by the global financial crisis. For this reason, the solvency of the banks will be of at least 10% during the agreement (2009-2010) compared to 8% as it is stipulated.

The agreements with the International Monetary Fund and the European Union stipulate other temporary (2009-2010) or permanent measures too. The banks which commit themselves to maintain the exposure on Romania during the program and raise their own funds to ensure a solvency above 10% will no longer be expected to have minimum reserves for the subordinate loans coming from the action holders or the international financial institutions.

The credibility acquired due to the influence of the European Commission and the International Monetary Fund ensured the financing of the Romanian economy, a financing which has reflected positively in a few directions: relatively hire investments comparatively to the situation in which the agreements would not have been closed; the attenuation of the Leu exchange rate depreciation in comparison with Euro and other currencies. Signing the Vienna Treaty by means of which the banks have committed themselves to renew the financing lines and preserve the capital rates at satisfactory levels.

Conclusion

Resuming the capital inflow in 2010 could mean increasing the amount of money in economy which has to be sterilized by the National Bank of Romania. Otherwise, if the capital inflow could not be sufficiently reduced, then the National Bank of Romania could be forced to increase the international reserves by means of purchases on the interbank market. At the same time, this process of resuming the capital inflow determines new requests of coordination between the monetary policy and the fiscal policy. In order to attenuate the inflation pressures, in 2010 the budgetary deficit should be diminished. Otherwise, the monetary policy would have to compensate the differences and adopt the necessary measures, among which the one referring to the dimension of the monetary interest rates.

Due to the process of foreign financing and capital inflow resuming, the adoption of political decisions in conformity with the European measures of pump priming represents a positive sign since the IIIrd trimester of 2010.

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CHALLENGES FOR BANKS IN ROMANIA IN THE INTERNATIONAL ECONOMIC CRISIS

Zapodeanu Daniela

University of Oradea, Faculty of Economics

Bolha Sorina Alexandra

University of Oradea, Faculty of Economics

Bumb Felicia Maria

University of Oradea, Faculty of Economics

Popa Ionut Marius

University of Oradea, Faculty of Economics

In this paper we are analyzing the current state of the Romanian banking system which is facing different challenges due to the economic crisis. Identifying the main channels of crisis transmission, we can notice that the banking system has played a major role due to its structure, and the change of the banking behavior on the Romanian market. Analyzing the main indicators reflecting the health of the banking system, hence of the economy, generally speaking, the paper is trying to identify the measures which should have been taken and we still believe should be taken in order to obtain the economic recovery, the premise of a healthy economic growth.

Keywords: financial crisis, channel of transmission, Romanian banking system

JEL classification: G01, G21

1.The general frame

Considering the latest evolutions, the Romanian banking system can be considered as being stable, with a level of capitalization, solvability and liquidity according to prudential demands, despite accelerated crediting in the latest period of time and the deep effects of the international economic crisis. In general, the level of prudential indicators does not produce major concerns, but the tendency has to be monitored carefully taking into consideration the uncertain perspectives of the world economy. According to Professor Victor Jinga, the banking system⁵³⁴ is „an assemble of different banks, organized around a Central Bank, in order to coordinate the discount and re-discount of credits, placements and management of bank deposits”. The Romanian banking system is organized on two levels⁵³⁵:

- At the *top* – the National Bank of Romania, as a central bank for the Romania, exclusive emission body;
- At the *base* – commercial banks.

The central bank should ensure sustainability of the banking system, influence its behavior in order to fulfill objectives of the economy⁵³⁶. With the adhesion of Romania to the European Union, in 2007, The Romanian National Bank has become a member of the European Central Banks System (SEBC), and the Governor of BNR, a member of the European Central Bank General Council (BCE).

Taking into consideration the fact that the banking system was organized on the form of ownership, until December 31st 2009⁵³⁷, the Romanian National Bank has authorized 42 credit

⁵³⁴ Victor Jinga, *Currency and its Contemporary Problems*, Editura Dacia, Cluj Napoca, 1981.

⁵³⁵ Ligia Golosoiu, *Means, Methods and Instruments of Payment*, pg4, www.biblioteca.digitala.ase.ro.

⁵³⁶ Daniela Zapodeanu, *Currency and Credit*, Univesity of Oradea, Oradea, 2006.

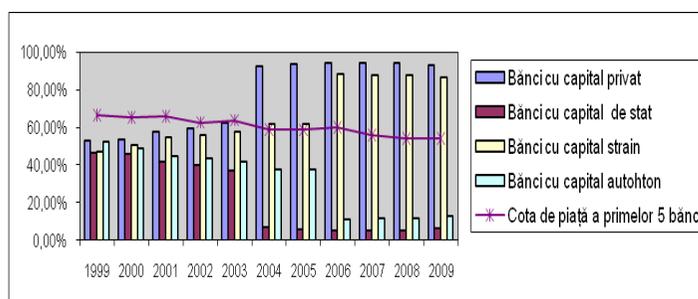
⁵³⁷ National Bank of Romania – Monthly bulletin December 2009.

institutions, Romanian legal persons, to service financial services in national currency and in foreign currency, of which there are 2 state owned capital banks, 4 private national owned capital banks, 25 foreign owned capital banks, 10 subsidiaries of foreign banks and Creditcoop.

Table nr.1- Credit institutions

	number	
	dec. 2008	dec. 2009
State owned capital banks	2	2
Private national owned capital banks	3	4
Foreign owned capital banks	27	25
Subsidiaries of foreign banks	10	10
Total banking system	42	41
Creditcoop	1	1
Total credit insitution	43	42

Fig.1. Share of assets according to the source and structure of capital⁵³⁸



About the share of assets according to the source and structure of capital, in the 2000's **almost 50%** of the assets in the banking system were owned by state owned capital banks as opposed to 2009 when under 7% of bank assets were owned by state banks. Even though they own more than half the banking system assets, the first 5 banks according to the level of assets have continued to narrow down their heft in the banking system, from 56,3% in December 2007, to 54,3% in December 2008.

This reduction of the market share in favor of smaller banks has occurred because of the higher and higher level of offer attraction and diversity of bank product and also because of the aggressive policy of client portfolio widening.

Table nr.2: Net assets⁵³⁹

	Ponderosity(%)	
	dec. 2008	dec. 2009
State owned capital banks	5,2	7,3
Private national owned capital banks (including the subsidiaries of foreign banks and Creditcoop) <i>Of which:</i>	94,8	92,7
Foreign owned capital banks , <i>Of which:</i>	88,2	85,3
Subsidiaries of foreign banks	5,6	7,4
Total credit institutions	100,0	100,0

The net assets of the banking system was 330,6 billion lei at the end of 2009, similar to the level of December 2008. In its structure, the private segment continues to hold the dominant position (92,7%) and the public segment holds 2,1%. The stagnation of net assets is attributed mainly to the divergent evolution of the main components. On one hand , the

non-bank clients credit activity has tightened with 4,4% in real terms compared to last year, their

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Source for the data: Report on financial stability 2009, www.bnro.ro.

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Banks (legal romanian persons), subsidiaries of foreign banks and Creditcoop.

heft lowering to 60,2% with 3% less. On the other hand, the credit institutions prefer placements in state notes, their heft in the structure of the assets had a significant rise (from 3,3% to 7,9%). When it comes to foreign owned capital banks, the first 3 countries regarding the capital level are: Greece(22,4%), Austria(8,4%) and Holland (9,2%). The most important change was attributed to Greece, which starting 2008, has transferred to the first position of the top foreign capital participation in Romanian banks.

2.Ways of transmitting the crisis in the Romanian Banking System

The rush for widening the clients' portfolio in order to obtain higher profitability seems it hadn't the anticipated effect, on the contraire, has led to the alteration of the bank's financial situation, which did not think about the fact that more is not necessary better. From this to the financial crisis of 2008 was not a long road. This recession period is, according to Daniel Daianu, the result of the fact that not enough was learned from previous crisis episodes during the latter two decades, and we did not pay attention to the severe warnings from prestigious financial experts. History has also shown that excessive greed is the recipe for failure.

We can affirm that the banking system has played a decisive role in triggering the crisis, which as expected created the spillover effect, flooding all sectors, mutating from a banking crisis into a financial one and further into an economic one.

Most economic analysts have identified a moment and a place for the crisis emergence, the dramatic fall of the home prices in the US, manifested starting 2006, followed by the collapse of the mortgage market, but its causes are pre-sciented from the beginning of the century. The blame falls on the monetary policy adopted by banks from grate world powers – US, Japan, UK – characterized by a low interest rate that facilitated the populations' access to cheap crediting.

As a result, this led to excessive liquidity, which increased consumption of goods and services. The immediate consequence was an ungrounded rise in home prices generating a real-estate boom.

Another cause of the actual crisis is moral hazard⁵⁴⁰, a concept based on the principle too big to fail, according to which the state rescue coil for corporations, that cannot be left to bankruptcy, being too important for the economy. The banks now act more irrationally and riskier. Relaxing the crediting conditions for the population did not stop at low interest rates but also the eligible credit receivers range was widened. The debtors were not sufficiently analyzed and credits were given to people that had a bad credit history: late bill payments, low income, residual rates for other credits, inadequate guaranties. So subprime credits had a major contribution in triggering the crisis, because it determined the accumulation of underperformance credits in the banks portfolios.

Financial innovations also had a negative effect because they were followed by a lack of market transparency. Asset Backed Security bonds were created, which means a bank sells low liquidity assets to an intermediate firm that finances the transaction by emitting certificates guaranteed by the previous mentioned assets. The bank is benefits by taking these credits out of the balance⁵⁴¹ and by gathering liquidity that can be invested in profitable activities, or using it to pay dividends or to give credits.

None the less, rating agencies activities can be questioned. There is a conflict of interest because the rating agencies are paid by those whose instruments they evaluate. As a result it is highly likely that the rating does not reflect the reality and it creates the impression that the instruments or the financial institutions are safe when in fact they have a high risk incident⁵⁴². So the

⁵⁴⁰ Cosmin Marinescu si restul, *Economic Crisis and Capitalism*, the Centre for Economics and Liberty.

⁵⁴¹ Silviu Cerna, *Turmoil in International Financial Markets: Causes, Consequences, Remedies*, West University, Timisoara.

⁵⁴² LuminitaTodoran, *Financial crisis' effects on the Romanian economy*, West University, Timisoara.

objectivity of these agencies can be altered and this would lead investors to erroneous decisions. Analyzing the succession of events that paint the crisis picture we notice that the first moments of decay for the American economy appear in 2006, when the volume of sales decreases and the non-imbursed mortgages increase. The follow-up is the great number of bankruptcies in 2007 beginning with New Century Financial, specialized in subprime credits. 2008 is the year of bankruptcies and surprising nationalizations: Bear Stearns, Fannie Mae, Freddie Mac, Merrill Lynch, Lehman Brothers. Financial turbulences are felt all around Europe, starting with UK, Holland and short after by the official recession of the US (December 1st 2008), and of the Euro area.

How was the crisis exported into Romania? The answer that puts together all the channels of crisis transmission is: Globalization! The development of commercial relations between countries determines a propagation of unbalances much more rapid towards partners of the affected countries. If in July 2008, Lucian Croitoru was transmitting an optimistically message, as an advisor for the BNR governor, saying that “the Romanian banking system is feeling good”, because “international turbulences have not affected it⁵⁴³”, presently we are searching for measures to limit the crisis effects on our economy.

The crisis was transmitted into Romania through different channels, indirectly (commercial channel, financial channel, trust channel, balance) and directly (bank sector, capital market and foreign currency channel). Through the commercial channel Romania is affected by its commercial relations with the US and other EU states noticing fewer export or even no exports at all in certain sectors. Through the financial channel, the crisis limits access to external financing and diminishes the crediting volume generating difficulties that “helps” external private debt. Regarding the trust channel, a lot of foreign investors have left Romania, which had as an effect the remission of the foreign investments flux. On the effects channel a deterioration of the population and companies net asset took place, following the fact that foreign currency credits had a high heft and because the fall of mobile and immobile assets prices.

Directly, the most exposure to the crisis’ effects had the Romanian Banking System, because of the fact that it is mostly made out of foreign owned capital banks. As so, problems could rise regarding refinancing resident banks, and its consequences would be the limitation of credit lines for Romanian banks, meaning a more difficult access to external financing for the Romanian private.⁵⁴⁴ A positive aspect of the fact that Romania’s Banking System has not been exposed to toxic assets, not emitting mortgage guaranteed bonds, and also the fact that the heft of the mortgage client in the amount of non-governmental credit is relatively small. When talking about the capital market, we can observe that the evolution of Bucharest Stock Exchange’s indicators has been affected, especially on the financial institutions bonds segment, and the liquidity of the market has reduced. The effects of the crisis were felt on the foreign currency channel also, the volatility of the exchange rate has affected economic agents and also people. The RON depreciation created difficulties for importers and debtors that have taken loans in foreign currencies, while the appreciation over a certain limit has under-privileged exporters.

3. The condition of the Romanian Banking System in the economical crisis context

At macroeconomic level, in Romania, the economic growth took place on unsustainable basis, based on credit consumption of imported goods. As a consequence a current account deficit took place, which indicates the dependence of external financing⁵⁴⁵ so that governmental credits

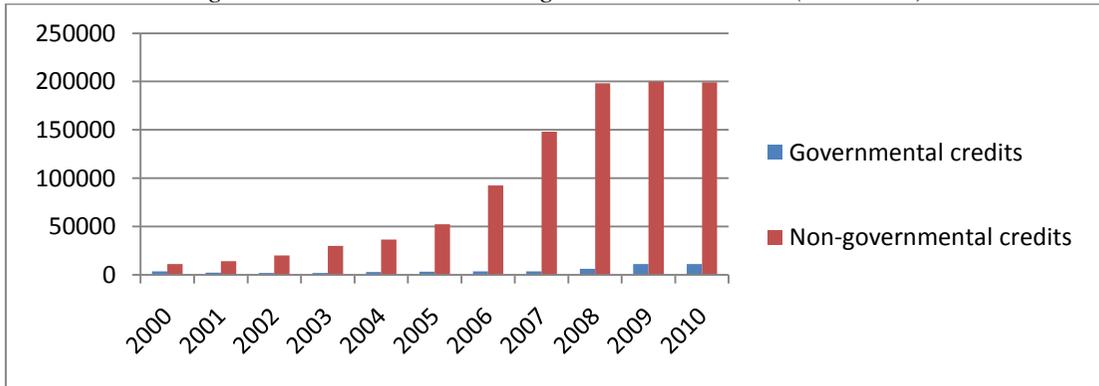
⁵⁴³ Lucian Croitoru, interview given to the ‘Bursa’ magazine.

⁵⁴⁴ Silviu Cerna, *Turmoil in International Financial Markets: Causes, Consequences, Remedies*, West University, Timisoara.

⁵⁴⁵ Mugur Isarescu, *The International Financial Crisis and Challenges for Monetary Policy in Romania*.

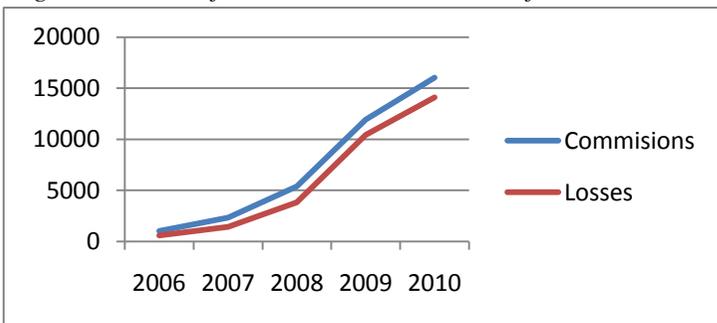
become double in 2009 compared to 2007. As non-governmental credits are concerned there is a roof level beginning 2008, when in previous years there was an alert growth due to the unsustainable economic growth.

Fig. 2 Governmental and non-governmental credits (mil. RON)



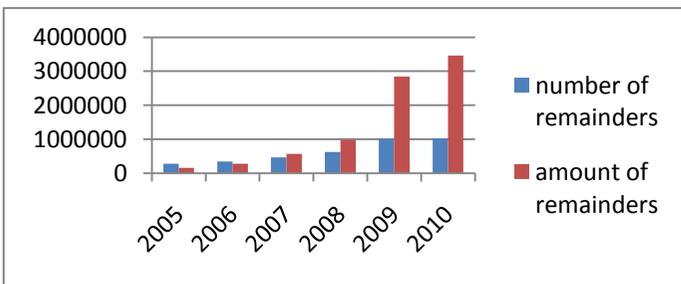
The roofing took place after the crisis begun because fo the reticence towards credit of nonbanking economic agents but also because of the alterations in the banks consumers behaviour. Banks have become more prudent regarding credits for crisis affected sectors (constructions, petrol industry, automobiles, textile industry).

Fig.3 Evolution of commissions and losses of banks



The reticence of banks to give credits is put upon the growth of losses, which led to more commissions, limiting the crediting possibility.

Fig.4 The evolution of number and amount of bank remainders



Economic growth based on credit consumption of imported goods facilitated the conditions of crediting during 2006 and 2007. We could notice that after that period, beginning 2008, and an increase in the number of arrears. The remainder sums grow at a higher rate because of remainder credits.

Conclusions

Taking into consideration these characteristics of Romania’s economy, the answer to the adverse effects of the crisis cannot be similar to the one formulated by some European countries or the US. The measures used in other countries cannot be simply duplicated. At a macroeconomic level, the main stimulation measures for the economy are as followed:

-adopting a complete and coherent mix of policies, by strengthening the fiscal policy and the income policy⁵⁴⁶;

-improving the absorption capacity for structural funds and replacing the private external financing with public external financing;

-creating new jobs in less occupied domains (infrastructure, tourism, food industry) that can slowly take on the role of an economic growth motor.

As the banking system is regarded, we believe that a series of actions are necessary in order to relaunch the activity of financial institutions like:

-holding the credit lines from mother banks towards their subsidiaries;

-relaunching the crediting process;-sustaining the national currency credits;

-a careful analysis of credit applicant, that take into consideration their capacity to reimburse the credit;

-soliciting guaranties accordingly to the given credit by orienting towards complementary services: Internet Banking, Mobile Banking, Home Banking;

-stimulating economy on one hand, and the justified consumption on the other hand.

After the year 2008 has been characterized by significant growth in all areas, 2009 has brought the most severe crises ever experienced in the latest decades. It seems that 2010 won't be problems free, because Romania's banking system profitability will remain at a low level, the level of un-efficient credits is expected to rise, the volume of the populations' and companies' deposits will also rise, 2010 being considered a year of economy. Probably, the banking system will know a visible come-back only in 2011.

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SUBSECTION: ACCOUNTING

CREATIVE ACCOUNTING – PLAYERS AND THEIR GAINS AND LOSES

Balaciu Diana

University of Oradea

Faculty of Economics

Vladu Alina Beatrice

Babes Bolyai University, Cluj Napoca

Faculty of Economics and Business Administration

The aim of this paper is to bring into attention an interesting game of accounts manipulation and its plays. Their expectations represent the genesis point of manipulative behaviour and by understanding their actions and gains and losses we may create a link to understanding the process of creative accounting thinking. The divergent interests of these users (e.g.managers, fiscal authorities and banks) derive from their position and power, and give rise to doubt regarding the objectivity of accountancy information provided by annual financial reports.

Keywords:creative accounting, manipulation accounts, information users

Cod JEL lucrare:M 41

Introduction

When and why exactly this concept first appeared and what influenced its development – these are questions that come up when opening this true Pandora’s Box: creative accounting.

With hindsight a few favourable circumstances to this concept can be identified, circumstances first related to the economical advent of world states but at the same time to the need of economic entities to create for themselves a good reputation in an increasingly competitive and tough economic environment. About this particular moment, that is - the first mention, regarding creative accounting practices, we can’t ignore the fact that the first mention belongs to the founder of accounting - Luca Paciolo. This ambition of making figures more appealing or the opposite, if the case, is as old as 500 years. Thus, Luca Paciolo was shaping in his already renowned *De Arithmetica*, the first accounting manual, practices of creative accounting.

In the context of brisk Venetian foreign trade, relationships between traders were recorded by double-entry bookkeeping with ink and quill-pen in main and subsidiary books. Where discrepancies arose, the inkwell was occasionally knocked over on these books – not always unintentionally – in order to make the entries illegible. That’s the origin of the term “cover-up”.

In the context of the world economic crisis nowadays, creative accounting will be referred to more often as a field from where it is expected either to offer live-saving solutions or be blamed for all the negative evolutions. On this aspect, Salustro and Leburn (quoted by Delesalle, 2000) would say: „Crisis periods are actually trials for enterprises; affecting their cash flow and generating risks, that accounting doesn’t deal with in a flawless manner. Therefore, managers are tempted to resort to ingenious, more often questionable procedures, for refining accounts presentation.”

The reality of an enterprise can be mirrored in several aspects, starting from the atmosphere and the environment where the employees perform their daily activity, through the company’s brand and to the yearly financial statements. This reality, though, seen from the perspective of the external environment, capitalized in clients, suppliers, public institutions, banks, investors etc, is strongly influenced by the subjectivity of the one watching.

This approach of the accounting informing system may seem absurd due to the fact that the information of the financial statements are some figures, some values which apparently cannot be

misunderstood. Yet, reading between the lines and making certain connections, several ways to manipulate the information can be discovered.

Actors and their gains and loses in the accounts manipulation game

In the chess parties there are many times when we consider that one of the parts has an important advantage, even though the number of the pieces on the board is the same. To what does this statement owe, otherwise a correct one? Obviously, it is explained through the pieces activity difference. Seldom, during the moments of maximum confrontation of the pieces on the board, one of the parts has more pieces “out of the game”. How can we avoid such situations? Simple, taking into account the piece improving principle (according to the Russians, first worded out by Makogonov) who shows that: “in balanced position, when none of the parts has immediate threats, it is necessary to rearrange the pieces, in the worst situation, on a suitable field, or if this thing is not possible, let’s try to change them.” Of course, there are multiple the situations when we have more pieces out of the game. It is necessary the successive application of this principle, starting with the strongest pieces. What we have presented above seems something absolutely ordinary, we all learn, from first steps on the land of this magical game, that we have “to arrange the pieces on the centre of the board, to be stronger”. This does not prevent us, that in the moments of relative “calm” on the board, from forgetting about the application of this principle. Otherwise, subsequently, this thing becomes already hard or impossible to achieve.

As within the framework of this “brain” game we can see the ability of the parts to use the pieces available to them (by complying more or less with the principle worded) in order to achieve the result proposed, thus, by extrapolating our analysis to the case of the enterprises, we can identify certain participants who, according to the levers available to them can shape, more or less, the image of the enterprise.

Specialist literature in creative accounting field refers to agency theory, which relates to the conflicts of interests between users of accountancy information.

An agency relationship comes into being when one party, known as the *principal*, entrusts management of their private assets to another party, known as the *agent*, who has competence and knowledge inaccessible to the principal. The most common form of agency is that in which a manager operates on behalf of a shareholder. From this point of view in the life of an enterprise, we can identify two categories of actors having a special position (Felegă N., 2006):

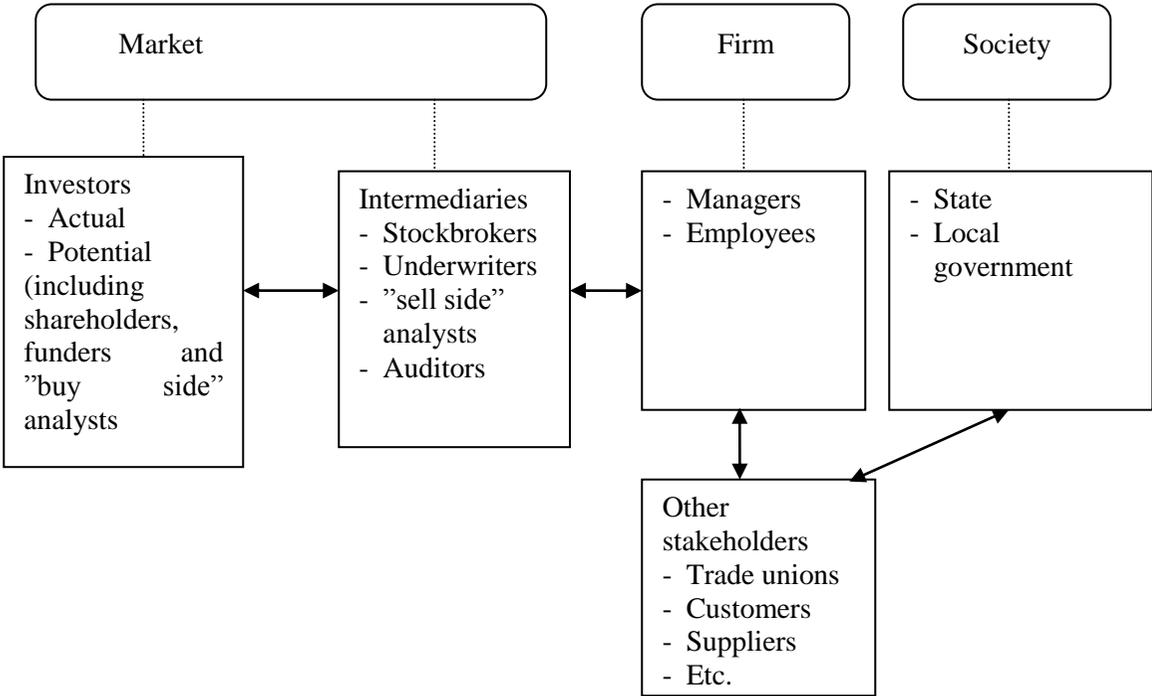
- on one side, the shareholders, because their patrimonial rights are not exercised but in the end, after the others, who have rights (creditors, suppliers, employees etc.) have emphasized their debts, the shareholders take the financial risk justifying the appropriation of a part of the year’s profit and from the residual net asset, in the case of the entity closing down;
- on the other side, the leaders, because they have privileged information, taking into account the position held in the enterprise and, therefore, are tempted to take advantage by allowing themselves considerable advantages or, generally, by directing the entity towards a direction useful for them. In the case of enterprises quoted on financial markets there is a natural distribution of responsibilities. Such a distribution and the problems arising from it have been presented in the founding papers of Berle and Means (1932).

The shareholders invest their capitals and give the leaders/managers a mandate through which they manage the best the organization, trying to maximize the performance of the enterprise. This separation of the responsibility can lead to conflicts generating costs. Manipulating accounting data is an activity reserved to company managers, even though the other players in the field influence the leaders/ managers in their decision to perform such a manipulation. If it were possible to build a theory of the accounting data management, it would not have started from the techniques used for manipulation, but based on the needs, the occasions arising and of the relations between players and investors.

The conflicts of interest among different interest groups is the real cause of creative accounting. Managing shareholders' interest is to pay less tax and dividends. Investor-shareholders are interested to get more dividends and capital gains. Country's tax authorities would like to collect more and more taxes. Employees are interested to get better salary and higher profit share. But creative accounting puts one group or two to advantageous position at the expense of others. One day the present authors had an opportunity to have a discussion with the Chief Accountant of an enterprise in this regard. The Chief Accountant told, in the course of conversation, that he was determined to retain profit for the expansion of his existing unit and establishment of new ones. Quite naturally, his interest was to pay less tax and less dividend and, accordingly, to 'create' financial statements. This type of creative accounting has led David Schiff (1993: 94) to warn investors; in general that taking a company's financial statements at face value can be ``a recipe for disaster``.

The IASC's framework for the Preparation and presentation of Financial Statements, envisaged by the IASB, presents the following categories of users: current and potential investors, employees, creditors, suppliers, and other commercial creditors, clients, government and governmental institutions and the general public. According to the position of these users relative to the business in question, they may be divided in internal and external users. *Internal users* are principally management personnel within the company. They have responsibility for information release systems, and therefore have access to supplementary information. External users fall into the other categories mentioned in the Framework; according to their authority, they may be able to dictate the nature of the information to which they are privy, as is very much the case with governmental institutions and banks, while other may be unable to have any say regarding the type of information to which they may obtain access, since they lack the necessary authority. According to Stolowy and Breton (2004) there are a lot of players in accounts manipulation game as we can see in the next scheme:

Figure 1. Players in the field of accounts manipulation



Source: Stolowy and Breton (2004)

The investors can be divided in four subgroups: real and potential shareholders and the real and potential stockholders. Their interests are very varied and the transfers of riches can be operated between these subgroups. Consequently, they react differently to manipulating accounting data.

Analysts can be grouped into two categories: “buy- side” and “sell-side”. The studies of Robb (1998) and Kasznik (1999) indicate the role of financial analysts whose issue recommendation and forecasts. According to Breton and Tafler (1995) they normally try to forecast the reported numbers including the effects of manipulation. They make profit if a manipulation raises prices, and furthermore the issues may be easier to sell.

Managers may or may not believe in market efficiency. In case they do not, they can act in order to manipulate the numbers. Their purpose would be to reduce the cost of capital, to satisfy the external demand of existing shareholders, to increase their own remuneration, to decrease the overall risk of the firm, or to avoid violating the debt covenant or incurring political capital costs. Concerning the *auditors*, two contradictory goals can be seen: on the one hand they want to satisfy the client and, on the other hand they want to avoid excessive risk from third parties. The quality of auditors may also have an effect on the degree of earnings management.

Current investors (shareholders) principally follow the progress of their investments, future profitability and the management’s administration and direction of company resources towards their individual interests.

Potential investors follow the likely estimated risk of their future investments, profitability and stability of profits over time, and the long term capacity of the business to generate liquidity.

The public, through the administration of diverse communities, is concerned with the impact of the company’s activities upon local economic development, the creation of new jobs, professional training, contributions to the local budget, and environmental impact.

There are many forces that influence the accounts and, more particularly, the profit figure. From the interests of each group arises the motivation to manage accounting figure. These motivations are studied directly and indirectly by many authors. Several have been identified ranging from the managers’ incentives to manipulate earnings to the reasons of the other stakeholders (Merchant și Rockness, 1994). The most important work in this area is the paper written by Watts și Zimmerman (1986) which proposes a theory for accounting procedure choice containing some essential underlying motivations: the remuneration package, debt covenants and political costs. Finally, Dye (1988) and Schipper (1989), propose some explanations of the manipulating behavior of shareholders based on the positive accounting theory.

Some of these stakeholders groups also have something to lose through accounts manipulation. Although, Revsine (1991) sais that everybody wins, that is not always the case.

Stolowy (2003) identified, on the one side, the potential gains of each group in manipulating accounts and the potential loss for different stakeholder groups because of accounts manipulation, on the other side. We can summarize them as follow:

Table 1. Potential gains and losses in/from manipulating accounts

Players	Gains	Losses
Managers	Reducing the cost of capital Keeping their job Managing their remuneration Respect the debts covenants Official examination Minimization of income tax Gain tax advantages Improve relations with creditors, employees and investors	The job and reputation

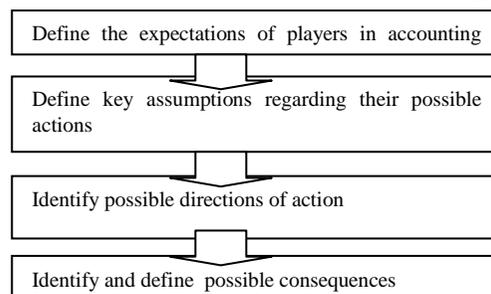
	Avoid political costs	
Existing shareholders	Increasing the market value of their shares Controlling employees claims Reducing the cost of capital Reducing the volume of transaction	Confidence in the market
Existing bondholders	Increase the market value of their bonds Controlling employees claims	Wealth transfer to the actual shareholders
Employees	Keeping their jobs Increase the remuneration	Their job from an unexpected bankruptcy
Suppliers	Keeping their client	Some money following an unexpected bankruptcy
Clients	Continuous services Warranty respected	Services interrupted Warranties not honored
State	Tax to collect Jobs for people	No more tax to collect Unemployed people to provide for
Bankers	Repayment of the loan	Some money following an unexpected bankruptcy
Society	Keeping the job Production of wealth	Jobs lost and resources wasted

Source: adapted from Stolowy and Breton (2004)

Conclusion

Even if creative accounting is not against the law, operating within the letter both of the law and of accounting standards, it is quite clearly against the spirit of both. Creative accounting is a process of using the rules, the flexibility provided by them and the omissions within them, in order to make financial statements look somewhat different from what was intended by the rule. The positive image built with the financial statements help will influence decision making both internal and external (users of accounting information being including here).

We can identify a lot of expected rewards earned by those who play this manipulative game. Understanding the players in the accounting field demands and expectations is the key to understand the process of creative accounting. If we were to articulate the process of rational reconstruction within the methodological framework that can be used in order to describe the process of characterize the manner in which their expectations can represent the genesis point of manipulative behaviour, the framework will include the following assumptions:



Source: Elaborated by the authors

Sometimes the desire reward is an upward move in a firm's share price. For others, the incentive may be a desire to improve debt ratings and reduce interest costs on borrowed amounts, or create

additional slack and reduce restrictions from debt covenants. Regarding high-profile firms, the motivation may be lower political costs, including avoiding more regulation or higher taxes. The question that arise as long as we seek in this field is: Can creative accounting be controlled? Until we'll be able to respond on this question based on our researches we come with the answer of Sir David Tweedie (quated by McBarnet D, Whelan C, 1999) when was asked whether the new regim will win the battle against creative accounting. His respond was memorable: " We're like a cross-eyed javelin thrower competing at the Olympic Games: we may not win but we'll keep the crowd on the edge of its seats!"

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THE ROMANIAN ACCOUNTING SYSTEM AND THE ACCOUNTING-TAXATION RATIO

Berinde R. Sorin

Babeş-Bolyai University, Faculty of Business, Cluj-Napoca, Romania

Răchişan P. Ramona

Babeş-Bolyai University, Faculty of Business, Cluj-Napoca, Romania

Groşanu Adrian

Babeş-Bolyai University, Faculty of Economics and Business Administration, Cluj-Napoca, Romania

In the context of a developed capital market, the dimensioning of the accounting profit is very important for investors, considering the financing of the economical entities to a higher degree than that offered by the banking system. The disconnection between accountancy and taxation stands as an essential premise. Considering this, we find three categories of major risks to be significant, together with the expanding tendencies regarding the distortions of the accounting result, which refer especially to the Romanian accounting and taxing system: creative accountancy (a form of disconnection between accountancy and taxation), taxation (a form of connection between accountancy and taxation) and the inflationary phenomenon. Even though the latter is rather low, the particularities of the Romanian economy creates certain conditions for a significant enhancement of the effect of general frugal having important taxing implications on the decapitalization of the economic entities.

Keywords: Accountancy and taxation; The accounting-taxation ratio; Connection/disconnection.

JEL Code: M - Business Administration and Business Economics; Marketing; Accounting; M41 - Accounting

1.Introduction - the materialization of Double Entry implementation in Romania

The materialization of double entry in the Romanian Principalities was not exactly estimated, there are some opinions that sustain that “it is impossible that the venetians that came to our countries [...] should not have spread out the secrets of this art that is vital to any merchant willing to observe by systematical calculations, how his trade goes”⁵⁴⁷. On the other hand, real proofs of double entry accountancy can be found “in the accounting notes registers of the great merchants from Sibiu, Braşov and Bucharest from the XVIII century”⁵⁴⁸.

The organic regulation from 1831 played a significant role in the evolution of the Romanian accountancy. “For the first time in the Romanian Principalities a regulate accountancy was organized based on the Organic Regulation, that would make possible the controlling of the assets that were used by the state servents; [...] The public houses service, the public education service, the mining service were organised, all f them being under state control”⁵⁴⁹. At state level the double entry accountancy was introduced after 1929.

2.The methodology of accounting research regarding the accounting and taxation of income and the results of the economical entities

⁵⁴⁷ Rusu D., *Fra Luca di Borgo și doctrinele contabilității în cultura economică românească*, Edition Junimea, Iași, 1991, pg.92.

⁵⁴⁸ Ionaşcu I., *Epistemologia contabilității*, Edition Economică, Bucureşti, 1997, pg.176.

⁵⁴⁹ Demetrescu C. G., *Istoria contabilității*, Edition Ştiinţifică, Bucureşti, 1972, pg.289.

From an utility point of view, the accounting result is at the boundary of two disciplines: accountancy and taxation and it serves the interests of a large diversity of users, among the most important are the investors and the state institutions. There is a great level of difficulty in setting up the right balance between the two categories mainly because the accounting and fiscal regulations are continuously changing.

In order that a capital market should evolve in a close connection with the economy, a dimension of the factors is to be determined, in this case we refer to the profit level that will reflect objectively the result of the activity of the enterprise from the point of view of the potential investors' interest, without neglecting its utility for the taxing necessities of the state.

These details imply the necessity of a disconnection tendency between accountancy and taxation, which will be a change for the Romanian accounting system that will be achieved in time, at least from a practical point of view.

From this point of view we intended to emphasise some risks that appear at this level, from the perspective of:

-creative accountancy (an expression of the disconnection between accountancy and taxation). The risks consist in some less ethical tendencies of artificially oversizing and undersizing the accounting and the tax profit according to certain objectives. It was considered that these risks can be controlled through a better activity of accounting regulation;

-taxation (an expression of connecting accountancy to taxation). The risks consist of some tendencies of artificial diminishing of the accounting and tax profit in order to achieve a tax economy towards the state institutions. This phenomenon is against potential investors' interest that do not have the possibility of seeing the efficiency of the activity of an enterprise to its real dimension. The risks can be diminished through extraccounting determining of the size of the profit tax on the basis of the taxable profit determined on the taxing principles and regulations, with minimal influences on accountancy. We consider that regardless of the size of the profit tax due at the end of the financial period (superior or inferior), the accounting profit has to reflect the economical reality so that the investors can get some correct information.

-inflationary phenomenon which shows, even in the case of a reduced rate of inflation, the risk of calculating and paying the tax on some artificial fiscal profit with serious consequences for the enterprise decapitalization when the tax and dividends are paid.

3. Results and discussions

3.1. The historical fracture concept applied to the Romanian accountancy evolution

After the Second World War Romania did not continue its existence starting from what it used to be, but it entered the sovietical influence area. In this context, "the new political ideology that marked Romania's development, requires the utilization of the historical rupture concept in the evolution of Romanian accountancy"⁵⁵⁰.

Under these circumstances the accounting norming in Romania becomes the state's exclusive mark starting with 1947, when it was created, within the Minister of Industry and Commerce, a Permanent Council of norming the accountancy. This Council had as a priority the elaboration of a general frame of accounts, applicable to all the industrial enterprises.

It may be observed that this event coincide with the elaboration of the French Accounting Plan in 1947.

The period 1950-1990 can be characterized by the evolution of accountancy towards monism, from an informational point of view (the only receiver of the accounting information being the state).

During this period a circuit of ideas expressed globally took place in the accountancy field. But the Romanian accountancy stayed off this circuit.

⁵⁵⁰ Neag R., *Reforma contabilității românești între modelele francez și anglo-saxon*, Edition Economică, București, 2000, pg.202.

After the fallen of the communist regime, the new governmental authorities imposed a number of legislative reforms, meant to contribute to the development of an economy oriented towards a market economy. The new Accountancy Law 82/1991 supports this. This reform implied the transformation of the financial statements, from statements meant to create some statistics used in order to observe the execution of plans at macro economical level, to a complex of financial statements meant to accurately inform some different categories of users.

3.2. The primary orientation of the accounting-taxation ratio in Romania

During this post revolutionary period Romania had to choose an accounting system, adapted to the new political, economical and social changes, one of the models presented above. The option for a continental model or an Anglo-Saxon one was revealed through the Accountancy Law 82/1991, which implied a very detailed copy of the French accounting system.

The objective or subjective motifs of this option can be varied:

- the most powerful argument can be noted as being the fact that “it has never been considered that the French accounting system have not been adequate to Romania”⁵⁵¹;

- the similarity between Romania and France as regarding the existence of a code of laws (statute law);

- due to the fact that Romania was a developing country that was orienting towards the market economy, the predominant way of financing was through creditors, banks, and less through the financial markets. The Romanian exchange market came into being much later;

- because of the informational monism in the communist period, the accounting profession in Romania was only at the beginning, and the influence that this provide in order to protect certain accounting rights was insignificant;

- the Romanian intellectual and political elite was sent to school in France several times;

- the communist regime also had some connections with France, perhaps more than with any other country from Western Europe;

- the influence that was exerted by Belgium and French specialists, who advised the Romanian government when choosing its alternatives regarding the new accounting system (in a similar way as with the present-day influence for adopting the Accounting International Standards);

- the Anglo-Saxon accounting model was not very wide spread in Europe (being characteristic only to the United Kingdom, The Netherlands and Ireland).

Consequently, one of the elements that were adopted together with the entire French accounting system was also the strong connection between accountancy and taxation. As a conclusion, taking into account the characteristics of the Romanian accounting system, influenced by taxation, it is nowadays defined by:

- the predominance of the banking sector for financing as a disadvantage for the financial markets;

- the prevalence of the statute law as a disadvantage for unwritten law;

- the law provides detailed accounting rules, and they are not being elaborated by independent and legitimate organisms;

- the accounting profession in Romania is insufficiently developed (The Corp of Auditors and Authorized Accountants came into being only in 1994);

- the main users would be the following, taken in order: fiscal authorities, creditors, and last, the investors;

- users' role in the process of elaborating the accounting regulations is insignificant;

- the predominance of the caution principle;

- the tendency of some limited publications of accounting reports;

- a large number of evaluation and accounting options;

⁵⁵¹ Roberts A., The recent romanian accounting reforms: another case of cultural intrusion?, Edition Economică, București, 2000, pg.36.

- the estimation of a benefit more cautious than useful;
- tendencies in creating some funds from the dispensable profit.

3.3.Perspectives regarding the accounting-taxation ratio

Regarding the perspectives for the accounting-taxation ratio in Romania, it was mentioned that they are according to the international tendencies regarding the disconnection. Taking into account some of the recent evolutions (adopting the IV Directive of the European Economic Communities) we can say that the seeds that lead (at least theoretically in the beginning) to the possibility of gradually opening the road towards an efficient accounting system, where accountancy and taxation work independently from one another, exist. This tendency becomes more certain if we take into consideration Romanian's perspectives to join the European Union. This event implies also joining the official position of the Union, regarding the acknowledgement and utilization of the international accounting norms, and at the same time the disconnection between accountancy and taxation.

The perspectives of the disconnection related to joining the European Union are promoted by the importance of a favorable regular report that depends on the taxation level, such as⁵⁵²:



The conclusion is that a disconnection ratio between accountancy and taxation would be associated with a low level of taxation. The consequence is the decreasing of the country risk and at the same time a favourable Regular Report on Romania.

As regarding the actual typology of the accounting-taxation ratio in Romania (connection) we consider that accounting information influenced by taxation is not very credible as regarding the possibility to ensure the faithful image and also the essential objective of accountancy.

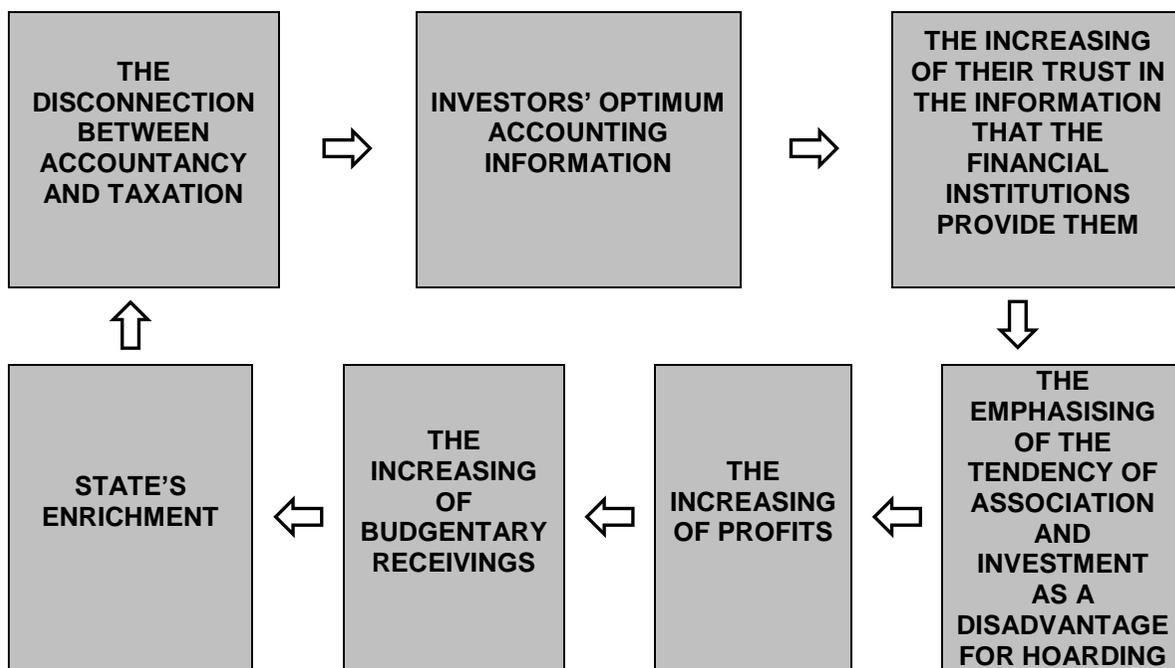
Contextually the questions that can arise are: Wouldn't an independency ratio between the two sciences be more appropriate? Is the idea of the accounting principles being influenced by the fiscal principle or the other way around justified, taking into account the fact that their essential objectives: the faithful image and the maximization of budgetary income can be affected? To what extent would accountancy and taxation carry out their objectives, independently from one another?

And, finally, what is our opinion? Do we choose connection or disconnection?

We believe that the objectives of both sciences can be achieved, their principles being respected, but we cannot forget the fact that the information source for both of them is accountancy. Therefore the idea of total disconnection between accountancy and taxation is not completely achievable. But we can refer to an interaction relation between accountancy and taxation.

The beneficiaries of the disconnection between accountancy and taxation would be first of all the investors and, second, the state itself. This hypothesis is provided by the following causality relation described in the next diagram:

⁵⁵² Berinde, Sorin R., "Perspectives regarding the taxation system in Romania", StudiaUniversitatis Babes Bolyai – Negotia, no. 3, 2009.



Therefore the disconnection between accountancy and taxation creates the premises for a better apprising of the investors. The consequence of them disposing of real accounting information would be the increasing of their trust in the information provided by the financial statements and the investment, as a disadvantage for saving. The increasing of the profits is assimilated to the increasing of investments and at the same time to the increasing of the budgetary receivings that refer generally to taxes and especially to profit tax, this thing leading to the state's enrichment.

4. Conclusions - The limits of disconnection between accountancy and taxation

The perspectives of disconnection between accountancy and taxation reveal some disadvantages. Contextually the risks that the creative accountancy represents for an accountancy disconnected from taxation, were mentioned, they being materialized in some technics that have as a result:

- the real financial administration of the accounting result (increasing it);
- the increasing of its own capitals;
- the reducing of the debt rate.

The premises of using the accounting creativity technics in the disconnected accounting systems are ensured by:

- the determination of managers' salaries taking into account the dimension of the accounting result. The consequences would be the adopting of the creative tricks that would lead to the increasing of the accounting result in order to increase their own benefits. On the other hand there is a tendency of increasing the losses for crisis periods in order to better emphasize the next possible profits;
- the high level of interpretability and inconsistency of laws;
- the pressure of certain users categories (especially investors);
- the evaluation of the imaterial investments is sometimes difficult.

The creative account technics with direct impact on the dimension of the accounting result are:

- the lease-back operations;
- selling-rebuying the investments titles;
- circular tranzactions with high price stocks;
- production assets without real utilization.

To conclude the matters discussed we can say that the accounting result can be influenced in the case of a taxation connected ratio (decreasing it). On the other hand, the accounting result is subject to an increasing risk due to the creative accountancy. Under these circumstances, a question arises: Which risk is better to be assumed taking into account the dimension of the accounting result? We believe that the accounting result should keep an equal distance towards the risk of taxation decreasing and the risk of accounting creativity increasing. True information would be provided this way both for the investors and the state's institutions.

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“PATRIMONY” - A CONTROVERSIAL MATTER OF ROMANIA’S PROGRAM OF ACCOUNTANCY MATCHING

Boca Ileana – Sorina (Rakos)

“ Valahia” University of Targoviste

Florin Diaconu

“ Valahia” University of Targoviste

Alina Cornescu

“ Valahia” University of Targoviste

The dilemma has its origins in accountancy’s international matching, namely between the accountancy system implemented in our country beginning with 1994 and the one implemented by Anglo-Saxon accountancy where patrimony is substituted by its two components: PROPERTY for ASSETS and CAPITAL for LIABILITIES, patrimony being defined owing to financial condition. Property represents the measurable reality of the goods and available values. When compared with the proprietor, property makes up patrimony in case, from a juridical point of view, there is a real guarantee upon the manner of financial covering (obtaining sources, procuring manner), namely a legal manner of justifying the origin of available values.

Key words: patrimony, assets, liabilities, accountancy.

The JEL Classification: M41

1.Introduction

Labor division and the need to manage society’s resources have determined the appearance of patrimony as an economic and juridical entity. The necessity of measuring the material and human elements as well as the rights and obligations they determine while carrying out an economic activity in order to reach the envisaged objective has always existed; during the time it has been variously implemented. Strictly connected with the “technical” means of registering the data provided by the various stages of society’s development, the need of evidence has permanently witnessed a complex growth and manifested according to different results: beginning with the clay boards or papyrus, thousands of years ago, changing to the Middle Ages England’s “stick receipt”, the manner of registering “information” have known a permanent development, reaching the nowadays electronic storage. The registering theories, systems, and methods, strictly connected with the stages of social development as well as with the technical opportunities of collecting the data provided, have also witnessed a continual evolution. Money appearance has probably been the most important element of this evolution. The existence of patrimony is the cause of the existence of accountancy and, implicitly, the object of its representation and registering. Accountancy has appeared out of the need to answer the knowledge and management problems of patrimonial mass under rational and efficient circumstances.

Accountancy is a complex and integrated complex of standards, principles, rules, and measurement techniques that display the condition, at a certain moment, as well as the quantitative and value evolution of the changes that influence patrimony during a determined period of time. Accountancy is “grafted” on the State’s patrimony and activities. As any other science, accountancy has its own object and method. Between its object and method there is a mutual connection. The object points the economic phenomena and processes that belong to a certain science; the method allows the comprehensive knowledge of the object. Specialized works have outlined several conceptions regarding the domain and definition of accountancy’s

object, namely: the administrative conception, the juridical conception, and the economical conception.

According to the administrative conception, accountancy's object represents the value expression and control of administrative facts with a view to support the management in order to get maximum effects with a minimum effort.

According to the juridical conception, accountancy's object is the patrimony of a legal subject considered from the point of view of juridical relations, namely, through the money (material) rights and obligations of a natural or juridical person in correlation with their proper objects (goods, values).

According to the economic conception, accountancy's object is given by the circuit of the capital considered in relation with its destination (fixed capital and working capital) and with the manner of acquiring it (entity's own capital and foreign capital).

Accountancy considers that patrimony is structured according to patrimony elements; each element has a unique and compulsory appellation, a distinct economic content, a compulsory money expression, and even a specific figure symbol in order to avoid any confusion. This structure is evidently relevant when compared with the existence and individual movement of elements; accountancy is thus interested in determining the manner patrimony has increased or decreased as a whole and according to its affected patrimony elements. Another essential characteristic of accountancy is that the economic operations registered by economic entities are perceived through a double patrimony change, at least, as patrimony elements are established on the basis of the principle of double representation. Depending on the content of the economic operation, the specialist who works in the domain of accountancy should settle the patrimony elements that change as well as the manner they are affected, namely whether they increase or decrease.

Accordingly, patrimony, fund, domain are notions that clearly regard a group of goods. Nevertheless, we are interested in the notion of patrimony. Accountancy's object distinctly outlines the internal economic processes of each economic entity that determine quantitative and qualitative changes of the amount and structure of the funds administered by each economic entity. Accountancy outlines such economic processes owing to the correlation between expenditures and incomes; their comparison determines the financial result (profit or loss). Considering the various opinions regarding accountancy's object, one may state that accountancy's object represents the value expression of evidence, calculus, and control of the condition and movement of the funds grafted upon a patrimony while pointing out the origin of their destination, economic processes, and financial results. The principles and procedures that belong to general accountancy are mainly the same in the various national accountancies. There might be implementation differences as they can be influenced by the accountancy standards specific to each country, by the characteristics of the various economic sectors, and by the accounting methods adopted by each economic entity. The defining feature of accountancy is patrimony representation according to its two aspects: economic means and economic sources.

2. Content

The outlining of the concept of patrimony as a support of economic activities has gradually determined the elaboration of an accounting system that should be able to face the more and more complex registering needs of the events that take place within such an activity as well as the need to register its existence at a certain moment; accordingly, the evolution determined the foundation of the present concept based upon double representation and double registering.

As a system previous to the present double registering accounting system, the simple accounting system, still used in certain domains, provides an isolated survey of patrimony elements; it does not target their double registering (according to origin and content). Yet, its application domain is quite similar: patrimony elements.

The connection between the accounting system and the notion of patrimony as a part of economic activity is clear. Whether one deals with simple accountancy or accountancy by double entry, the two accounting systems are determined by the concept of patrimony and target the providing of evidence in this domain. At its turn, the notion of patrimony derives from the manner economic activities are carried out.

There are, among others, two main characteristics of economic activities: their dynamic character and their rational character. The dynamics of economic activities determines certain dynamism to the notion of patrimony too; accordingly, patrimony undergoes certain changes determined by the constitutive complex processes of economic activities. At its turn, the rational character of economic activities gives a rational character to patrimony too; it will thus play a certain part according to its destination. The outlining of a patrimony, of no target propriety, is nonsense.

The patrimony of an economic entity represents all material and money values at its disposal as well as the rights and obligations that derive from the relations between the other economic entities that can either be natural persons or juridical ones with the State's budget, etc. as a whole. In order that patrimony exists two interdependent elements are necessary: first, natural or juridical person as *subjects* of rights and obligations and then, economic goods as *objects* of rights and obligations.

The structure of patrimony accordingly defined by accountancy can be schematically outlined as follows:

Patrimony: Money estimated economic goods
Money estimated rights and obligations
Natural or juridical person

Economic goods represent patrimony's material content. They are identified with the means or resources employed by an economic entity in order to carry out its activities. Money estimated rights and obligations show the propriety relations within which economic goods are produced and administered. They become rights in case economic goods are ensured by their legal subject in its capacity as a proprietor; they become obligations in case economic goods are ensured by third persons in comparison with the legal subject.

All rights represent the assets while all obligations represent patrimony's liabilities. Liabilities and assets are strongly connected from an economic point of view.

PATRIMONY'S ASSETS = PATRIMONY'S LIABILITIES

The patrimony assets of a company, for example, include the following elements:

- Parts' contribution to the company's foundation which, at its turn, can include financial means, investment goods, industrial propriety rights (patents, licenses, etc.);
- Goods subsequently gained by the company as a result of its economic activity;
- The right to use the ground;
- The right of propriety upon the products manufactured by its own firms;
- The profit given by the activity carried out by the company (to the extent to which it is not distributed as dividends among associates);
- The company's debt securities.

The company's patrimony liabilities also includes several elements such as: the obligations assumed by the company towards its associates, the obligations contracted while carrying out economic and financial activities for other juridical or natural persons, the company's obligations towards its employees.

From a juridical point of view, patrimony should be distinct both from the patrimony of other juridical persons and from the patrimony of each of the natural persons that form the analyzed collective entity. A juridical person's patrimony should not only be distinct but also autonomous, independent from any other patrimony; it is neither possible or permitted that a member of the group of people that form the juridical person to be responsible with his own patrimony for the obligations assumed by that juridical person nor that the juridical person to be responsible, with its patrimony, for the obligations assumed by one of the natural persons that form it. In order to

participate on one's own account and responsibility to the civil circuit, to the juridical life, in general, the collective entity that wants to be a juridical person should have its own patrimony which includes all its money estimated economic goods, rights, and obligations.

Accordingly, article 36 of the Companies Law no. 31/1990 stipulates the following: *“during the existence of a company, the creditors” of one of the associates “may exercise their rights only upon that part of the benefits that are due to the associate after the social balance sheet and after the company’s dissolving, upon the part due after liquidation”*; they cannot pretend, in order to put an end to the debt security, goods or rights belonging to the company, but only goods or rights belonging to their own debtor, either as a result of dividing yearly net benefits or as a result of dividing the net assets that result after the company’s liquidation.

A patrimony can either be theoretically or practically outlined as accountancy’s object provided the patrimony unit is legally founded and the economic values that belong to patrimony are invested, namely they are really used by a lucrative economic activity that determines profit (work=benefit) or by other activities having a non-lucrative character (which does not determine incomes) – administrative activities, social and cultural activities, etc. The knowledge of patrimony’s structure is theoretically and practically important for accountancy; accordingly:

- Each element of patrimony divides owing to its content and certain characteristics, a fact that determines the use, under specific circumstances, of the procedures belonging to accountancy method;
- The division of patrimony mass into the two categories of structures (Assets and Liabilities) determines a certain internal structure of the balance sheet so that it can allow the modeling of patrimony’s condition according to its double representation.

Within the balance sheet, patrimony elements are grouped and synthesized from the point of view of their value both according to Assets and Liabilities on the basis of specific criteria, as follows:

- Within the Assets of the balance sheet, assets patrimony elements are synthesized in a group depending on two criteria: destination of economic goods and their degree of liquidity.

Accordingly, the assets include: **fixed assets** (intangible assets, tangible assets, financial assets); **working assets** (stocks and under manufacturing products, debts, placements, cash assets); **regulation and assimilated assets; premiums regarding obligations repayment.**

- Within the Liabilities of the balance sheet liabilities elements are grouped according to two criteria: the nature of rights and obligations and the degree of debts’ chargeability (term of payment).

Consequently, liabilities include: the entity’s **own capitals** (individual capital, capital reserves, profit, and other sorts of capital); **risks and expenditures provisions; debts** (long term bank credits, short term bank credits, suppliers, various creditors, other debts); **regulation and assimilated liabilities.**

The value expression of each patrimony element registered in the assets and liabilities of the balance sheet is equal with the final balance of the corresponding account of the checking balance. Such final balances are usually registered in the balance sheet grouped according to elements and economic content. Such a grouping within the balance sheet of the elements of patrimony assets and liabilities is called balance sheet position.

Within assets, costs are registered according to the reverse order of assets liquidity; it means that the Assets of the balance sheet contain the least liquid elements such as: intangible assets and tangible assets; the last being the cash assets also called liquidities.

Within liabilities the succession of the positions is done according to the reverse order of their chargeability; it means that the Liabilities of the balance sheet first include the entity’s own capitals as they have the longest chargeability term; then follow long and short term debts, current obligations, etc.

Subsequently, one may state that assets express the nature, destination, and the degree of liquidity of economic goods an economic unit detains, and liabilities outline the nature of the rights and obligations, the manner they form and their chargeability.

Starting from the two elements of liabilities, rights and obligations, accountancy calculates and outlines the net condition of net patrimony according to the following relation:

Patrimony's net condition = Patrimony's assets – Patrimony's liabilities

Whatever increase or decrease of net patrimony is the effect of the profit or loss determined by the transactions that have been carried out and which change the owned propriety.

In order to describe and register such operations of increase or decrease of patrimony's net condition, accountancy employs the terms of incomes and expenditures.

Expenditures + (-) Result = Incomes

Incomes as a money expression represent the operations that determine wealth; expenditures represent the operations that regard the use of wealth.

The comparison of incomes and expenditures determines the profit or the loss, namely, profit in case incomes are higher than expenditures and loss when the reverse happens.

The use of money standard is strictly connected with the carrying out of accountancy's object, namely: money evaluation of patrimony elements supports their *value homogenization* which is the essential condition of their accounting registering.

The notion of patrimony evaluation does not overlap that of company evaluation; the last one is a complex work carried out by a team of evaluators according to certain specific techniques and procedures owing to which global patrimony as well as each of its elements are up-dated from the point of view of their value in accordance with the market.

The accounting data resulting after registering the existence and movement of patrimony elements periodically undergo checking, control, and analysis operations; the following main objectives are in view:

- Getting the certitude of the exactness of accounting data – one of the essential demands able to render the proper condition of patrimony owing to the balance sheet;

- Knowing, owing to control, the degree of material integrity and of efficient use of material and money means;

- Drawing out the economic and financial analysis of all patrimony components that determines conclusions and decisions according to which future activity is going to be based upon.

One can state that, owing to its object, accountancy defines itself as a scientific field specialized in the knowledge and display of patrimony's net condition and its results (profit or loss).

3. Conclusions

The category of patrimony regarded from an economic perspective, on the one hand, and from a juridical perspective, on the other one, cannot be abandoned owing to its characteristic of being a general structure able to match all the elements of financial reports. It allows a definite outlining of the concepts of Propriety and Capital, Means and Resources, economic patrimony, and juridical patrimony. Nevertheless, patrimony should be defined from an economic point of view through a unit's resources, on the one hand, and through the use of controlled resources, on the other hand.

The two conceptions, patrimony conception and financial condition conception, can co-exist and can complete each other. Patrimony may preserve its feature of being the dominant criterion of structuring financial condition (balance sheet) due to reasons connected with tradition while the functioning of the principle of double entry, according to the concept of patrimony, has a pedagogical connotation.

The Anglo-Saxon conception where the elements that form the balance sheet are the assets, the debts, and the entity's own capitals, can co-exist and complete the concept of patrimony due to the fact that the assets, the entity's own capitals, and debts (the last ones as source of assets) are the components of patrimony regarded from an economic and juridical perspective, and the applicability field of accountancy is patrimony.

With these in view, the process of accountancy normalizing is continual, laborious, and iterative: recently elaborated norms are expected to be changed soon, etc. As a result, the assimilation of the accounting referential (IASB) within the theory and especially within Romanian legislation and practice should be accurately, prudently, and critically done, resorting to creativity and innovative boldness and adapting it to the Romanian economic and social environment, to the national cultural and historical context and traditions.

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THE ROLE OF THE ACCOUNTANT PROFESSIONAL IN THE CONTEXT OF THE CORPORATE GOVERNANCE AND THE EXTERNALISATION OF THE ACCOUNTING FUNCTION

Boghean Florin

„Ștefan cel Mare” University, Suceava, Faculty of Economic Sciences and Public Administration

Hlaciuc Elena

„Ștefan cel Mare” University, Suceava, Faculty of Economic Sciences and Public Administration

Boghean Carmen

„Ștefan cel Mare” University, Suceava, Faculty of Economic Sciences and Public Administration

According to the Organization for Economic Cooperation and Development - OECD, corporate governance is the system by means of which companies are managed and controlled. In 1999, were published the OECD Principles of Corporate Governance, these being currently recognized as one of the 12 pillars of international financial stability. The OECD principles served as a reference point for compiling a collection of national corporate governance codes. They focus mainly on the companies listed on regulated markets, although they also cover issues related to companies that have a big number of shareholders but are not listed. These principles refer to: the rights of shareholders and their protection, the equitable treatment of all shareholders, including the minority and foreign shareholders, the role and rights of stakeholders, the transparency of information and its prompt dissemination, the responsibilities of the Board of Directors and of the executive management.

Keywords: corporate governance, the accounting financial information, users of financial accounting information

Jel classification: M 48

1. Introduction

Against the backdrop of the recent financial crises, reforming the institutional architecture of the national capital, through the adoption of several efficient stock regulations has become a priority. Likewise is elaborating and implementing stimulating measures for the development of the corporate sector, starting from the premise that a strong economy, with a solid, open and transparent financial market may cope with the challenges deriving from the globalised international environment. By way of consequence, a key-element for improving the economic efficiency and establishing an attractive investment climate is a *good corporate governance*⁵⁵³. Among the most important benefits of implementation high standards of company management we mention:

- efficient use of resources;
- reducing the capital cost for companies;
- increasing the investors' trust, through the managers' reconsideration of their discretionary attitude and the reduction of the corruption level.

⁵⁵³ M.Ghita, Ct. Iațco, C. O.Brezuleanu, M. Vorniceanu, *Guvernanța corporativă și auditul intern*, Editura Tipo Moldova, Iași, 2009.

At the other end, weak corporate governance distorts the effective distribution of the capital in the economy, slows down the foreign investments and reduces the capital holders' trust. James D. Wolfensohn, ex-president of the World Bank, stated at a given moment: *corporate governance is more important for the economic growth at a world level than state policies*⁵⁵⁴.

Although amply criticised, the globalisation process knows an ongoing expansion, the internationalisation of the markets and of the enterprises' activities being a profound and irreversible phenomenon, which determines the companies, be they large or small, to adopt measures accordingly. The corporate governance systems differ much from one country to another, and these differences directly affect both the development process of the global strategies and the types of strategy that can be adopted.

The decisions of global strategy represent a real touchstone for the efficiency of the corporate governance systems that pursue the maximisation of the profit and of the global competitiveness which most of the times is attributed to the participants in the governing. By definition, the global strategy refers to the adoption of a strategy extended beyond the frontiers of the country, which could affect, to a large extent, the stakeholders that have strong connections with the company in the country of origin.

In 1999 were elaborated the **OECD Principles of Corporate Governance** (Table 1), which are today the only set of unanimously accepted principles, being universally acknowledged as one of the twelve supporting pillars of the international financial stability. The OECD principles have served as a reference point for compiling a collection of national codes regarding corporate governance. First of all, they concentrate on the publicly traded companies, also approaching topics related to the large shareholding societies, but which are not listed. They can also be useful regarding certain aspects of the management of the smaller private firms and of the state enterprises.

Table 1 - OECD Principles of Corporate Governance

- **the shareholders' rights and their protection** (the right to dividends, the right to be informed concerning the decisions related to the important changes in the company's life, the right to participate in and to be able to vote in general meetings);
- **equal and fair treatment of all the shareholders, including the minority and foreign ones;**
- **role and rights of the stakeholders** – this concerns the role of the employees, of the creditors, of the suppliers and of the clients in the management of the companies, which must be respected as it is defined in the national legislation;
- **information transparency and their quick dissemination** (reporting to the shareholders all the current financial, administrative, extraordinary activities, on a regular basis, in time and correctly, the independent audit, etc);
- **responsibilities of the Board of Directors and of the business executives** (number of members of the Board of Directors, number of independent members, way of appointment, revocation, remuneration, etc).

These principles were elaborated at an extremely general level, the countries enjoying the possibility of endorsing them and of granting a higher or smaller degree of importance to certain particular aspects. They even state that it is not desired to impose a universal pattern of corporate governance;; at the same time, but the long-term tendency is to achieve global standards⁵⁵⁵.

2. Externalisation of the Accounting Function. Pros and cons

⁵⁵⁴ Cannon, D.M., Godwin, J.H., Goldberg, St.R., *Risk management and governance, The Journals of Corporate Accounting & Finance*, Volume 20 Issue 1, November/December 2008, pp. 1-99

⁵⁵⁵ Holly J. Gregory - *The globalization of corporate governance*, OECD Business Sector Advisory Group on Corporate Governance, 2000, pag. 18

The development of informatics and its use in accounting led to the reduction of the time allotted to the traditional accounting function. Furthermore, the accounting function can be assigned to a specialised accounting firm, with managerial and entrepreneurial qualities. To put it differently, the accounting function can be „externalised”⁵⁵⁶.

Without going into details, we can notice several advantages and disadvantages, for the client enterprise, linked to the externalisation of the accounting function. These aspects are presented in Table 2:

Table. 2 – *Advantages and disadvantages linked to the externalisation of the accounting function*

Externalisation of the Accounting Function	
❖ Advantages	❖ Disadvantages
<ul style="list-style-type: none"> - from a <i>professional</i> point of view, there is the certitude that the accounting is administered by abiding to the law and to the new regulations in accounting; - from a <i>financial</i> point of view, the externalization of the accounting function enables the transfer of the fixed expenses of the accounting department to variable expenses. There also appear expenses savings, by avoiding the overtime payment and of other upkeep and good functioning of the computing technology expenses; - from a <i>material</i> point of view, there are substantial savings, by avoiding buying computers, printers, computer programs, etc.; - from a <i>strategic</i> point of view, the enterprise can concentrate its attention on the basic activity and on the image of its performances. 	<ul style="list-style-type: none"> - the seeming loss of one of the basic managerial functions – the control function; - the appearance of suspicions in what concerns the information confidentiality.

The adoption of international norms in accounting can open wide the gate to the information exchange between enterprises all over the world. By using the current technical means offered by the internet, the enterprise enters the world circuit, gaining a multidimensional vision. Anywhere we may be as specialists in the domain, or to whichever accounting firm we may entrust the accounting work of our enterprise, we may determine:

- cost of products, groups of products or services, etc.;
- cost of several elements in the structure of the enterprise: centres of responsibility, departments;
- cost of an activity;
- cost of the economic function;
- cost of a geographical area or of a branch.

Under the same conditions, we can find out:

- the identity of an enterprise;
- further information of a legal or financial nature;
- further information from the financial press⁵⁵⁷.

Why do companies appeal to the externalisation of certain business processes?

- in order to reduce and control the costs linked to these processes;
- in order to enable the concentration on the main field of activity (core business processes);
- in order to have access to better quality services;
- in order to keep free resources for other purposes;
- in order to share risks (source The Outsourcing Institute).

⁵⁵⁶ www.globalizarea.com

⁵⁵⁷ Gurgu, Elena, Dobrotă, Niță, *Globalizarea activității economice. Realități și tendințe*, A.S.E., 2007

At an international level, the outsourcing field knows two types of opposing tendencies. On the one hand, there is an increase in the number of the companies appealing to outsourcing and, consequently, of those to whom services or entire business processes will be externalised. But, on the other hand, there is the general opinion according to which some companies, after having externalised an activity, after a while, renounce at this practice and come back to the in-house practice.

A recently done study mentions, among the most frequently externalised business processes the following ones: administration of payments, of receipts, human resources, the internal audit, the accounting finances, etc. But the most active area in outsourcing is information technology⁵⁵⁸.

Pros and cons Outsourcing

Appealing to outsourcing has both supporters and opponents. On the one hand, the cost reduction continues to be an important factor in appealing to outsourcing, but it no longer seems to be the only prevailing factor. Other factors interfere, such as: concentration on the main activity, better quality services, access to expertise from the outside (software development, Internet services). The average duration of the outsourcing contracts is of three years.

An important emotional factor intervenes both before and during the externalisation of certain activities. The organization's resistance is the biggest barrier in the way of outsourcing. Other barriers could be the loss of control, doubtful performances, inadequate planning, lack of experience in outsourcing⁵⁵⁹.

According to the way in which these barriers will be overcome (be it by means of the effort of the companies undertaking these services, or due to the customers), there appears the second mentioned tendency, that is that after the externalisation contract expiration, there is a strong chance might not be renewed.

The main reason underlying this decision is of a practical nature and concerns the quality of the provided services. The moment in which the SLA level (Service Level Agreement) aimed at is not attained, the company usually prefers to place the guilt, be it real or not, on the firm to which it had externalised its services. And, most of the times, the company gets to develop in-house competences necessary to providing the services⁵⁶⁰.

The tendencies manifested by the accounting domain reflect on the information system of the enterprises, and the development directions of the information systems have deep implications on the accounting.

3. Conclusions and Propositions to the Analysed Topic

The change rhythm registered in Romania in recent years in the financial-accounting sphere outruns by large the one of the evolution of the economic performances. The observed realities will continue influencing the recommendations received by the organisations in the Romanian economy in many other directions deriving from the **optimisation of the management and of the financial-accounting communication**, such as the corporate governance pattern specific to Romania.

The recent realities certify the fact the countries in South-Eastern Europe, including Romania, have made quite big progresses in managing the corporations in recent years. The applied reforms have improved the legal frame and the frame of regulations by creating an effective protection against abuse. OECD, together with USAID (United States Agency for International Development) initiated a cooperation programme, whose main purpose is to improve the corporate governance in Eastern Europe, through measures such as:

⁵⁵⁸ Dun & Bradstreet / The Outsourcing Institute

⁵⁵⁹ Spencer Pickett, K.H. *The Essential Handbook of Internal Auditing*, John Wiley & Sons Ltd, *The Atrium*, Southern Gate, Chichester, West Sussex PO 198 SQ, England, 2005.

⁵⁶⁰ www.ensight.ro

Monitoring and evaluating the current stage of corporate governance in these countries;

- Identifying the specific needs in the area and providing technical assistance;
- Improving the degree of comprehension of the corporate governance practices and informing the international communities regarding the achieved progresses;
- Facilitating the access of these countries to a continuous dialogue at an international level.

Based on the studies conducted until recently, the causes/hindrances specific to the weak corporate governance in our country, and, at the same time, the obstacles in developing an efficient capital market were:

- the capital market appeared in Romania relatively late, just like the majority of the capital markets in Eastern Europe, as a result of the process of mass privatisation, in order to ensure a liquid market for the actions implied by this process; for a long time it did not go beyond this stage, and, furthermore, the privatisation developed extremely slowly.
- the very weak practice of a modern management in the Romanian entrepreneurial environment, the exceptions being represented by the listed companies which have a majoritary institutional investor;
- the managers of the listed societies are not familiarised with the corporate governance principles and are reluctant to reveal certain information. Furthermore, the majority do not appeal to the capital market in order to find sources of financing, so they are not interested in improving their image;
- the shareholders' passivity, especially in the case of the companies in which the main shareholder is the state.

The importance of the corporate governance to the development of the capital markets is unquestionable. Thus, a series of recent research shows that the companies with a good corporate governance, measured through coefficients of the type CGQ (calculated by International Shareholder Services) have 18,7% up to 23,8% higher financial performances than the ones with weak corporate governance, according to the type of financial market they are listed on⁵⁶¹. Also, on the developed capital markets, the firms with high standards of protection of the shareholders register increases in the stock capitalisation up to 8,5%/ per year. Among the measures that can be taken regarding the improvement of the corporate governance in our country, we quote:

Figure 2 – Measures to improve Corporate Governance in Romania

⁵⁶¹ Brown, Lawrence D., Caylor, Marcus, *Corporate Governance Study: The Correlation between Corporate Governance and Company Performance*, Institutional Shareholder Services, 2004.

- developing independent authorised consulting societies and rating agencies meant to provide precious analyses and information for the interested investors, upon payment;
- increasing the activism of the shareholders and of the businessmen association, as well as encouraging certain open systems of reaction and implication in the elaboration of regulations, norms, laws;
- improving the legal system through its reform, as it is a premise for a credible system of corporate management;
- stimulating the cooperation between the responsible institutions in our country, by developing common projects regarding the capital market and strengthening the international dialogue on this theme;
- increasing the exigency of the bodies supervising the markets and the reaction speed if breach of the provisions is found;
- increasing transparency and credibility of the societies management by allowing the participation of independent persons in the Board of Directors;
- encouraging the employees to make public any illegal practice noticed in the company where they work.

Yet, the current knowledge, at the frontier between accounting and enterprise governance, is only in an embryo stage. Thus, from a historical point of view, there comes the question of how and in what context the connection between accounting and enterprise governance appeared and developed. How do the actors involved in the mechanisms of enterprise governance really act, when resorting to the accounting data (audit committee, risk management committee etc.) ? What role do the accounting and the accountant play within these mechanisms? How does the connection between accounting and governance materialize in organizations from the point of view of regulation/control? Which is the impact of regulation in terms of governance within the audit committees? How does regulation translate in terms of governance in a day-to-day basis – be it about the accounting cabinets, or the audit committees? Is there a difference between norms and concrete practices on the field?

As an object of study, the accounting-governance axis is much too rich and complex to be examined from only the disciplinary point of view, as the « real situation » is much too complex, ambiguous, contradictory and unstable to be treated from a single viewpoint.

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COST VOLUME PROFIT MODEL, THE BREAK -EVEN POINT AND THE DECISION MAKING PROCESS IN THE HOSPITALITY INDUSTRY

Briciu Sorin

University December 1st , 1918 Alba Iulia

Faculty of Sciences

Scorțe Carmen

University of Oradea

Faculty of Economics

Management accounting and cost calculation in the hospitality industry is a pathless land. The present article is a starting point of a long scientific approach on the domain of the hospitality industry and on the managerial accounting in this area.

Our intention is to put the spot light back on the thorny problem of applying Financial Accounting and specifically its implementation in the hospitality industry.

One aim of this article is to provide a picture of CVP analysis in decision making with customizing the hospitality industry. To cope with the crisis period, the competition and to achieve the expected profits of the hospitality industry ,managers have the possibility to apply CVP analysis, one of the most simple and useful analytical tools.

This paper will address the basic version of the CVP model, exemplifying the main indicators of the particular model for the hospitality industry that can help guide decision-making.

Keywords: CVP model, Break-even point, hospitality industry

JEL classification M41

Introduction

Hospitality industry is one of the most dynamic sectors of contemporary society with an increased role in the globalization process.

Tourism is an economic and social phenomenon characteristic of modern civilization, very rooted in society and therefore strongly influenced by its development. Addressing the large social segments and responding to their needs, tourism is by far a economical sector characterized by an increasing dynamism, manifested both nationally and internationally. Tourism rises to a vast human and material potential due to its content and complex character table, which has important implications for the development of national economies and society.

Tourism is a factor in individual and social equilibrium, a source of fulfillment for leisure time, developed in harmony with the human environment, natural and cultural resources to be placed in a context of sustainable development.⁵⁶²

Taking count of from the importance of tourism, the development prospects of the sector but given the current conjuncture and national economies affected by global economic crisis, maintenance and development of hospitality industry business entity requires harmonization of resources and market opportunities with their skills, foundation strategies cost information based on tourism products and services additional information on accounts, but taking count of the company's capabilities and balance with the environmental conditions.

Lack of coherent management strategy involves a weakness inherent in the management system benefits of providing costs. Awareness of benefits of providing quality services related to the right level of prices is not a common practice today.⁵⁶³

⁵⁶²Summary of processing of congress BITS, Naples, 14-18 june 2000, over of Theoretical and Applied Economics. Supliment. 29-31 mai 2009 ,Bucharest, pg 136

The tourism sector, regardless of market structure of interest covered by an economic entity (recreation and leisure tourism, spa tourism, business travel, tourism circumstance), key factors of success are:

- Differentiating their products from those of competitive interest in a more attractive environment afforded so, but not least your own offer competitive price / quality ratio. In Romania, because it applied the wrong policy in the hospitality industry on price quality ratio, the effects of policies currently exist through a customer orientation to market massive external interest;
- Diversification and complementary tourist services and submission of integrated products in the same package to ensure all facilities during the stay;
- Flexibility and adaptability of supply to demand trends
- Steady and sustained promotion of they're products on the market, highlighting the defining characteristics that distinguish them from the competition.

Theoretical framework for the direct method and CVP model

Direct Costing method is based on the principle of separating variable costs from fixed costs according to behaviour change in production volume, and is charging only variable costs on products whether they are direct or indirect.

Originally, Direct - Costing `s cost is composed only of the total costs that change directly with output (activity level) and not from direct costs as we could wrongly understand deducing from it's name.

Thus, the name that best matches the Anglo-Saxon expression is the "variable cost method"⁵⁶⁴ or "variable costing". French Accountant General Plan 1982 also used the name "proportional cost method and some authors identify this marginal cost calculation method."⁵⁶⁵

Costing provides relevant information for the management team, and is useful in formulating economic entity's business decisions for the next period. This method will provide a basis for cost estimates to study the effects of planned changes in production volume, resulting from changes in economic conditions or open some management actions such as price changes, increase or decrease in stocks or special promotional activity.⁵⁶⁶

So the method focuses on boosting sales in that size does not allocate fixed costs on inventory (unfinished products, finished products), but must be covered by the sales of the period.. Also the emphasis is on analysis and attribution of the fixed costs and attributing the variable costs on the margin (gross).The manager has the obligation to return and maximize margin on variable costs over which fixed costs will be charged.The margin on variable costs (M / CV), also called gross profit or contribution limit is determined as the difference between gross turnover and variable costs associated with the entire production sold. The margin of variable costs is also called the global margin and it is the sum total margins on variable costs per product unit set (m / cv) multiplied by the associated production sold. The unit margin can be determined as the difference between the selling price and the unit variable cost of product j .

$$M/Cv = CA - CV; \quad CA = Qv \times pv \quad \text{and} \quad CV = Qp \times cv \Rightarrow R = Qv \times (pv - cv) - CF$$

Informational value of the margins in decision-making is subject to the following factors:

- Dividing the fixed costs and variable components must be fair and consistent;

⁵⁶³Larisa Dragolea, Radu Matei Todoran, Ensuring the quality of services by making costs effective in the management of rural tourist boarding houseswork presented at the International Scientific Conference "Challenges of a knowledge-based economy contmporane" II-nd Edition, ICMEA, Alba Iulia, 2009.

⁵⁶⁴ Sorin Briciu, *Theoretical and practical managerial accounting*. Publisher: Editura Economică, București, 2006, p 222

⁵⁶⁵ Dorina Budugan, Iuliana Georgescu, Ioan Berheci, Leontina Bețianu, *Management Accounting*, Publisher CECCAR, Bucharest 2007, p 358 (citation after Lucey, T., *Management Accounting*, 3rdEdition, D.P. Publications, London, 1992).

⁵⁶⁶ Sorin Briciu, citation pag 223.

- Rational use of uniform margins (gross contribution per unit) established as a basis for decisions in the sales policy, this requires constant variable costs per unit of product;
- For decisions regarding the selection of the production processes, the possibility of establishing variable cost (marginal) reference constant unit cost of places is required
- Turnover, variable costs and the margin on variable costs, are three major indicators used by the Direct - Costing method, they behave proportional with the quantities sold. Assuming that the sale price remains constant throughout the period in which the analysis is made, we could consider that the business margin and variable costs behave in proportion to the turnover.⁵⁶⁷

On the basis of the margins calculation we can establish which of the products manufactured and sold is able to cover the resume and ensures participation in CF, and which product is unsuitable and produces loss to the company. Each product is judged by its ability to cover non-distributed costs (fixed costs).

The management team of the entity can decide to stop production of goods which have produced loss to the company. The decision must be taken into account if the product can help to ensure the dissolution of other products, or if there is a new product whose manufacture and disposal has good prospects to increase profit⁵⁶⁸. We believe that in the hospitality industry we often find situations where a product conditions or contributes to the dissolution condition for others (demand for accommodation is conditional upon the existence catering unit, or the existence of bases for treatment and entertainment bring a significant contribution to the increase of outlets for lodging). This way of approach allows considering whether to remove or develop one or other product sales. But the rationale for decision making must analyze several factors, not just gross contribution in absolute size.

A powerful tool of analysis based on Direct Costing is the Cost-volume-profit analysis, one of the most effective tools that managers of an economic entity dispose of. Cost-Volume-Profit examines the behavior of total revenue, total costs and results of operations under the influence of changes in production volume, selling price, fixed costs or variable costs. Managers routinely use CVP analysis to answer questions such as: How will the total costs and revenues be affected if we sell 1000 units more than usually? How will the production level be affected if you raise or lower the sales prices? All these questions have a common topic: What would happen if ...?⁵⁶⁹

The CVP model proposed calculation and analysis of several indicators that will provide decision facets for the management team of specialized entities in the hospitality industry, information regarding the decisions of 'production' of products or packages and short term promotion. Cost calculation in direct-costing system should be organized to provide data to enable decisions based on marginal cost and coverage contributions⁵⁷⁰ but also on other indicators (break-even factor coverage, range safety, etc.)

The CVP model and decision making

As we mentioned before, the CVP model analyzes the evolution of total revenue, total costs and operating profit as are changes in production levels (in the general economic activity), the selling price, the unit variable cost and / or fixed costs of a product. From practical work we could find that the even the easiest CVP analysis is useful in making decisions regarding strategic planning and offers, regarding the features of the tourism package products, prices and tariffs offered.

⁵⁶⁷Carmen Mihaela Scorte, *Internal accounting management*, Publisher: Editura Universității din Oradea, 2005, pag 184

⁵⁶⁸Briciu Sorin, *Management assisted by cost calculation*, Publisher: Risoprint, Cluj Napoca, 2003

⁵⁶⁹Charles T.Hornrgren si colectiv, *Costurillor accounting, a management approach*, Publisher: Arc, 2006, pg

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⁵⁷⁰ Klaus Ebbeken, Ladislau Possler, Mihai Ristea, *Calculation and cost management*, Publisher: Teora, Bucharest, 2000, pg 316

Competent economists say that in order to improve the performance of an economical entity in general, and to particularise, we will take the exemple of those from the hospitality industry, one of the first actions should be taken to improve organizational culture. If you have a culture that is not in concordance with the cost management and cost structure, or if you do not pay attention⁵⁷¹ to the cost structure, you never get the results you want.

For the test result to be relevant we should take count of a series of constraints and limitation that have determined numerous critics from supporters of other ideologies. These restrictions include: knowing the exact cost behavior, relevant activity within the beach, all costs can be separated into fixed and variable costs, the analysis does not exceed the range of activity; variable costs that make the cost to grow proportionally with the output production fabricated and sold; input prices due not change during the period, so that appropriate costs record the progressive development of foreign business volume variation; production processes should be defined, known and not subjected to changes during the period of analyst, in the situation of obtaining more products it is required to observed and identificate: interdependencies between products, difficulties in product sales and their quantification as a linear dependency.

This type of analysis comes from the economic theory of costs, presented in Figure 1, Graph on which cost accounting analysis (Fig. 2) is a special case of the graph shown in Figure 1.

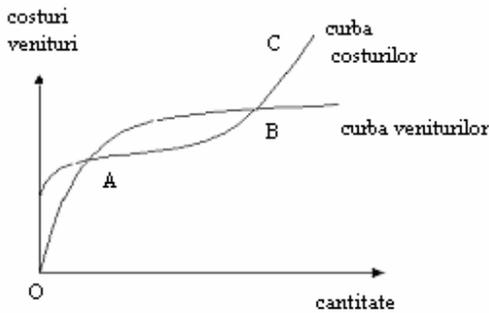


Fig.1: Economic reasoning of the cost-volume-profit analysis

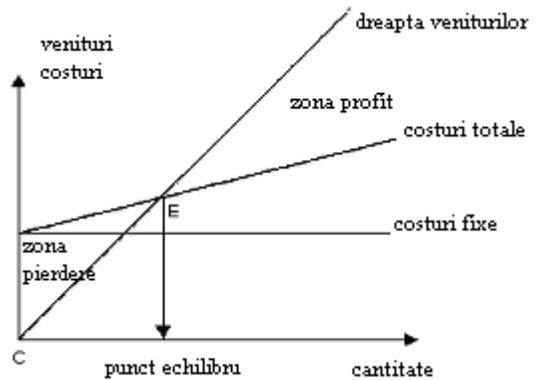


Fig. 2: Accounting rationament of the cost-volume-profit analysis

- OA: total costs exceed the revenues, the company is working in loss, since production capacity is fully used (to produce fewer products than is possible);

- AB: revenues exceed the costs (the profit), production capacity is used at a normal level

- BC: revenues exceed the costs (the loss). Production capacity is overloaded, producing more equipment than they were designed to do, there are breakdowns.

Basically, the economic model shows that there are two equilibrium points, B and C. Instead, the accounting model presents only one (point E). Accounting model is only a short-term picture of economic model is based on the concept of "relevant period" ("relevant range"), translated literature as a period of validity of the assumption of linearity.

Managers in the hospitality industry consider that the price competition in this area has the largest share a fixed cost. The issue will be at what level of "production" in the hospitality industry will the fixed costs be fully covered. The quantity of production sold for wich the total revenues equal total costs is called break-even, in other words, it reflects the amount of production sold so that the operating profit is zero. The management team of any entity is interested in the break-even as it reflects the minimum quantity of production that must be sold in order to not record losses.

⁵⁷¹ Anderson T, Elloumi F. Theory and Practice of Online Learning, Athabasca University, 2004, p.69-70 842

To determine the break-even (point of equilibrium critical point) the equation method is based on the formula is the result of which operate under:

$$RBE = CA - CV - CF \text{ and if } CA = q \times p; CV = q \times cv \Rightarrow RBE = q \times (p - cv) - CF$$

If the equilibrium gross operating result is zero previous equation becomes:

$$q(p - cv) = CF \text{ and production volume to achieve equilibrium point is } q = CF / (p - cv).$$

But in the hospitality industry as we said, most of the costs are fixed, and "production" for housing units corresponds to the maximum accommodation. Therefore we think it would be appropriate to calculate the point of balance for each responsibility center or to calculate the point of equilibrium theory reporting the fixed costs to the average gross contribution.

$$P_{et} = CF / c_{bu} \quad \overline{c_{bu}} = \frac{\sum_{i=1}^n (Q_{v_i} \times c_{bui})}{\sum_{i=1}^n Q_{v_i}} = Cb_{totala} / \sum_{i=1}^n Q_{v_i}$$

In the given conditions in which an economic entity obtains and sells more products (such as travel and establishments) the breakeven structure is relevant. To get this structure it is necessary to calculate the volume of each bearer share in the total production cost, an index called specific gravity.

$$P_{ei} = gs_i \times P_{et} \text{ and } gs_i = Q_{v_i} / \sum_{i=1}^n Q_{v_i}$$

The marginal contribution method is a variant of the previous method and we believe that the balance point is the turnover value for which the fixed costs are equal to the total contribution margin on variable costs (mv).

The unit margin on variable costs expresses increased profit earned by selling each additional unit of product. Thus, it will help cover the loss incurred by the entity until it breaks even, in time, each additional unit sold will increase profits. This affirmation holds a truth as long as the entity does not exceed the floor for which the fixed costs were determined⁵⁷².

Given that the equilibrium outcome is 0 value we can determined that the turnover achieving breakeven turnover called critical or break-even in monetary units according to the formula: $CA^* = CF / R_C$ and $R_C = MV / CA \times 100$ or $R_C = Cb_{totala} / CA \times 100$

But the fixed costs are relatively constant, so the gross operating margin result will change according to the variable costs per unit of product (mv) and by changing the quantity sold.

The margin on variable costs (gross contribution per unit) is calculated as the difference between selling price and unit variable cost and will contribute mainly to cover fixed costs which remain relatively constant in the range established and then cover up the profit or loss.

The break-even can be used to determine the physical volume of activity so as to achieve a profit (P))⁵⁷³. Calculation formulas:

$$\text{In physical units } Pr_P = (CF + P) / CA^*; \quad \text{In monetary units } CA_P = (CF + P) / R_C$$

With the point of balance or breakeven we can calculate the turnover required to achieve a certain rate of profit (profit / sales). If the management team of an economic entity aims to achieve and maintain the enterprise to a certain rate of profit, he may find that using the break-even volume of activity that ensures it. The calculation formula is: $CA_{RP} = CF / (R_C - R_P)$

In the CVP analysis other indicators such as: coverage factor, dynamic factor of safety, range safety, index sampling rate volatility and operating leverage should be taken in consideration as being of an significant importance.

The coverage factor (Fa) shows how many percentes of the sales volume are needed to cover the fixed costs and obtain profit. Entities in the hospitality industry need to focus they're

⁵⁷² Nadia Albu, Cătălin Albu, *Performance Management Tools*, vol 1, Publisher: Editura Economică, Bucharest, 2003, pg 206

⁵⁷³ Chirața Caraiani, Mihaela Dumitrana, *Accounting and Management Control*, Publisher: InfoMega, Bucharest, 2004, pg 161

manufacturing and selling policy with the highest coverage factor. Based on the coverage factor they can also calculate the selling price and the manager can take quick decisions and pricing policy.

Dynamic safety coefficient (Ks) shows how the revenue may decrease relative so that the entity can reach the equilibrium point. Any decrease in this ratio means that the entity is about to enter into losses.

The range of safety (IS), also known as distance or safety road shows how much can the entity afford to decrease its sales so that the unit does not enter in the area of financial losses.

Sampling index (PI) defines the percentage of turnover used to cover fixed costs, the company reaches break-even easier the lower its value is .

The purposes of any activity is to maximize the results by submitting a minimum of effort. Extent of such activity is the operational lever (Lo), which expresses how the assumption of fixed costs contribute to results. This indicator's value grows as the relationship between fixed and variable costs is higher.

Conclusions

Given the changing landscape, the hospitality industry is characterized by a dominant competitive logic, assuming a clear competitive advantage. There are several ways to create value, so there are many forms of competitive environment that have their own rules.

After identifying the competitive logic, the economical entity can adapt its strategy in an effective mode. Management accounting helps managers in the hospitality industry to organize existing and future businesses so as to assess, monitor and manage the future of the business and everything related to its economical stability.

As it has been already mentioned, CVP model allows the calculation of indicators for facets of decision-making , being usefull to the entities of the hospitality industry,these indicators provide information on production decisions, selling, short-term promotion. Each of these indacatori is particularly important , helping short-term management decision making, therefore we propose to analyze their influence and utility in future scientific research.

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IFRS, US GAAP OR ROMANIAN REGULATIONS CAN THEY BECOME ONE?

Cîrstea Andreea

*Universitatea Babeş Bolyai din Cluj-Napoca
Facultatea de Ştiinţe Economice şi Gestiunea Afacerilor
Cluj-Napoca, România*

Cîrstea Ştefan Dragoş

*Universitatea Babeş Bolyai din Cluj-Napoca
Facultatea de Ştiinţe Economice şi Gestiunea Afacerilor
Cluj-Napoca, România*

Fülöp Melinda Timea

*Universitatea Babeş Bolyai din Cluj-Napoca
Facultatea de Ştiinţe Economice şi Gestiunea Afacerilor
Cluj-Napoca, România*

In a period when convergence is the main driving force of IASB and FASB programmes, who needs a comparison of the two sets of standards-IFRS issued by IASB and US GAAP issued by FASB? Aren't they mainly the same after 5 years of hard work of those who establish the two sets of standards? The answer lies in the fact that mostly all people who work in a multinational company has to understand the present differences between these two sets of standards. A combination of the convergence of the national standards with the IFRS and the follow-up use of IFRS standards would mean that the two accounting languages from all over the world should be reduced rapidly only to IFRS and US GAAP. Although these two sets of standards are more and more similar to each other, they are not totally identical-yet. And until they become identical it will be necessary to state clearly and explain the differences that exist between them.

Keywords: IFRS, US GAAP, convergence, Romanian regulations

JEL Classification: M41

1. Introduction

Convergence is in fact a term that defines either elimination or assimilation of the differences and it represents the main priority that exists both on the agendas of the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB).

Nevertheless the major differences existing between US GAAP – issued by FASB - and the International Financial Reporting Standards (IFRS) issued by the IASB are the topic of many discussions. These differences suggest that the two GAAPs keep on using different languages. This apparent contradiction made many people ask themselves how different are these sets of standards and where they do exist, why do they exist and when will they disappear?

Even if the US standards and the international ones do contain differences, the general principles, the conceptual structures and the accounting results between them are most of the times the same or similar, although the differences seem to have overshadowed the similarities. We believe that an analysis of this problem should not forget the fact that the two sets of standards are more similar than different for most of the transactions, IFRS being mainly but not totally based on the same principles as US GAAP.

2. Literature review

There were issued various statistics which refer to the importance of both these accounting regulations: IFRS AND US GAAP. These statistics were realised by the most known and important firms of audit from all over the world and demonstrate the real significance of these

two accounting regulations, IFRS and US GAAP, as accounting languages of the world. The analysed indicators for realizing the statistics are: the international exchange capitalization and the presence in the list of the biggest 500 companies in the world.⁵⁷⁴

So, out of an international exchange capitalization of 36 trillions USD⁵⁷⁵:

- 11 trillions USD correspond to the companies that adopted IFRS as a financial reporting system;
- 17 trillions USD correspond to the companies that adopted US GAAP;
- 4 trillions USD correspond to the companies that apply Japanese GAAP;
- the rest refers to other financial accounting systems (Canadians; Indians).

And among the companies included in Fortune 500, in 2005, 200 applied IFRS, 176 applied US GAAP and 81 applied Japanese GAAP.

3. Methodology

The character of this paper is a theoretical one. The data were collected through analyzing of regulations and accounting standards such as: American, International and Romanian standards and through studying the existing literature regarding the differences between these standards.

The paper has two parts. The first one is about the importance of convergence for the entire world and the second one presents a comparison between the regulations or accounting systems which are internationally relevant. Of course, we also attached importance to the Romanian accounting system.

4. The process of convergence

Convergence refers to the activity of accounting regulations of heading for the same goal, leading to similar economical conclusions; but at the same time we could say that it refers to the emergence of functional or structural similarities between systems that differ from the point of view of their accounting doctrine and culture, as a result of similar conditions imposed by the economical globalization.

“To converge” means getting to the same result or to the same point. For a better understanding of this concept which is frequently used in accounting, we have to start from that point of view that a perfect harmonization of accounting regulations cannot be possible, because each accounting system is influenced by economic, financial, fiscal, social, juridical and cultural variables of the environment⁵⁷⁶.

The convergence means the alignment to the International Accounting Regulations, without taking them word by word. The convergence refers to a sole set of standards, with the possibility of their conformation to the national realities, issued by the representatives of multiple countries.

As a conclusion we can say that the national accounting systems should adapt their regulations to the international ones (IFRS/IAS) or just to enact some changes.

There have been different opinions related to convergence. There have been many who didn't consider possible to achieve this convergence process but there have also been others who saw it possible.

Those who didn't see possible the achievement of convergence and only saw the obstacles are the pessimists who doubted the opportunity of adopting the international accounting regulations that might have assured the convergence.

The arguments that they bring are some realities that different accounting systems are facing with: difficulties and time in correcting some governmental errors, ethical shortages, accounting scandals

⁵⁷⁴ Fortune 500.

⁵⁷⁵ Cristea S., Armonizarea contabilă internațională și practicile contabile naționale. Studiu de caz pentru România și Italia;Editura Accent, 2007, 42.

⁵⁷⁶ Palich L.E., Gomez-Mejia L.R., A theory of global strategy and firm efficiencies: considering the effects of cultural diversity, *Journal of Management*, Vol. 25, no. 4: 587-606.

Another category would be formed of those who believe in the utility and possibility of achieving this process and these will be the optimists. The main arguments brought by these are^{577, 578}:

- the investors and the financial analysts can understand the financial situations of foreign companies;
- the resource flow for investors streamline internationally;
- the multinational companies can easily establish the stabilized accounts;
- tax authority can measure in an easier way the profit tax owed by foreign companies;
- the enterprises can define worldwide their strategic position in their activity sector.

We consider that big efforts are made to achieve this convergence process and we think that this process is realised on 3 dimensions:

- the convergence between FASB and IASB;
- the convergence between IAS and regional regulations;
- the convergence between regional and national standards.

We have still to wait and see how long this process of convergence will last and if it will be finally achieved.

5. Differences between accounting regulations: IAS/IFRS, US GAAP and Romanian Regulations

FASB started in 1995 a project with a special importance for the international accounting, namely a comparative study between IAS and US GAAP. The goal of this project was that of offering the necessary information for appreciating the acceptance of IAS for the stock exchange quotation of the non-American companies on the capital market from USA. These differences were and are still discussed by IASB during its meetings.

The differences established by the FASB's project refer to 5 categories, namely:

- accounting method and similar application modalities, with the mention that „similar does not mean identical”, in this category were included 56 from 255 reviewed differences;
- similar accounting method but different application modalities: there aren't guides for the application of the standards, in this category are included 79 from the cases;
- different accounting method, in this category are included 56 from the cases;
- there are allowed more alternative methods or there are problems which are treated by one of the standards but not by the other one, in this category are included 64 from the cases.

Although at the beginning, not even the big accounting companies agreed that foreign companies should present financial situations issued according to IAS/IFRS, without a reconciliation with American regulation US GAAP, slowly they began to change their opinion and they joined the process of convergence between the two types of regulations.

Therefore, some of the biggest accounting companies (PriceWaterhouseCoopers and Delloite&Touche) made some studies in which they analysed the differences existing between IAS and the national standards of some countries they considered as being strategic from the point of view of the investments. Among these countries we could mention: the Netherlands, Czech Republic, Switzerland, Great Britain, Hong Kong, China and others.

Moreover, these advisory companies showed their interest and involvement in identifying the differences between US GAAP and IAS, respectively IFRS. Throughout the last years, the interest in analysing the differences between IAS/IFRS and US GAAP was constant.

Usually, the methodology of study of these differences is a simple one and it consists in comparing the requirements of the standards issued by IASB with the American ones. These

⁵⁷⁷ Obert R., *Pratique des normes IAS/IFRS*, Ed. Dunod, Paris, 2004.

⁵⁷⁸ Gernon H., Meek G., *Accounting – an international perspective*, McGraw-Hill International Editions, 2001.

conclusions might be punctual and accompanied by some explanations or they can be concerned with thematic, where the differences between the accounting practices are more obvious.

Of course, these differences between IFRS and US GAAP do not represent the totality of the differences that exist between these regulations because many times these differences depend on the industry where the entity is part of, on the economical nature of the entity's activity as well as on the accounting policies adopted by the entity.

These comparative studies between the two accounting regulations do not contain all the differences that exist between them, but are mostly concerned with the differences that were most often found in practice.

Therefore, in the following table we will try to present the most important similarities and differences between these three regulations⁵⁷⁹.

Table 1. Comparative analysis between IFRS, US GAAP and Romanian Regulations

Subject	IFRS	US GAAP	ROMANIAN REGULATIONS
Financial Statements			
Components of financial statements	Balance sheets, income statements, cash flow statements, statement of changes in equity and accounting policies and explanatory notes present comparative information for two consecutive years.	Similar to IFRS, except that SEC requires to public companies to present in the income statement, cash flow statement, statement of changes in equity, comparative information for 3 years.	The Financial Statements comprise the: - Balance sheet; - Profit and loss account; - Statement of changes in equity; - Cash flow statement ; and - Explanatory notes. The information should be presented for 2 years.
Balance sheet	Does not prescribe a particular format. A liquidity presentation of assets and liabilities is used, instead of a current/non-current presentation, only when a liquidity presentation provides more relevant and reliable information. Some minimum items are presented in balance sheet.	Entities must present either a classified or non-classified balance sheet. The items of the balance sheet are presented in decreasing order of liquidity. The public companies should follow SEC regulations.	The format requested is the list (the vertical one). The assets are classified by nature and liquidity and the liabilities by nature and eligibility.
Income statement	Does not prescribe a standard format, although expenditure is presented in one of two formats (function or nature). Certain minimum items are presented in the income statement.	Present as either a single-step or multiple step format. Expenditures are presented by function. SEC registrants should follow SEC regulations.	The format requested is the list The operating expenditures are classified by nature.
Statement of changes in equity	This statement shows capital transactions with owners, the movement in accumulated profit/loss and a reconciliation of all other components of equity. The statement is presented as a primary statement except when a SoRIE is presented. In this case, only disclosure in the notes applies.	Similar to IFRS except that US GAAP does not have a SoRIE, and SEC rules permit the statement to be presented either as a primary statement or in the notes.	The format requested is the one presented on columns. This statement presents all the elements of equity and their evolution during the period.
Cash flow statement	Standard headings but limited guidance on contents. It is used direct or indirect method.	Similar headings to IFRS, but more specific guidance for items included in each category. Direct or indirect method is used.	Prescribe a similar model with that prescribed by IAS 7. Direct or indirect method is used.

⁵⁷⁹ PWC, 2006; Deloitte, 2007; KPMG, 2007; E&Y, 2007.

6. Conclusions

No piece of work that draws a comparison between two large sets of accounting standards can include all the differences that might appear in accounting due to the large number of transactions that might take place. The existence of any differences – and their materialisation in financial situations of an entity – depends on various specific factors including the nature of the entity, the interpretation of general IFRS principles, its industrial practices and the choice of its accounting politics where US GAAP and IFRS offer a solution. Throughout this work I've tried to approach the differences that appeared mainly in the present practices.

WHY ARE THERE ANY DIFFERENCES?

While the national standards were developed, IASB and its predecessor the International Accounting Standards Committee (IASC) had the opportunity to use the thinking of standard setters from all over the world. As a result the international standards contain elements of accounting standards from different countries. Even where an international standard had as its starting point a standard that existed in the US, IASB could improve that standard. Through this action IASB could avoid some of the problems that appeared in FASB standard. Besides, as part of the annual "Improvements Project," IASB revises its existing standards in order to improve their clarity and consistency and taking advantage again of the present practice and opinions. Due to these reasons, some of the differences between US GAAP and IFRS refer to the standards – meaning, they are intentional deviations from U.S. requirements.

As a general rule, the IFRS standards are broader and are based on principles as compared to those from the US. IASB avoided issuing interpretations of its own standards and preferred to leave the implementing of the principles that are included in its standards to the preparers and auditors and its official interpretive body, the International Financial Reporting Interpretations Committee (IFRIC). While the US standards contain important principles as well, the strong regulatory and legal environment from the U.S. markets led to a more normative approach - with far more "clear lines," more suggestive implementation advice and more complex interpretations. As a general rule, IFRS standards are more broad and "principles-based" than their U.S. counterparts, with limited interpretive guidance.

The IASB has generally avoided issuing interpretations of its own standards, preferring to instead leave implementation of the principles embodied in its standards to preparers and auditors, and its official interpretive body, the International Financial Reporting Interpretations Committee (IFRIC). While U.S. standards contain underlying principles as well, the strong regulatory and legal environment in U.S. markets has resulted in a more prescriptive approach — with far more "bright lines," comprehensive implementation guidance, and industry interpretations.

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AUDITOR'S ETHICS IN THE CONTEXT OF GLOBAL CRISIS

Dana Simona Dragos

University of Oradea, Faculty of Economic Sciences

In the context of current global crisis, a series of questions regarding the professional accountant's position need to be clarified in order to may understand the way in which the auditors, considered objective and independent due to their ethical and professional conduct, contribute to the confidence increase of those who found their decisions on an accounted financial situations basis. We also ask ourselves to what extent our society can sustain the development of a regulation based ethical behaviour and specific institutions, taking into account the existing pressures in crisis conditions. The increased number of financial scandals lead to a regression of confidence of the accounting information users, regarding the respect of ethical standards by the auditors, and there are real reasons of concern because of the increase of the non-ethical behaviour's number of cases.

Keywords: audit, ethical dilemmas, independence, objectivity.

JEL Classification: M 42

Introduction

Of a larger approach, ethics can be defined as a set of principles or moral values that the organizations, the groups and each individual described in a separate way. There are many codes of conduct, codes of professional ethics defined by different insitutions and group of crafts, necessary and respected in order society function in a proper way. The International Federation of Accounts (IFAC) established the International Ethics Standards Board for Accountants (IESBA) having the role of the elaboration and the issue of high quality ethics and other provisions for accountant professionists all over the world.

The object of this article represents the analysis of the code regarding the ethical and professional conduct in the field of audit, in the context of current crisis, using a research methodology based on the review of the literature and legal regulations in this field.

The solution of ethical dilemmas

The ethical dilemma can be defined as a situation in which a professionist has to take a decision concerning a certain attitude. The auditor is the professionist confronting along its career with a series of ethical dilemmas, having to provide an objective and independent opinion regarding the financial situations of an individual. The solution possibilities of ethical problems are quite ample, but the auditor has to pay attention when chosing from these possibilities, because the provided services have an impact on different users, client representants, lenders, governments, financial and affairs communities and even on the economic welfare of the community that he joins. The threshold between a moral behaviour and an immoral justification conduct can be easily crossed. An example of frequently used justification mechanism is one in accordance with the principle "If it is legal, it is moral", using the argument according to which every conduct that doesn't violate the law is as well moral and bases mostly on the hypothesis on the law's perfect character. According to this reasoning an individual cannot be obliged to return a found object, but only in case the person who lost the object can prove that it belongs to him. Ethical dilemmas solution represents the permanent concern of the regulatory bodies in any field of activity and one of the easiest way of defining is the formal reference frame.

Generally, but applicable in any field, the 6 steps method represents a simple form of ethical dilemmas' solution, as it is described below:

- Getting relevant information;
- Identification of ethical problems on the basis of the given information;
- Determination of the persons or groups affected by the dilemma's final resolution and the way they will be affected;
- Identification of the alternatives that the person who has to solve the dilemma disposes of;
- Identification of the prospective consequences of each alternative;
- Decision regarding the proper actions to be undertaken.

The Code of Ethics for Professional Accountants in the field of audit represents the formal reference frame, containing a set of principles and regulations which have to rule the auditors' activity. The International Accounting Standards (IASs) no. 100 and the International Standards Certifications (ISC) 3000 forecasts the necessity that the accountant professionalist conform himself to the ethics rules issued in the Code by the IFAC.

Conduct and professional ethics national provisions

The mission of the International Federation of Accounts (IFAC), as it is prescribed by the constitution, is "to strengthen the accountant profession at a global level, applying harmonized standards which are able to provide high quality services for public interest". Taking into account the IFAC's mission, there has been established the Ethics Standards Board for Accountants having as objective the elaboration and the emission of high quality ethics standards. The code has a significant impact on the practitioners, offering fundamental principles regarding the auditing practice and specific and correctly applicable conduct rules. The auditor's activity must come up to the highest professionalism standards in order to guarantee confidence to the users regarding its services quality. To maintain this confidence, the auditor has the obligation first of all to have defined and to respect the ethical and professional conduct code.

Romania has adopted the Code through The Body of Expert Accountants and Licensed Accountants, entitled The National Code of Ethics for professional accountants, and it is compulsory to be known and to be respected by all professional accountant, no matter how they carry on their activity. The purpose of the Code supposes accomplishing the aim concerning professionalism, credibility, quality of services and the confidence conveyed by its users to reach the highest level of performance and to come up to the public interest needs. The accountant professionalist has the responsibility not only to satisfy the needs of a client, but also to act for public interest. The auditor helps to maintain the integrity and the efficiency of financial situations, a role that imposes to him to respect and to adapt himself to the ethical provisions of the Code.

The code regarding the ethical and professional conduct in the field of financial audit is structured as follows:

- *Fundamental principles* for the profession and practice of financial audit, that is the integrity, independence and objectivity, privacy, professional competence and political neutrality.
- *Conduct rules* that imposes the standard behaviour for auditors, which helps them to understand and put into practice the fundamental principles.

Integrity supposes the professionalist obligation to carry on its services in a modest, correct and incorruptible manner, acting in accordance with the profession's requirements. The auditor has to avoid the conflict of interests and to present deliberately incorrect information.

From *objectivity* point of view, it is stipulated the auditor's obligation not to discredit the professional reputation and the profession because of an unwanted influence. The accounting reports have to be precise and objective and the datas used for analysis to be employed from the provided documents according to audit standards.

Professional competence oblige the auditors to maintain the knowledge and professional aptitude at an international standards level, carrying on their activity with careful attention, competence and conscientiousness, offering to the users of the information an assurance regarding the benefit of a service based on the most current practical and legislative aspects.

From *privacy* point of view, it is necessary that auditors keep privacy regarding the facts, the information and the documents they are acquainted with both for personal interest and the benefit of a third person.

Political neutrality concerns the auditor's attitude regarding the political convictions, he must keeps his independence to all political influences in order to accomplish his tasks in the most impartial way.

Conduct rules represent minimal standards of ethical behaviour, set forth as specific rules that must be respected by any professionist in practice in the domain of accountancy and audit. Besides the previously detailed principles regarding independence (rule 101), integrity and objectivity (rule 102), privacy (rule 301), auditors have also to know:

Technical standards supposing the observance by the auditor of some techniques regarding: general standards (rule 201), observance of standards (rule 202) and accountant principles (rule 203). The auditors have to conform to technical and professional standards drawn up by:

- international audit standards;
- committee for international accountancy standards;
- professional member organizations or other organization with regulation competences;
- the current legislation.

The interpretation of conduct rules meets the practitioners questions regarding a specific rule. The interpretations are not officially applied, but their violation put the practitioner in the impossible situation to justify his various conduct in comparison with the conduct rules. The role of the ethical verdicts is also to give explanations regarding some specific real circumstances which are published in the complete version of the Code.

Besides the Code of Ethics for Professional Accountants issued by the IFAC, there are also other ways by means of which profession and even society can encourage the auditors and the experts in the field to behave properly to carry out high quality audit and other professional services. Other similar ways are the exams for the licence of expert accountant, licenced accountant, quality control, collegial evaluation, legal responsibility, standards defined by stock exchange values and operations committee, classification of accounting expertize companies and others.

Ethics development in crisis conditions

According to specialists estimations, the problems the individuals confront with, especially on the Romanian market, are linked first of all to the internal factors regarding the employees' discrimination, social responsibility, information disclosure, resources use for personal reasons and other problems having as starting point the ethical and moral responsibility. The financial scandals in the last years, reaching the highest point with the contemporary financial crisis, have brought forth the problems regarding ethical behaviour and social responsibility. The individuals and regulation organizations in the given field take more and more evident measures to help increase the lost confidence in accountancy.

The Sarbanes – Oxley Act (SOX) represents one of legislative measures taken by the USA, regarding corporate governance, by means of which The Public Company Accounting Oversight Board has been established in order to set up standards for rate entities and for the leading of controls concerning the audit companies activities. The SOX Act extended over the American borders, influencing thus all companies having their headquarters in another country than USA. One of the regulation measures undertaken by IFAC represents the establishment of the Public Interest Oversight Board (PIOB), in February 2005, having as object the oversight of IFAC's standardization activity regarding the audit missions. A series of conferences also debated the ethics problem in auditor's profession.

A new structure appears within "the Ethics and Compliance Officer" association having as object the establishment of internal systems and procedures by means of which employees' way of interaction is controlled and especially crisis situations are prevented.

At the base of financial scandals lay a series of specific causes regarding economical and political policies, but the lack of transparency of financial reports represents a major problem.

The reasons may vary, but they are especially due to the insufficient training of the managers who are obliged to find new resources and carry out their activities in a competitive environment. The economic environment goes through a stage of major transformations, under the influence of new technologies and the dynamics of production factors; thus, the transparency of accounting information becomes a guarantee of financial stability and performances.

Conclusions

The current economic environment in which we carry out our activity is very different from the past economic environment, accountant professionists find themselves every day in a competitive climate imposing them to obey the new rules and to adapt their activity to the requests of the market. The actual financial crisis put into evidence the necessity of solid, unitary regulations, having a real basis concerning ethics and morality in financial reference. The demand for audit and certification services depends especially on the confidence of the users in the respective profession. Thus, the management of professional activities in accordance with a Professional conduct code, known, respected and understood by the practitioners in the given field is imperatively necessary.

The aspects regarding the ethics code are and have to be permanently an effort to improve competition and quality of services. The behaviour rules recommend the auditors to remain independent and carry on faithfully their activities. Professional conduct code requires to the members "to respect the ethical and technical standards of the profession, to make a continuous effort to improve the competence and quality of services and to practice their professional responsibilities for each individual at as highest levels as possible", these requirements representing the necessary to improve the accountant information users' confidence.

The Romanian economy confronts with the lack of some performant management practices, existing at the present insufficient studies and researches to help the elaboration of a solid basis regarding management possibilities. The managers don't know how to protect themselves against some ethics and conduct problems which may appear during their activities. One of the reasons represents the reticence concerning the organization structures changes, the appearance of "the Ethics and Compliance Officer" representing an essential part in defining the activity, but the Romanian companies aren't yet used to transfer a part of their management responsibilities to a third person. As a reply to the current crisis, at the request of the professionists to focus on the civic duties, IFAC improved the support of developing countries and established an Anticorruption Working Group and enlarged the independence and other ethics advices in the Ethics Code [3]. Similar additional measures have to be undertaken and the professionists who don't respect the Code's dispositions must be penalized so that they be obstructed in the future to justify their immoral conduct. The concerns for ethics and social responsibility have to be permanently in the attention of accountant professionists, of auditors and all professionists from any other field of activity. Only a proper behaviour may offer confidence and lead to the increase of the practiced profession's prestige. The faster understand of the fact that ethics doesn't mean only legality supposing a way of communication and development will lead to the proper and quicker pass over the current economic-financial deadlock.

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CRITICAL DEVELOPMENT OF COSTING METHODS USED IN THE FURNITURE INDUSTRY, IN THE CONTEXT OF ECONOMIC REALITY SPECIAL XXI CENTURY.

Ene Dumitru

Valahia University of Targoviste, Economics Faculty, Doctoral School,

In the current economic downturn in the furniture industry companies, to face competition, requires new costing methods to succeed, in a flexible manner, fructifying market information, inside to find levers to identify places, resource intensive activities and then cost reduction opportunities. New methods of management cost excess the accounting and economics scope Current economic situation requires this work and converts the cost information into the main tool of insurance competitiveness and profitability of the company. Applying the standard cost in single cost model is a viable business solutions of enterprises in the furniture industry to face strong competition from European Union, specifically in the context of complex economic XXI century.

Keywords: cost, value, performance, costing system, efficiency;

JEL Cod: M 41

1. Introduction

The enterprises of the furniture industry is placed in a competitive environment, in the value chain between suppliers, on the one hand and distributors or customers on the other. External tensions who acting on it must be taken within its. To face competition companies allocate more and more research resources for research, to achieve quality products that require obtaining additional authorization. Harmonization with European standards of quality, environmental protection involves additional costs will be reflected in the indirect costs of the enterprise. Further, their share will increase in relation to total expenditures and their allocation will be made on products that are found most. This development of costs resulting from the need to launch the marketing of new products, new technologies of need to communicate with the external environment, highly complex and dynamic, which requires great efforts to adapt.

In these circumstances companies in the furniture industry to face competition requires new methods of costing. They rely on the use of techniques who involving in their quest a large number of specialists and changes in many of enterprise functions. In countries like USA, Japan, France this problem was solved by applying methods that meet current requirements as the method ABC (Activity Based Costing)-the process cost approach, the method target costing, value engineering analysis, UVA method. By implementing advanced management accounting methods to provide increased management control over the rational use of resources, proper allocation of their consumption on objects of calculation, optimizing the production process and use information as necessary to end users.

2. The impact of cost calculation methods on Operating results

Comparative studies of the results obtained by applying different methods of costing shows that the Operating results is influenced by policies and methods applied by enterprises, namely: costing method, method of inventory valuation, depreciation system practiced. Calculation method chosen has a direct impact, measurable, and one indirectly. Directly affects, the method of calculation affects income, the value of stored and fixed production (in charge of production), as and size of finished goods stock. Indirectly the influence manifests itself through the sale price, when it was based on cost. The Cost calculation errors affects enterprises performance in both variants possible: when is higher, respectively lower than the actual consumption of

resources. When the full cost is set at a level higher than normal, the price will be higher than its competitors, which will affect the competitive advantage and competitiveness of enterprise. When the full cost is set at a level lower than normal, exists the risk that the sale price does not lead the necessary margin to normal undertaking and the enterprises to operate at a loss. Also, how to "guidance" of consumption to the balance or profit and loss account significantly change the results of the company.

3. Advantages and disadvantages of using the method on orders in the furniture industry

As advantages of method on orders, identify [1]:

- the method is suitable economic context that has emerged: that of labor productivity growth mechanized companies;
- the method is adapted to work in the stable universe, because the average unit cost is calculated based on information obtained in previous years, on the "stock";
- is a tool for establishing long-term policy, because the full cost (return) is the first information used in setting the retail price (before linking with the market price and the price of competitors);
- *Can be used in evaluating tangible and intangible assets, works property built by enterprises themselves;*
- *can be used together with assessment methods based on variable costs and eliminate the incidence of changes in activity by attributing rational practice of fixed costs.*

However, in the deep economic crisis by passing both furniture enterprises, as well the environment they operate, the cost information provided by traditional method lose their relevance. *The lapse of that cost calculation model is given by changes in business environment but also the practices of firms.*

As critics of the method generated by change the economic context can remember:

- products are not homogeneous, there are a wide variety in how they consume resources;
- need to provide products and special orders, not manufactured in homogeneous series homogeneous;
- various activities and tech make impossible the existence of some homogeneous;
- decreases share of production costs for distribution, R & D and other support activities;
- reduced share of indirect costs to direct, using a single arbitrary allocation bases leading to erroneous results;
- multiplying the cost variability criteria (or, in other words, increasing fixed costs relative to production volume);
- order cost calculation system there is no explanation to obtain the production cost, but the cost-value optimizing various cost items.

4. Modern costing and the impact on measurements performance in the furniture industry

Enterprise management involves measuring costs and performance and their management. For performance measurement is calculated projected costs (standard or exanthema) and compared with realized costs (real or expost). The conditions that characterize the current global economic environment, the most important objective of an accounting system costing seems to be able to estimate involved total product offering.

The stakes of the full cost calculating are high: performance assessment at the centers of responsibility, highlighting the effect of "chain" in case of cuts in processes and activities, assess the financial accounting, decision making on products, customers and activities.

A modern management characterized by the fact that *performance and accountability that are global, collective, and costs must be integrated within the concept of value, involves the use of computer systems and performance measurement.*

4.1. Pros and cons arguments of using standard-cost calculation method

Standard-cost method has its genesis in SUA where appeared in 1901 under the name "Estimated cost system"(The pre-calculated cost), promoting first cost is determined before construction start. Standard cost has an pre-calculated cost to assess the performance over a certain period of time ."Trough Estimated cost system" was transformed in 1918 in "Standard cost accounting" (Standard cost calculation).[2]

The idea that the cost is a function of many factors has transformed the cost calculation in main objective of planning enterprise profitability. In this context, the standard cost is considered as a normal cost of production, and calculation of actual cost of products is no longer necessary. Favorable or unfavorable differences between actual and standard costs are deviations from normal manufacturing conditions, affecting company results for that period. In our country, Implementing Regulation Accounting Law states that, the standard or normal cost method is to determine in advance to the manufacturing of products both direct costs and those indirect grouped into fixed and variable, contained in the cost of production form antecalculation. By adding or subtracting deviations at the standard cost resulting the effective costs obtained production. It is noted that the Romanian version the deviations do not affect financial results.

Thus the positive points of the method can enumerate:

- *simplicity* - the standards are not influenced by short-term changes and are not reversed only when no longer reflects reality;
- *speed* - no need to wait to collect relating information to unit cost;
- *decisions* - *facilitate the application of coercive measures following calculating deviations.* Standards can be the basis for determining sales prices and allow performance evaluation of an entire component units;
- turning to production standards starting and calculating a regular manner deviations allows awareness at financial implications of of failure rules. *They facilitate the development of budgets, forecasts and incentives and simplifies the process of costing*[3];
- *can use management by exception*: managers will be contacted only when needed, to record significant deviations (exceptions);

In our view, the main conceptual advantage is increasing the accountability of staff, *orientation towards a "managerial attitude" (in the sense of Druker).*

Obviously that approach *method has drawbacks*, among which we mention:

- *implementing the method requires a long time* and the process is slow because it radically change existing habits and organization structures; standards must be substantiated and supported by staff;
- *standards must be accessible, but also ambitious.* However, the standard should not be very flexible because change milestone not allow accurately assess performance;
- *the method triggers conflicts regarding responsibility for deviations*, especially when the limits of responsibility centers are not very clearly defined and there are interactions between products and services;
- *standards are difficult to establish and watched in the field of intangible activities* (research-development, marketing, training);
- *causes high costs of implementing and adapting to changes.*

4.2. Adjustments to the standard-cost method

Following critics to the standard cost, he suffered a restriction of its application in several companies. Still others have preferred to adapt to the new system [4] :

- reduce the importance of standards and deviations relating to labor;
- manifests itself more strongly the importance of analysis based on machine hours, support services costs, product quality, production cycle;

- increasing importance inducers cost: the cost management system focuses on inductors and the number of hours-car number changes;
- advanced management accounting systems implementation requires moving attention at the unit-level costs for non unit-level costs and the growing importance of controlling overhead costs;
- need to obtain high quality and zero defect target, under JIT implementation.;
- eliminating costs that do not add value;
- shortening product life cycle;
- adoption of non-financial measures in operational control;
- Benchmarking's development as a way to control costs and increase efficiency-continuous search of the best ways to accomplish tasks through constant comparison methods and their performance with other firms or other parts of the same company;
- adoption of information systems in real time: a production system based on computer use allows the analyst to collect information even during the production process and draw up in real-time reports on the size of performance indicators. Allow thus rapid elimination of deviations.

4.3. Standard-cost method in the base model - single cost: direction of improvement of Management Accounting and Calculation Cost in furniture enterprises

Standard cost method is classified as forecast calculation methods and operational tracking of the production process allowing the establishment of production costs in advance before the start of production and making budget control actual costs against the default, on the kinds of irregularities and cases, while deployment of the production process. In this way, it offers undeniable advantages of studying and analyzing intelligence on the line of production efficiency, can meet such an important function for modern enterprise management, that the investigation and prediction tool and is therefore a valuable tool for the decision.

According to the concept of this method, unit production costs must be calculated in advance, using for this purpose preset sizes. While carrying out the production process is organized operative tracking of expenditure that gives rise to that, by comparison with standard costs, to establish the irregularities on places of spending and on the causes, so as to make the budgetary control of costs. In the original conception of standard cost method no longer have to calculate the actual cost, because the standard cost is considered scientific cost and at the same time, real, reason for any deviation the actual Costs from Standard-Costs is regarded as a deviation to normal and as such should pass directly into financial results. Still not exclude the possibility of calculating the actual costs of production achieved. This is done adding, or, subtracting of the standard-cost a deviations taken from management accounting which will track not only on places the costs and causes, but also on products. Calculation model is as it follows:

$$Cu_e = \frac{Ct_s \pm A}{Q} \quad \text{that,}$$

Cu_e = is the effective unit cost;

Ct_s = total Standard-cost;

Q = quantities produced.

The main work that involves the application of the standard cost method is:

- *developing the standard calculation by product;*
- *Calculating, tracking, analysis and reporting standard deviations for control budget;*
- *Management Accounting organizes in terms of application of Standard-cost method.*

Standard-cost method has the advantage of calculate labor rationalization, as the standard unit cost determined in advance is considered real cost and therefore not calculated the actual cost of finished products and production in progress at the end of each management period, and deviations are regarded as deviations from normal and pass directly into the company's financial results. The finished product and that in progress may settle at the cost standard. This feature but not removes the possibility calculating the actual cost of time to time, by distributing deviations to the finished product and production deviations in progress by conventional criteria, such as, for example, report that standard costs of production.

Another advantage of the standard-cost method and that cost is that although the concept is based on total costs using the classification of costs production into direct and indirect, it uses and classification of costs into variable and fixed production, allowing cost analysis compared with output and calculation of specific indicators direct-costing method, namely the equilibrium point optimal activity, the coverage factor, coefficient and interval safety, required for making based scientific decision.

A main feature of the standard-cost method consists *in the existence of an adequate operational comparison between actual expenditure and that pre-established taken as the baseline.* The application of Standard-cost method, the standard version single cost *leads to increasing the practical value of accounting information and, implicitly, to improve the organization of economic activities.* All this results in a better foundation costs budgets and, consequently, establish benchmarks as well to express the normal conditions of industrial activity.

Management based on predetermined size as the standard-cost method *corresponds to the principle of objective-based management and accounting gives in its quality of providing useful information decisions and corrective action , a major importance.*

In these conditions, accounting becomes the industrial enterprises, a useful tool for management, enterprise management, as its main mission is not to determine the cost of production, but to check if it determined in advance, was respected leaders sectors. In this way, management accounting can make tracking and control of classification in provisions of the budget and can provide expenditure information on the level of expenditure production.

Standard-cost method aims, mainly, to increase the role of production costs in ensuring achievement of the objectives in directing and good function of the company. *The main purpose of such calculations is to provide operational information needed to budget, evaluate, coordinate and control the activity or enterprise.*

Starting from the role and place of management accounting information in the modern, application of standard cost method gives it a matter of expediency, given the leverage in the process of preparation and decision making to trigger corrective action.

The standard-cost method replaces the simply operations of collecting and recording the actual data, to compare them to the end of the management period to achieve the commands method used in furniture industry enterprises, by providing an analytical character, operational and information predicting that their exploitation *to increase the efficiency of future activity.*

A prerequisite for the practical standard-cost method, besides the existence of a scheme sufficiently comprehensive scientifically based standards, is the existence of a well-developed techniques and operations production programming. This implies requires the existence a corresponding level of the organization of production, and a high degree of knowledge and explanation of economic and technological factors of production for all products and, especially products and new technologies.

Organization in good conditions of primary documentation on the expenditure and production cost calculation, and proper organization of records deviations from standards are also necessary prerequisites for adopting this management accounting and cost calculation method.

Considering the advantages and disadvantages of each of the three variants of standard-cost accounting organization, **I think the alternative that best meet the management needs of furniture enterprises is the standard version single cost.** This option enables for establishing

effective costs deviations from the standard costs during the unfolding process of production, costs of calculation articles and on causes, which facilitates cost effective budgetary control and decision making at all high levels of command. This also eliminates workload caused by the operation of in progress production inventory, whereas the recording system of consumption and production obtained in accounts only standard cost calculation, it is to determine the accounting method.

5. Conclusion

As a synthesis of research results I appreciate the following:

- **cost is a synthetic indicator reflecting efficiency of planning systems, record and control.**

It is measured by total consumption related to production of product, conditioned of technology and production organization, so it is designed to evaluate the product produced at a concrete stage of the production process;

- each enterprise must acquire modern management techniques to insure formation one adequate information system of a specific activity carried. Market economy requires this action, and transform *cost information into the main tool to ensure competitiveness and profitability of the furniture enterprise;*

- choosing the most appropriate costing methods in an enterprise leads to the fulfillment of two major goals: *to ensure the issue of improving quality information and user operations, control them and adding a value.*

- the costing method on orders, which are used in the furniture industry enterprises, has a number of drawbacks and *is not oriented to meet the management accounting function:* getting accurate information on the cost of manufactured products, ensuring the efficiency of the structural subdivisions of manufacturing production;

- *Using Standard-Single Cost Method, applied in conjunction with direct costing method in enterprises in the furniture industry in Romania is a direction of improving managerial accounting.*

In conclusion, it can be said that this paper has addressed a complex topic research and interest, **as improving methods of costing and managerial accounting is probably a viable solution to companies in Romania to cope with strong competition from EU Europe, in complex economic context, particular XXI century.**

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THE IMPACT OF DISCONNECTION OF ACCOUNTANCY FROM TAXATION ON THE SHARE RESULT

Groșanu Adrian

Babeș-Bolyai University, Faculty of Economics and Business Administration, Cluj-Napoca, Romania

Răchișan P. Ramona

Babeș-Bolyai University, Faculty of Business, Cluj-Napoca, Romania

Berinde R. Sorin

Babeș-Bolyai University, Faculty of Business, Cluj-Napoca, Romania

The opinions regarding the optimum of accounting-taxation ratio are divided between the supporters of the disconnection between accountancy and taxation, on the one hand, and those of the connection between accountancy and taxation, on the other hand. A great number of scientists' points of view converge to the idea that the emergence of the accounting science was determined by fiscal reasons. During those days the single reason of accountancy was indeed that of determining the taxable base and starting from these premises the hypothesis that relates accountancy to taxation does not seem so old-fashioned. But along with the general development of economy we observe the coming forth of new and important participants to the economical activity, these being directly interested in the growth of the activity of the enterprise in question and providing them with information could no longer be overlooked.

Keywords: Disconnection, Deferred taxation, Inflationary phenomenon, Accounting gross profit.

JEL Code: M - Business Administration and Business Economics; Marketing; Accounting; M41 - Accounting

1.Introduction - Briefing on the history of accountancy, taxation and the accounting-taxation ratio

In order to illustrate the present-day stage of evolution and social prestige of a science, one should start with its history. Starting from this point we consider that an incursion in the accountancy and taxation history helps us to better understand the present-day stage, both as a form of scientific knowledge and as a social practice. Accountancy as we can see it today is a science representing the result of a long historical process and not the result of an intended will of economical agents or the product of some scientists' thinking.

Historians have been arguing for a long time and they still are about the origins and the events related to arising of accountancy as double entry (some consider the concept evolving from the accountancy as single entry, as the economical activities began developing, others, on the contrary, consider accountancy as single entry to be a sinthetization of the double entry⁵⁸⁰). Regarding these opinions we consider that the double entry is the result of the accountants' work, of their consequent preoccupation to dispose of the single entry gaps and to improve it step by step. In this field literature the opinions concerning the relation between double entry accountancy – capitalism, are also different. The question is whether the double entry accountancy generated capitalism or if the latter could be conceived without the double entry accountancy.

The German economist Sombart determined in 1982 that capitalism cannot be imagined without the double entry accountancy. He mentions that “the possibility and the impulse for achieving the

⁵⁸⁰ Ionașcu I., *Dinamica doctrinelor contabilității contemporane*, Edition Economică, 2003, pg. 13.

request of plenary development of the ideas belonging to the capitalist system: the idea of profit and the idea of economical rationalism were created through the calculations of double entry accountancy.”

This point of view has been severely criticised in time by historians, but especially by Fernand Braudel, who observes the fact that in some capitalist societies there are some important institutions that will resort relatively late to the double entry (insurance companies from London, The Dutch Company of Eastern Indies).

Anyway we have to admit that the double entry is an integrant element for capitalism. There is no doubt that all over the world the fiscal problem represents a preoccupation both for researchers and for the accountant practician. This thing is emphasised by the dynamic of the fiscal evolutions, the regulations stipulated by the fiscal texts being in a continuous change: “the fiscal text [...] acts exactly like a living body: it is conceived, it is born, it lives, sometimes well put up with, some other time hardly accepted, it disappears and it can be reborn, fed by different stimuli [...] Taxation is the result of the constant compromise between the care for justice and the necessity of obtaining an income”⁵⁸¹.

The results of the published researches lead us to the hypothesis according to which the study of the fiscal relations approach very rarely the period before the XVIth century, in a concret way.

The “barter” fiscal forms are gradually abandoned, just as capitalism begins to install, when the merchandise production becomes dominant, and the public actions start to vary and amplify. At this moment “the money” taxation begins. Thus until the second half of the XIX century, the capitalist system will put its mark on taxation. The real modernization of taxation begins after 1870, when a second phase of the industrial revolution takes place and the process of centralization of the micro economical structures begins. At least until the XIX century, the French treasure up in order to buy land, to pay taxes, to buy a public function. In XVII century one can find the same feudal rights all over Europe, but starting with the XVIII, in France the bondage is abolished, the peasants wanting to become landed owners and to break free from their landlords. During this time England remains governed and administrated by landlords, who are the land owners.

In this period the tax system proves to be quite unjust all over Europe, but it seems it manifested strongest in France. While here the royal power gives tax immunity to the king, as a consolation for effective ruling, in England the aristocracy is the one that endures the most severe public expenses, as an exchange for governing. Therefore the privilege of tax immunity is owned by the poor in England, the aristocracy enduring most of the taxes, while in France most of the taxes are endured by the poor. These will be the origins of the emergence of two situations and attitudes that are diametrically opposed towards taxation, between the two great European rivals, and they are emphasised also by the priorities of the business men in those two countries at that time: the French bourgeois using his savings to buy a public function, while his English homologous invests in trade. After the World War II the financial systems reflect and are conditioned by the political doctrine of each regime that comes to power. During this period the society, and at the same time the trade economy, began to evolve mostly towards a capitalist market economy (decentralised), on the one hand, and a planned collective economy (centralised) on the other. “The place and the form of taxation in these two types of economical systems will be very different, because the tax is basically related to the decentralised economy. It disappears in the pure centralised state economy”⁵⁸².

2.The importance of using the case study in order to emphasise the research results

The case studies presented during the research activity do not have to be chosen starting from the fact that they are representative from a certain point of view. That is because the research does

⁵⁸¹ Delesalle F. E., Delesalle E., *Contabilitatea și cele zece porunci*, Edition Economică, București, 2003, pg.35.

⁵⁸² Beltrame P., *Les systèmes fiscaux*, Presse Universitaire de France, Paris, 1979, pg.10.

not have to lead to establishing some statistical generalizations. The priority should focus on the theoretical generalizations⁵⁸³. **Referring in particular to the case studies that we analyze for the theme of this paper work, we estimate that they have an illustrative - descriptive character** because on the one hand it is intended to be presented the classical accounting practice (emphasising the determination of the taxable profit in historical costs), and on the other hand it is tested the implementation and the consequences associated with the implementing of the innovative accounting practice (the possibilities of using the alternatives from the current cost perspective). **The exploring character of the case studies** (consisting in a preliminary investigation regarding the way in which the accounting practices are implemented) arises from the presentation of the way in which the accounting practices were implemented, which referred to the deferred taxation starting when the regulations harmonised with the international legislation in the accounting field were adopted.

The practical details are presented through the case studies of descriptive – illustrative – exploring nature, according to the case studies typology described above. Taking into account the utilization of the case studies we indicate the existence of some inductive influences in the content of this paper work.

The case studies show the practical reality at national level, with continuous references to the theoretical aspects.

The case studies focus on the activity of large enterprises and less on the activity of middle size and small enterprises, (in the large enterprises it can be taken into consideration the disconnection between accountancy and taxation, some scepticism related to the accounting creativity or the determination of the dimension of the artificial profit, that comes more from inflation and less from the growing of the activity efficiency) because they represent a greater interest for a great number of investors since they are quoted on the capital market.

As regarding the emphasizing of the impact of the deferred taxation, some case studies were chosen to illustrate the situations generating the temporary differences (some applied in the Romanian accountancy, others being just proposals in the course of implementing, arguments being brought to support this purpose).

3. Results and discussions

3.1. Models to determine the contingent interest tax

In order to emphasize the effects of accountancy connection to taxation combined with the effects of the inflationary phenomenon, some models of dimensioning the economical entities' result in historical costs, current buying capacity, current costs and real terms were presented. In order to implement them the numbers of consumer prices were used, which were provided by the National Statistics Institute. The dimensions of the accounting result can vary significantly from one model to another. The main critique that was made regarding the accounting profit and also the fiscal one, determined by historical costs, is that it leads to subevaluation of expenses (related to stocks and assets' underevaluation). The consequence is an overevaluated profit. This is shortly the explanation for the actual profitableness of that enterprise and to a less extent the explanation of a inflationary phenomenon.

We can conclude that the proportion between the real profit and the one caused by inflation depends on:

- the activity area of the enterprise;
- the dimension of the inflationary system in each economy.

We estimated that the inflationary impact with consequences regarding the artificial amplification of net or fiscal profit, is as stronger as:

- the number of immobilizations and stocks within the assets is larger;

⁵⁸³ Malcolm S., Research methods in accounting, SAGE Publications Ltd, London, 2005, pg.25.

- the number of expenses regarding the stocks is more significant as far as the total expenses are concerned during a financial exercise;
- the stock circulation flow is very low;
- the period for recovering the debts is longer than the period for paying the debts, strictly considering the number of days and not the activity field.

Therefore an enterprise that does not possess assets (they are lent) and that does not show significant stock consumes (a service provider enterprise) will not be much affected by the inflationary phenomenon even if the latter is intense enough. The outcome of such an enterprise, taking into consideration a medium level of inflation determined by historical costs, will not be too different from the outcome established by methods that rely on the impact of the inflationary phenomenon.

On the other hand, the more intense the activity production is, the greater the inflationary impact. Such an activity may require a larger production facility. Their amortization at the historical cost level, inflationary depreciated will only increase the artificial fiscal profit, since these expenses will not be levelled with the afterward registered incomes that were increased by inflation. This phenomenon has been partially reduced by the Romanian accounting system by the authorization of some revaluations, their surplus being deductible as a supplementary amortization. Following the decrement of the inflationary phenomenon, the deductibility of the amortization surplus has been abandoned, that is why few enterprises still resort to annual revaluations in order to correct the inflationary phenomenon. Even though its effect is not that strong however it could have a major impact on decapitalization. Intense activity production involves the existence of a large stock of raw materials. A later consume can lead to a subevaluation of the production cost and implicitly to the achievement of a artificial profit that would get to a real more diminished level by deflation or even to losses. We believe that this could be considerably amplified if the circulation flow of those stocks is very low:

- either because the material stock is oversized;
- or because the production system has a long cycle of production.

We can conclude that the enterprises in the production field are more exposed to the inflationary phenomenon than the enterprises acting in the field of service providing (where the number of stock consume involved in the production cost is less significant than the total amount of man-hour).

The stronger the inflation, the larger the artificial profit. Therefore there will be an inflationary tax that will trigger the decapitalization of the enterprise when it is paid out, because it has no real efficiency basis of the economical activity.

We believe that the implementation of the historical cost method in dimensioning the fiscal result is advisable, due to reasons deriving from uniformity necessities. On the other hand, it would be appropriate the implementation of one of the other three methods for internal informing necessities regarding the appraisal of the inflationary impact and its partial counter-balance.

We consider appropriate the implementation of the model of the result determination in the current buying capacity within those economies that confronted with ample inflationary phenomenon, because in this case, the prices level evolves uniformly for all elements, on a strong rising trend.

On the other hand, the result model in the current costs involves the up-dating according to some factors specific to each element that is about to be re-dealt with, therefore the difficulty level related to uniformly choosing these factors and to the implementation of this model is very high. Its advantages are that if there is an economy where the prices levels do not evolve uniformly for all elements that are re-dealt with, the inflationary impact can be more efficiently cleared out.

This is Romania's case, which over the last years has not been confronted with very ample inflationary phenomena at national level, but, on the other hand, the prices for certain categories of goods have significant rising evolutions much over the general level of prices. This thing can influence significantly the result determined by current costs, in an enterprise that owns productive assets.

3.2. Models to determine the deferred profit tax

The fixed report model or the deferred model involves the calculation of the deferred tax based on the legal tax basis in the exercise of setting the temporary difference. More than that, no adjustments are necessary in order to reflect the changes that appeared in the tax quota, the future quotas of profit tax being irrelevant. This model emphasizes the principle of connecting the income and the expenses in that year when the temporary differences appeared⁵⁸⁴.

The arguments for the implementation of this model are the following:

- the profit and loss account is the most important financial statement, and the connection of expenses to income represents an essential feature of the accounting process. Therefore, it is less important whether the deferred taxes from the balance sheet are not assets or real debts, as a concept;
- deferred taxes are the result of past events and transactions that generated temporary differences. Since accountancy uses historical cost as an evaluation basis for most of the economic events, the deferred taxes should be evaluated similarly;
- the historical quotas of profit tax are verifiable. From this point on, the deferred taxes calculated based on the historical quotas increase the reliability of accounting information.

The variable report model or the debts model involves the calculation of the deferred tax based on the quotas estimated to be in force in the exercise of the temporary differences re-assimilation.

The arguments that sustain this model are:

- the accounting balance sheet is an important financial statement. The calculation of the deferred tax based on the quotas in force in the year when the temporary differences are reabsorbed increases the predictability of information regarding the future flows in treasury, the financial flexibility and liquidity of the enterprise;
- the calculation of the deferred taxes based on the future tax quotas, is more appropriate conceptually speaking, because their value represents future probable economic sacrifices (future tax payments) or future economic benefits (future tax decreases);
- the deferred taxes derive from past transactions, but they are taxes to be paid (or diminished) in the future, considering the quotas in force at that time;
- accountancy mostly relies on assessments. The calculation of the deferred taxes based on some future quotas creates information that is not less reliable than that regarding the assets depreciation during estimated utilization period.

The net of tax model considers the profit tax expense to be equal with the sum that is to be paid to the state in the name of the current exercise and considers the fiscal effect of the temporary differences as an adjustment of debts (assets) and expenses (income). However the implementation of this model is difficult, because some temporary differences cannot be associated with individual debts or assets. On the other hand, the information presented in the balance sheet is questionable when implementing this method. Such an example is the irrelevance of the value for an asset stated in the balance sheet, if its cost recover and the specific tax were taken from its entrance value.

⁵⁸⁴ Feleagă N., Malciu L., Fair accounting versus bad accounting, Edition Economică, București, 2002, pg.69-72.

Taking into account the things mentioned above for the determination of the profit tax, we pronounce in favour of the implementation of the deferred tax method, and within this, of the variable report model.

Therefore, the Romanian accounting system maintains in this case the primordality of the caution principle in accountancy, that is characteristic to the continental accounting systems. Taking into account this point of view, it is considered that the probability of accomplishing each of these alternatives is quite low and the option is the disclaimer of the debts regarding the deferred tax. This situation is in accordance with the IV Directive, because it does not mention the obligation of claims and debts regarding the deferred taxes to be reflected in the individuals accounts. Only the VII Directive mentions that deferred taxes in the consolidations situation can be registered.

4. Conclusions - The impact of disconnection between accountancy and taxation

The significant level where the disconnection between accountancy and taxation (by the reflection of the deferred tax book debts and debts) influences the share result, can be observed in the reporting for an period, and can be expressed as below (for an romanian case of study) :

-romanian currency lei-

		<i>The connection between accountancy and taxation</i>	<i>The disconnection between accountancy and taxation</i>	<i>The difference</i>	
				<i>Absolute form</i>	<i>Relative form</i>
1	<i>Net result</i>	10.041.331	10.399.078	357.747	3,56%
2	<i>Number of shares in circulation</i>	207.981.560	207.981.560	-	-
3	<i>Share result (rd.1/rd.2)</i>	0,04828	0,05	0,002	4,14%

In this situation we calculated an accounting result connected to taxation (without the reflection of the deferred taxes impact) an accounting result disconnected from taxation (taking into consideration the deferred taxation). The share result determined by starting from these two situations shows a 4,14% plus for the disconnection between accountancy and taxation. We believe that this difference is significant for an economy where the capital market is very developed, where a variation of 4,14% of the marketable share course is very high, the variation being only from reasons regarding the connection or the disconnection between the accounting result and taxation, in relation with the importance of this information for investors.

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THE IAS/IFRS STANDARDS SYSTEM BETWEEN HARMONIZATION AND DEFORMITY

Hlaciuc Elena

University Stefan cel Mare Suceava

Faculty of Economics and Public Administration

Socoliuc Marian

University Stefan cel Mare Suceava

Faculty of Economic and Public Administration

Mates Dorel

West University Of Timisoara

Faculty of Economics and Business Administration

The development of competition, the globalization and the growth and integration of the capital markets require comparable accounting information based on superior- quality standards, an accounting information to consolidate and not to obstruct the global efficiency of the market .The obligatory adoption of the current IAS/IFRS norms for the creation of the financial statements of the European companies- and especially of the listed ones- are a necessary step for the full integration of the financial markets of EU member state.

The 4th and 7th CE directives contributed to the harmonization of the base accounting information of the stock companies, determining a general improvement of the European accounting norms quality, and this due to the greater comparability of the companies' account, which eased the activity of the trans-border companies.

Keywords : IAS/IFRS norm, accounting information, deformity.

JEL code: M 41

But, the accounting directives did not manage to reach the objective of full comparability for the European entities' balance sheets, in exchange obtaining a "formal equivalence" of the optional accounting norms which is more simple.⁵⁸⁵

On one side, the lack of a full harmonization is a consequence of the chosen instrument; the directives are normative acts, in essence principle norms, suspected of a different application in the member states. It is not surprising that the accounting directives admitted, in a series of cases, alternative solutions or optional accounting treatments, or that they haven't challenged all the aspects of the accounting domain concerning the balance sheet. The use of a greater number of general and principle notions did nothing else but amplify the interpretations given by each member state, reducing the convergence degree of the national accounting norms.⁵⁸⁶

On the other hand, historically and politically speaking, choosing a principle instrument, such as the directive one, is certainly appreciated; the presence of a large number of accounting options

⁵⁸⁵ Fortunato S. – *Armonizzazione contabile fra sovranita e globalizzazione*, Rivista Soc., 1999, pp.329.

⁵⁸⁶ Crasberg B.M.- *The role and future plans of the International Accounting Standards Committee*, Quaderni di Finanza Consob, nr. 31/1998, pp.20 – In this book are treated the differences existing between the national accounting techniques, but also between the interpretation of the comune communitarian normatives; Adamo S.- *Problemi di armonizzazioni dell'informazione contabile*, Milano, 2001, pp. 231; in both papers, the accent is put on the necessity for a common accounting language, derived from the complexity of the markets globalization process

eased the approval of the directives and their implementation in various countries of Europe, allowing to surpass the resistance of the same member states to the accounting harmonization policy preferred by the communitarian institutions. It is enough to think about the long periods of time that were needed to implement the accounting directives (Italy, for example, implemented the 4th directive after 13 years from the deadline) in order to realize the difficulties brought by the tendency to impose the member states to give up- even partially- the own accounting traditions, consolidated and to converge to an unitary model.⁵⁸⁷ The slow process of fully applying the principles established within the directive was the cause of their quick ageing; while the member states were struggling to comply their own national legislation and accounting practice to the communitarian requests, the social and economical context changed, making the directives to become completely inadequate to reach the objective to ease the intra-communitarian exchanges. The most radical changes are the ones concerning the financial markets. During the 90s, the international real estate markets, so as the European ones went through a deep changes period, mostly due to the increased use of the new IT technologies and of the economy's globalization, which made possible reaching high mobility levels of the capital, leading to a progressive closeness of the financial markets.⁵⁸⁸

The evolution of the international financial scenario lead to the increase of the European society number which intent to enter an extra- national context (the so-called global players) and which are obliged to feed with balance sheet information that is more comparable and complete, facing the ones supplied by the balance sheets made under the communitarian directives, applied in a pretty different manner in each member state, this problem becomes more pragmatic and dramatic in the case of the investigations on the extra- European markets, as a consequence of the obligation stipulated in the majority of the rulebooks to make the reconciliation of the accounting prospects with the local accounting norms.⁵⁸⁹ Also within the EU, adopting applicative disciplines and national procedures that are very detailed and differenced denied the possibility to mutually recognize the accounting prospects⁵⁹⁰ which the Union aims to reach, with unavoidable

⁵⁸⁷ the adherence of the national accounting traditions concerning the making of the financial statements was highlighted in numerous studies, which during the 90s have tried to actually measure the convergency degree of the european norms and accounting practices, by which are also included: FEE- *Comapartive Study on Conceptual Accounting Frameworks in Europe*, may 1997; FEE- *The role, position and liability of the statutory auditor in the EU*, januarie 1996; Lainel J.A. and Callo S.- *The effect of Accounting Diversity on Internatonal Financial Analysis*, vol 35, nr.1, 2005, pg.65; Onesti D.- *Fattori ambientali e comportamenti contabili*; Torino, 1995, pp. 246; Rusconi G.- *Il bilancio in Europa*, Milano, 1999

⁵⁸⁸ Venuti M. – *Il bilancio di esercizio fino agli IAS/IFRS*, Milano, 2006, pp.348 In which is treated an ample presentation of the birth and evolution of the “new course” of the European accounting strategy starting with the 90s; it is also foreseen, for the European area, which the integration process for the financial markets was accelerated and consolidated also by the introduction of the euro. The necessity for accounting harmonization is not a theme debated only for the EU context, but on a world level. For a recognition of the benefits that should result from a global harmonization of the financial statements of the listed companies, look at: Adamo S. – *Problemi di armonizzazioni dell’informazione contabile*, Milano, 2001, pp.45

⁵⁸⁹ Of a significant importance for the European companies was the reconciliation obligation of the balance sheets imposed by the Security Exchange Commission (SEC) to all the companies, which intended to be listed in the US. Until the end of the year 2007, the SEC imposed that the balance sheets of the companies listed in the US must be elaborated according to the USGAAP. In order to understand better cost and disharmonies organization regarding the necessity for accounting harmonization of the companies, the so-called multi-listing, the studies of Zvrolo A. - *La gobalizzazione dei mercati e l’armonizzazione delle regoli contabile*, Rivista dei Dottori Commercialisti, 1997, pp.824 are recommended.

⁵⁹⁰ Both side recognition of the accounting prospects was prefigured by the Council Directive of December 21st, 1989, no. 89/666/CEE (the so-called 9th Directive) concerning publicity of the branches listed in a member state by certain companies under the legislation of another state.

consequences for the European emitters to elaborate and present more accounting documents fascicles, in order to be listed in the member states, others than the ones coming from.

The evolution of the main European directives in the accounting harmonization process

In the situation where the communitarian institution decided on abandoning the gradual harmonization policy, which began at the end of the 60s in favor to a decisive impulse to a real “standardization” of the accounting rules⁵⁹¹, applied by the “global player”, by implementing and applying an unique set of accounting standards, initiating this process is announced in November 1995, by publishing the communication called: “The accounting harmonization: a new accounting strategy compared to the international harmonization process”⁵⁹², through which the EC solicits the attention to be focused on the necessity, on one hand, to eliminate the existing differences and on the requests of the international capital markets (therefore improving the value of the information and the comparability of the balance sheet data), and on the other hand to insure Europe with the possibility to reasonable contribute to the international developments concerning accounting harmonization.

The accounting harmonization method used in the European accounting directives of the 70s and 80s, and also the new strategy of the Communitarian Institutions, wish to assure the fact that the European companies can operate both on the European markets and on the international ones, based on an unique set of accounting standards. The new approach imposed that the EC individualized or elaborated accounting rules able to compose the new accounting language of the European companies.

The hypothesis of the “autonomous” elaboration of a communitarian set of accounting standards was unreal and twice more inefficient. On one hand, creating a complete and coherent set of accounting standards could demand for a very long period of time and obvious investigations, in order to solicit the approval or the advice of the highly- professionally trained accounting personnel; on the other hand, this could turn out to be, in essence, useful, because it would have done nothing else that introduce an additional diversity and disharmony element for the financial markets.⁵⁹³

The most rational solutions were to identify which were the most spread standards, and the most adequate ones to reach the objectives of an unique market. The selection process of the Committee was no doubt eased by the existence of at least 2 accounting standards, capable to recognize and spread as ample as possible, within the European companies, the standards elaborated by the IASC and the USGAAP American norms.⁵⁹⁴

⁵⁹¹ It is necessary to recall that in the communitarian area, the harmonization is the process by which are eliminated the differences existing between the national legislations deriving from norms – Caruso B.- *Armonizzazione dei diritti e delle legislazioni della Comunita Europea*, in Enc. Giur, vol. II, Roma, 1993

⁵⁹² Com. CE (1995), 508 of november 14th, 1995.

⁵⁹³ As stipulated in Communicate 508/1995, paragraph 4.6 shows that on the Committee’s decision, a significant influence was also of the economical-financial community’s opinion – Fradeiani A. - *La globalizzazione della comunicazione economico-finanziaria*, Milano, 2005, pp.24

In communicate COM (2000) no. 359 of June 13th, 2000, the Committee reported the results of certain studies, according to which in the year 1998, almost 210 companies of the EU made and published own balance sheets according to the IAS standards, while 235 made balance sheets based on the USGAAP norms. In an initial stage, the Committee tended to make an agreement with the USA (Communicate COM/508/95, paragraph 4.3). On the international level, there were already recorded tendencies for accounting harmonization on behalf of other international organizations, such as the UN, OCSE and WTO (indicated in the same COM 508.95, paragraph 2.9). None of these tendencies produced “results which to have a certain probability of being recognized on the international capital markets in an adequate period of time for solving this urgent problem” (paragraph 4.4). Concerning the proposals made by the OSCE and UN in terms of harmonization, during the 70s – simultaneously to the creation of the IAS – look at Burggraaff J.A. – *L’IASC una riposta all’esigenza de armonizzazione contabile a livello mondiale*, Rivista dei Dottori Commercialisti, 1982, nr-31-32.

Both the IAS and the USGAAP, even if very different concerning the accounting solutions concerning various hypotheses, were based on the same option, aiming to make the annual balance sheet, which is the prevalence of information functioning in confronting the market investors.

Both the IAS and the USGAAP are orientated towards investor protection, more than any other stakeholder category. Therefore, the choice was made by the Communication no. 508/95/CEE, where the Committee individualizes for the standards made by the IASC, the reference point for the convergence process taken into account by the European accounting systems.

Choosing the IAS was motivated not only because of the high-quality level of these norms, but also because of the difficulties that would have derived from choosing the American standards for the European situation. The IAS are actually based on a vision of the balance sheets, with an international and often- contextualized tendency, while the USGAAP mostly reflect the characteristics of the American market. Applying the USGAAP imposes, as a consequence of these principles, numerous characteristic detailing, but also the existence of a monitoring authority, which like the SEC must be trusted with regulation and penalty competences.⁵⁹⁵

For the political plan, certain difficulties may have been developed because of the new accounting standards adoption, for whose elaboration the EU, and all its members had no influence. Operationally, for the 1995 Communicate, the Committee manifested its own “complicity” intention to the standards elaborated by the IASC⁵⁹⁶ and declares to start a confrontation with this organization in order to check the compatibility of the IAS with the communitarian right (in terms of European accounting legislation). The hypothesis of modifying the communitarian accounting directives (especially of the 4th and 7th) was presented as an optional one, and most likely an improbable one; the committee made no secret out of the state’s repugnance to eliminate the options present in the directives.⁵⁹⁷

Further to the Communicate of 1995 publishing, the EC initiated a deep examination of the IAS standards, in order to check effective conformation with the communitarian legislation in terms of accounting.⁵⁹⁸ . A consequence of this study was the making, in the year 1998, of an accounting directive. Meanwhile, the EC developed (as stipulated in the 1995 Communicate) a promotion activity of the IAS norms within the member states and the European companies, these activity of “moral fusion” being due to the recognition premises of the IAS standards on behalf of the national legislation of certain member states.

As a consequence of the made analysis and the continuous evolution of the markets, the Committee decided on initiating an own and real normalization (standardization) of the listed companies’ balance sheets, which were more sensible to an accounting harmonization activity. By a series of publications in the years 1998 and 1999⁵⁹⁹, the EC highlights the importance of the accounting harmonization and its availability to follow the strategy stipulated in the 1995 Communicate, setting its own “action plan” for the financial services sector.

⁵⁹⁵ According to the Communicate of June 13th, 2000 paragraph 1.5.

⁵⁹⁶ In the English version, the European Committee clearly expresses its intention to support the IAS with the (political) support of the Union.

⁵⁹⁷ Paragraphs 4.5 and 5.3 of the 508/95 Communicate highlight the fact that the accounting harmonization process may have seen prior the consolidated balance sheets.

⁵⁹⁸ The study was trusted to a certain task force of the so-called Contact Committee, created by article 52 of the 4th directive, especially to ease the harmonized and corresponding application of the *genius comitology committee*. The EC uses the activity performed by the accounting forum, the consulting organization, made in the year 1990, with the purpose to study thoroughly those more controversies in accounting matters, by providing with certain documents adequate to ease the debates and if possible to try and look for a reconciliation on the adequate technical solutions.

⁵⁹⁹ It is about COM (1998) 625 of October 28th, 1998 called *Financial services – elaborating a framework*, and also SEC (1998) 552 of March 31st, 1998 *The equity - a solution to create work places in the EU*.

The EC strategy obtained an official approval of the European Council with the meeting from Lisbon in March 2008.⁶⁰⁰ In order to approve the strategy proposed by the Commission, the EC highlighted the importance of the financial services sector as an engine for the European development, repeating that the fundamental hypotheses for creating an unique financial market in Europe are: transparency, comparability and the credibility of the balance sheets published by the European companies. The Council indicated the year 3005 as being the deadline to complete the full integration of the financial services, justifying this short period by the importance assumed by the informational technologies, due to which the possible investors had the possibility to access, elaborate and compare in real time the financial data of various companies. Based on this, in the year 2000, the Commission officially initiated the accounting convergence process, stipulated in the 1995 Communicate and reaffirmed in the “Action Plan” of 1998, by the 13th of June Communicate⁶⁰¹ - the Commission confirming its own availability to get in time to a full harmonization of the annual accounts of the European listed companies, using for this purpose the accounting standards elaborated by the IASC (in present IASB).

Conclusions

The official adoption of the IAS, on behalf of the EC, was accompanied by an official recognition on behalf of other influent international organization. In the same year, both the Representing Organization of the Financial Markets Control Authorities of the world main countries, the IOSCO (International Organization of Securities Commission) and the International Organization of Bank Supervision Organization- the Basil Committee formally approved the use of the IAS standards in making the balance sheets of the listed companies and banks.

The IOSCO, especially, by the resolution of January 16, 2000 recommended to the main members (that is, to the supervision organization for the Stock Markets of the main countries of the world) to allow the international emmitents the use of the IAS standards in making the financial statements. The Basil Committee published, in April 2000, a report⁶⁰² in which it explains their support for the international standards of the IASC, having a significant impact over the credit institutions. The decision of the EC to fit within a global tendency to appreciate more and more the IAS standards, involved eventually the organization responsible for the elaboration of the USGAAP, the FASB; in September 2002, the IASB and the FASB signed a treaty by which they agreed to promote the convergence of the mentioned accounting standards.⁶⁰³

Of an indubitable relevance concerning this fact is the result obtained at the end of the year 2007, by the cooperation of the IASC and FASB: on the 15th of November 2007, the SEC finally decided on giving up the reconciliation obligation between the annual accounts made by the

⁶⁰⁰ The Extraordinary European Council of March 23rd- 24th 2000 is known for the fact that it approved the so-called “Lisbon Strategy”, aimed to re-launch the process of completing the unique market, establishing the objective and will to make out of the EU, by the year 2010, “an economy based on the most competitive knowledge in the world”. After the Lisbon Strategy, in the year 2005 the Committee made a complex *re-launch* program of these; also look at COM (2005) 24.

⁶⁰¹ Communicate COM (2000) 359.

⁶⁰² www.bis.org/publ/bcbs70.pdf?noframes=1.

⁶⁰³ IASB – FASB -*The Norwalk Agreement* – Memorandum of Understanding, Connecticut, September 18th, 2002. The decision to make an agreement with the IASC was mostly determined by tensions and critics suffered by the FASB with the boom of the scandals concerning the *dot com* speculations and the great financial scandals concerning important US companies (Enron, WorldCom etc). By the next „Memorandum of Understanding” of February 27th, 2006 (entitled *A Roadmap for Convergence between IFRS and USGAAP 2006-2008*), the IASB and FASB committed to develop together a common accounting standard set, which should represent the necessity to modify, in a significant manner, both the IAS/IFRS and the USGAAP, the subject being the same accounting behavior .

European companies according to the IAS/ IFRS with the USGAAP⁶⁰⁴ ones. On this occasion, the SEC highlighted that this must not be understood as a finalization of the cooperation between the IASB and FASB, but as an important step to creating an unique accounting standard set, of high quality, globally applied; the convergence process between the IAS/ IFRS and the USGAAP continues.

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⁶⁰⁴ The decision of the SEC follows similar authority decisions of countries such as Australia, Hong Kong, South Africa. Canada, India and Korea announced that using the IAS/IFRS standards will be accepted starting with the year 2011. In the same year, convergence should be reached between the IAS/IFRS and the Japanese accounting standards. In Brazil, the listed companies should use the IAS/IFRS from 2010. Look at the information provided by the journal of the IASB and the IASC Foundation, *Insight*, Q4, 2007.

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ACCOUNTING CONVERGENCE ON ECONOMIC CRISIS

Holban (Oncioiu) Ionica

Academy of Economics Studies from Bucharest

If normalization accounting is the process of harmonizing the presentation of financial statements, accounting methods and terminology, accounting convergence is the process by which accounting standards are developed in a way that is able to lead to the same fact or purpose, by highlighting the similarity of national - regional - international.

This paper put in light the importance of the normalization and harmonization process, what it's done in and what we have to do for that in Romania.

Keywords: accounting, globalization, convergence

JEL: M41

Introduction

The contemporary accounting phenomenon has features based on the need or harmonization, convergence, compatibility and unity in book-keeping, seen also as general objectives of this field, which could be realized only by its normalization. The main phenomena governing the process of current accounting reform worldwide are: normalization, harmonization, convergence, conformity and accounting internationalization. These phenomena act both individually, and through a mutual inter-conditional relationship. The accounting convergence is the process of elaboration of accounting norms in a manner able to lead to a similar fact or goal, by stressing the similarity between national - regional - international levels.

A second reason leading to the harmonization/convergence of accounting systems are the desire for unity among conditions of competition in various countries. A synthesis of phenomena and aspects which could be considered as causes leading to the need for international accounting harmonization/convergence includes:

- the economies encountering an accelerated process of globalization;
- the requests from financial accounts users (a factor determined from the first one). Thus, we shall aim towards a unity of economic language and accounting as an instrument of communicating information;
- the extension process of the European Union;
- the phenomenon of capital markets globalization. The growth and globalization trend of large companies' activities lead to a great number of foreign companies purchases. This in turn led to an increase of their financial needs, leading in the end to the development of international capital markets.

The fundamental issue of accounting harmonization/convergence is also related to the reliability mark for the accounting activity as a whole. The statement is based on the users' level of trust regarding the occurrence that the same public company, for the same period, in different countries, has different figures about the size of their own capitals and results, as a result of complying with the regulations in force in these respective countries.

Implications of convergence on accounting system

Analysing what has been stated before, the harmonization/convergence of international accounting is a positive phenomenon, and its realization is determined by the current evolution of the economic life in general, and accounting in particular.

The events characterizing the beginning of the third millennium show that the process of market globalization is not enough to create the desired economical and socio-cultural development. The economic balances request this process to be a unitary one.

Within this dialogue, using, generally, the economic language, and specifically, the accounting language to communicate needs unity not only in thought, in the conceptualization of methods for organizing and managing companies, for administering and controlling their operation, but also in the accounting principles and methods for elaboration and presentation of financial accounting balances.

The globalization is a forced adventure, while the harmonization, convergence of accounting norms can be considered as its corollary. The production of accounting norms did not commence and, naturally, will not end with the one realized by IASB, it is centuries old and has been defined as a form of expressing political power (we remind you that even since 1673, the great political figure Jacques-Baptiste Colbert, theoretician of mercantilism and protectionism, introduced in France financial book-keeping rules, subsequently included in France Commercial Code from 1807).

“To converge” means “to direct towards the same point, to the same goal”. In the field of accounting, convergence is a relatively new concept, being employed once the objectives of the International Accounting Standards Board (IASB) were defined, one of them being “to aim towards convergence in national and international accounting norms, with the goal of offering high quality solutions”.

The idea of convergence implies a approach, certain members of the Board being responsible for following the connections with the national, public or private, normative organizations in big countries which can have their own opinion at any given time (United States of America, Great Britain, France, Germany, Japan, Canada, Australia and New Zealand), in order to analyze the exigency of norms as compared to those issued by the national normalizing partners.

In this context, the national and international intercessions have as a target realizing a convergence between national and international norms.

Convergence does not mean however the failure of accounting harmonization, but an obvious intercession aimed towards using an appropriate communication in a globalizing context, with the goal of having a common reference, International Financial Reporting Statements, while the short term goal of convergence is to eliminate the individual differences between US GAAP and the current IAS IFRS. Within this short term project, FASB analyzes various issues and either suggests alterations in the American norms, in order to eliminate the differences found, or it communicates to IASB the reason for which it decided not to alter the provisions of US GAAP, while at the same time IASB is carrying on a process of revising IFRS, taking, as the case may be, the same measures as FASB.

The IFRS reference, that the convergence is aimed to, employs a certain accounting philosophy, novel for many companies, related to fundamental principles within a conceptual framework, with no connection to the legal or fiscal influences. In order to keep the accountants' perceptions, a decision was taken stating that, starting with January 1st, 2005, only the marked companies should apply the IFRS reference in its current form. While five years ago we had a serious reticence when discussing the creation of a common accounting language, today things are, in our opinion entirely different.

A study with the goal of identifying the stage of convergence between national accounting references and IFRS showed the significant progress seen in 2003, that is, before the decision of the 91 countries which authorized or imposed the application of IFRS starting with January, 1st, 2005. But future studies should not exclude the hindrances encountered by the accounting convergence:

- The complexity of certain norms, mainly those regarding the financial instruments and, generally, any norm stating the recognition of the actual value, a very sensible issue in our opinion;
- Any national accounting reference bears, in one form or another, the mark of fiscal grounds;
- Accountants training, translation of norms and interpretations.

Convergence of accounting for Romania will assume a single set of standards and Romanian professional accountant will therefore be required to become a man who has the right to think, to reflect the accounting treatment of each transaction, to deepen the processes and phenomena that have to find in financial reporting have the right to choose between several types of accounting treatment, i.e., will be entitled to use professional reasoning. European integration may have consequences for the two types of accounts in Romania. The first of them are positive. An advantage of convergence is the communication in a single language that provides a high level of trust and increase opportunities of access to capital markets and allows multinational groups to apply accounting principles common to all branches. He discussed more content convergence with International Financial Reporting Standards, and concluded that broke away was that it is essential and more accounting information users want to see done. The basic desire is to remove the accounting guidance in Romania to provide more information to one user, namely the state. This aims to introduce a new open system professional judgments transparent financial statements and accounting rules compatibility with IAS / IFRS.

Convergence of accounting for Romania to be accepted as a phenomenon "physical" that it is pointless to try to challenge or passing: but must necessarily understand it, in terms of advantages and disadvantages, also. Especially for small nations, as is the case of Romania, understanding and implementation of accounting convergence phenomenon will make the difference between winners and losers.

Conclusions

Convergence is not an easy thing! Even the president of FASB declared that the greatest challenge of the convergence process was to persuade the national business communities about the necessity for an international accounting language. Even if Securities Exchange Commission (SEC) and the multinational companies in the USA are privileged by this convergence, the small companies and the family level businesses are less happy. Perhaps people don't like change in general, preferring rather to keep their status quo.

It is thought that the convergence process will be a long and expensive one, mainly due to the large number of differences between the US GAAP and IAS, but, if realized correctly, this process will mean an important international success. The path will not be easy and will have to deal with "revolts", and we hope that the disputes between IASB and the European banking and insurance industries, regarding the financial instruments accounting, as well as the decision of the European Commission to delay the application of IAS 32 and IAS 39 would not have a negative influence over the international accounting convergence process.

Romania is the irreversible processes of standardization and convergence aimed at production and communication of financial information relevant, reliable, comparable language to use a joint account all categories of users. If Romania fails to move quickly, will be the certainly left the bar. Integration into the EU could mean a switch to an acceptable level to IAS / IFRS. The future will show whether, in the context of European integration, convergence will be obstacle or incentive for change in accounting in our country.

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A SURVEY ON BUSINESS EVALUATION METHODS USED IN MERGERS

Jurcău Anca Sabina

Babeş-Bolyai University Cluj-Napoca

Faculty of Economics and Business Administration

Andreicovici Ionela Irina

Babeş-Bolyai University Cluj-Napoca

Faculty of Economics and Business Administration

In mergers, a subject that arouses controversies between the leaders of the companies involved in the transaction is the determination of the exchange ratio. The basis of its determination is represented by the application of business evaluation methods that are completed by a negotiation process. In order to better understand the major aspects regarding this issue, this article presents a literature review of the main business evaluation methods used to determine the exchange ratio in merger transactions. We concluded by showing the context of use and the application conditions of the most used methods.

Keywords: business evaluation methods, mergers, exchange ratio

Cod JEL: M41

1. Introduction

For the investors in companies that seek to merge is very important to determine whether the merger will be efficient for them or not. So, they must ask themselves if the acquired company is really worth. Naturally, both sides of a merger will have different ideas about the value of a target company: the seller will tend to establish a value as high as possible while the buyer will try to pay the lowest price possible.

In mergers, the essential point, which is the subject of the negotiation between the leaders of companies involved in the transaction, is the determination of the exchange ratio between the shares of the acquiring firm and the acquired firm. This ratio results from a comparison as complete as possible between the companies to merge, a comparison that is preceded by a gathering of information on the market, competition, legislation, and especially the company. Here is the role of evaluation.

Business evaluation does not suffer from the lack of methods, but rather from the coexistence of a large number of methods, among which practitioners may feel lost. The different business evaluation methods that exist can overlap to better estimate the price of a company and minimize the risk of error. But we must be aware that "there is no unique value of a company".

2. Research methodology

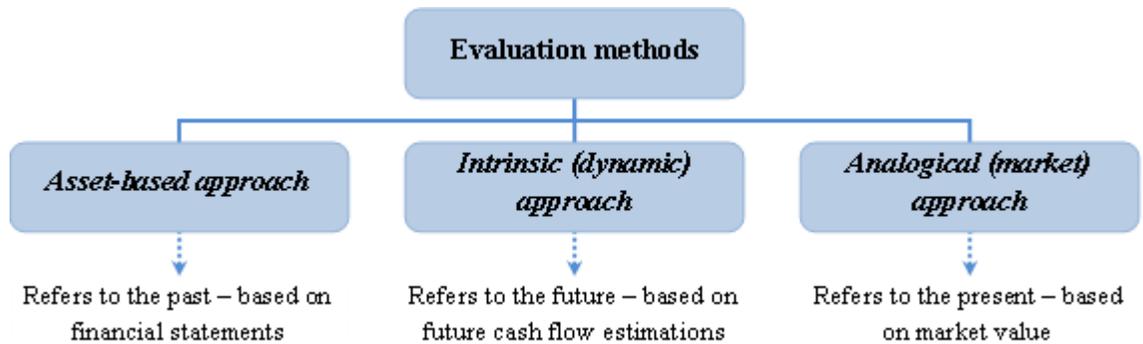
This paper is a theoretical study and its purpose is to present the different methods of evaluation used to determine the exchange ratio in merger transactions. We based our study on the information gathered from the existing literature at international level, using as a research method the qualitative approach.

This study is a fundamental research, the utility of such research, although it does not identify a problem with the purpose of solving it, being reflected in its contribution to the future developments of this research, by ensuring premises for forthcoming studies.

3. Evaluation methods – the base for exchange ratio determination

There are over a dozen methods of evaluation, these methods being structured differently from one author to another. As we can see in figure 1 Ceddaha (2005) groups the evaluation methods into three approaches.

Figure 1. Structure of evaluation methods



Source: adapted from Ceddaha (2005)

Asset-based approach

The theory underlying the asset-based approach to business valuation considers the value of a business as being equal to the sum of its parts. The asset-based approach estimates the selling value of the assets based on the financial statements. Using this method the objective is to estimate the accumulated wealth and not to determine the potential future value (Meier, 2009). In this context, the two methods used, approximates the net asset value or the adjusted net asset value.

The **net asset value method** consists in calculating the net worth of the company, namely the difference between the value of the assets adjusted for non-values and the amount of debt of a company (Meier, 2009). Even in a context of liquidation, the net assets are often penalized by the historical cost principle which involves recognition of an asset at its acquisition value and not at its resale value (Meier, 2009). Purely accounting, this approach is only a first approximation, very concise and promptly, of the value of a company (La Chapelle, 2002), which does not reflect its true value (Iselin, 2007).

The **adjusted net asset value method** aims to overcome the inherent limitations of historical cost and prudence accounting principles. The method consists in the reevaluation of the various types of assets and liabilities according to their replacement value, their use value or resale value, showing plusses or minuses of value. It is justified especially when the target company owns non-operating assets that can generate considerable gains (Meier, 2009).

This asset-based approach can be used in evaluating the exchange ratio for a merger by exchange of shares, if both of the companies are evaluated on the same principle. However, this approach has serious limitations. It is a static method that does not include the future perspectives of the company, the intangible assets (brand, corporate culture, customers), that form the competitive advantage of a company and are not included in the financial statements (Schatt & Roy, 2002).

The calculated value is a photograph at a time T, used by entrepreneurs to evaluate their assets but less relevant to a purchaser who justifies his investment by the expected profit, which is a bet on the future.

However, this approach finds its application in some cases, in real estate companies, investments companies or industrial holdings. In contrast, it is not at all adapted to rapidly changing companies: startups, business that grow quickly, where the latest balance sheet gives only a truncated picture of the business and its potential (La Chapelle, 2002). In all cases, the asset-

based approach provides only a first reference value that should always be complemented by other methods that take into account the expected trends, criteria more relevant to the investor (Iselin, 2007).

Intrinsic (dynamic) approach

The intrinsic or dynamic approach is the queen of the financial evaluation. Over the years, researchers have observed an increasing use of models based on discounted cash flows generated by the company in taking various decisions. A more recent evidence of this trend is provided by Trahan and Gitman (1995), Bruner et al. (1998) and Graham and Harvey (2001). Also, Mukherjee Kiymaz and Baker (2004) found that almost 83% of buyers use the method based on discounted cash flows to determine the value of the target company.

Evaluation using a dynamic approach aims to determine the capacity of the company to create future value (Meier, 2009), value related to future cash flows generated by the company. Iselin (2007) considers that the philosophy behind this approach is based on the idea that the purchaser does not buy the historical flows of the company (the accumulated wealth), but the future cash flows (or the future wealth).

If the principle of the dynamic approach is simple, its application is rather complex. This method very used is based on the discounted future cash flows of the company at a rate representing the average remuneration required by the investors of the company given its risk (Ceddaha, 2005).

The enterprise value is the sum of discounted cash flow over an explicit horizon and the terminal value at the end of that horizon, when the cash flows are difficult to estimate (Salustro, 2009).

$$V = \sum_{i=1}^n \frac{CF_i}{(1+k)^i} + TV$$

CF_i - cash flow of year i ;

k - discount rate;

TV - terminal value;

n - number of years of the forecast period.

The method of discounted cash flows is divided into three steps, each of these steps posing different problems. According to Ceddaha (2005) the steps refer to: **1. establishing free cash flows over an explicit horizon; 2. choosing a terminal value at the end of the explicit horizon; 3. discounting the cash flow and the final value at a rate given the risk.**

The implementation of each of these steps is problematic: the duration of the explicit horizon, the determination of the terminal value and the discount rate are the main challenges facing the evaluator.

Regarding the **explicit horizon**, the evaluator should avoid it being too short not to give undue importance to the final value, or too long, so that the forecasts of cash flows remains only theoretical (Ceddaha, 2005). The problem of the duration of the forecast period has been often discussed by researchers: some argue that the forecast must be made for at least 10-15 years (Koller, Goedhart, Wessels, 2005) while others claim that an average of seven years is desirable (Ceddaha, 2005). There are also opinions that argued that the horizon must be long enough in order for the company to reach a stable state at the end of this period (Copeland, Koller, Murrin, 2000).

The choice of the explicit forecast period depends essentially on the number of years it is considered necessary before obtaining a stable business with constant rates of return and growth (Meier, 2009) and, in consequence, it coincides with the end of a period of extra profitability for the company (Cassia, Plati, Vismara, 2007). The explicit horizon, which coincides with the period when the company beneficiate of the competitive advantage (Cassia, Plati, Vismara, 2007)

is also determined by the business sector and the stage of business development (Ceddaha, 2005, Sherman & Hart, 2006).

In DCF method the analysis of the **terminal value** has often a considerable weight in the calculation, but its determination is often ad hoc or requires assumptions regarding free cash flows beyond the horizon (Penman & Sougiannis, 1998). The estimation of the terminal value is frequently at the heart of debate because it is often an important part of the value obtained by the DCF method (Cassia, Plati, Vismara, 2007), especially when the explicit horizon is short (Ceddaha, 2005).

Perhaps the most crucial concept of the DCF method is the **discount rate**. As the future cash flows occur in the future and the target company is valued today, it is necessary to adjust future capital inflows in today's money. The discount rate reflects the idea that the same amount of money is worth more today than in the future (Sherman & Hart, 2006). Economic and finance theory proposes the use of the corporate cost of capital as a discount rate. This value is the weighted average cost of the funds available to a company, including equity (common stock), debt (after tax rate), and preferred shares.

Even the value approach by the DCF method suppose a delicate matter, requiring a real know-how, it is the most capable of reflecting the global nature of the business and its ability to deliver performance in the future.

Analogical (market) approach

The market valuation approach, known also as the multiple valuation method or the method of comparables, is among the approaches the most used by practitioners for the evaluation of unlisted companies. For example, Asquith, Mikhail and Au (2005) reported that 99% of analysts use multiple method for evaluating companies and Roosenboom (2007) finds that underwriters typically use this method when evaluating initial public offerings (IPOs).

This method consist on transposing (by using ratios called multiples) the market capitalization of a company listed on a stock exchange to the company that we want to evaluate. It is based on the application on historical or anticipated balances of the company to evaluate, of the calculated multiples based on a sample of comparable listed companies (Ceddaha, 2005) or the “peer group”.

The method proceeds in three stages: *1. defining a sample of comparable companies; 2. calculating the multiples; 3. applying the multiples to the target firm.*

Even the method is apparently simple and fast, it still involves some problems, especially in defining the sample and the choice of the multiples.

Concerning the “peer group”, the companies selected to be part of it must belong to the same industry, be of similar size and have a similar stage of development and an economic model as close as possible (Pansard, 2007). But this is not enough; in order for the companies to be similar, they must have a comparable dynamic of value creation in terms of growth and economic profitability perspectives (Ceddaha, 2005). The value of a business is an increasing function of future payoffs and a decreasing function of risk (Liu, Nissim, Thomas 2000); therefore, the companies in the sample should be comparable with the evaluated company not only in terms of growth ratios but also in terms of risk.

As for the number of companies in the sample, Ceddaha (2005) considers that it is better to have a small but reliable sample rather than having fifteen companies with disparate characteristics whose value creation differs too much from the company to evaluate. Based on an empirical study, Cooper&Cordeiro (2008) demonstrated that using about five comparables is optimal when the comparable firms used are those from the same industry with expected growth rates closest to the target firm, and if their average growth rate is within 1% of the target firm's growth rate.

The problem of the “peer group” was also studied by Henschke & Homburg (2009) which considers that is not sufficient to reduce the sample to the most similar firms, because differences

remain, and correcting for them leads to the most accurate value estimates. So, to have a value of the company closer to reality, it is necessary that the sample is homogeneous.

The multiples utilized in the market approach represent the ratios between the observed market values and the measured values of the indicators for firms in the sample. When defining the multiples various indicators are utilized such as operating income (EBIT), profitability (EBITDA), price earnings ratio (PER), cash flow per share or even book value of equity per share.

The average of the ratios calculated for firms in the sample is the multiple used for determining the value of the company to evaluate. For the average be meaningful, it is important that the value of the ratios we calculate for each company in the sample be relatively close. If they are greatly different, which implies that the dispersion around the average is substantial, the average (a measure of central tendency) will not be very meaningful (Weston & Weaver, 2001).

The most utilized multiple is PER that establishes the value of the equity of a company from its historical or estimated net income. Taking into account that the market price reflects the real value of all future benefits of a company (Barker, 2002), PER represents the value of future benefits related to the current ones that is the rate at which profits are discounted.

Even if it has its limits, the market approach, which is based on the assumption of market efficiency (Ceddaha, 2005), is preferred by the evaluators because allows them to predict what the publicly traded price of a company is likely to be (Weston&Weaver, 2001).

4. Conclusions

The different evaluation methods that we have presented have each its advantages and limitations. Finally, the evaluation methods are only a measurement tool that should be adapted according to circumstances. As we can see in table 1 each method of evaluation is relevant in a certain context and taking into account specific conditions.

Table 1. Context of use and application conditions of evaluation methods

Evaluation methods	Context of use and application conditions
Net asset value	Rarely relevant in mergers
Adjusted net asset value	Relevant for holding companies (investment companies)
Discounted Cash Flow	Relevant in any context, less for holding companies, if the values used (cash flow projections, terminal value and discount rate) are correctly estimated
Multiples	Relevant for non listed firms if there are enough similar listed companies able to form the peer group

Source: adapted from Meier (2009)

Using these or other methods we obtain a value, but not a price. The value is derived from a calculation and can be adjusted while the price is the result of a negotiation between the parties and involves factors like the supply and demand, market share, synergies for the buyer, liquidity needs of the seller etc. (Salustro, 2009).

The evaluation methods are useful because they provide a starting point and a range of reasonable values based on reasonable assumptions and actual events (Sherman & Hart, 2006). However, the price of a company depends also on the real determinants objectives of stakeholders. The variety of evaluation methods led to a variety of values of a company, so we

can say that there is no single value or “fair” value. The value taken into account in a merger to determine exchange ratio of the shares is also the result of calculations, estimations, but mainly the result of negotiations.

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ENVIRONMENTAL ACCOUNTING AND CORPORATE SOCIAL RESPONSIBILITY

Rof Letiția Maria

“1Decembrie 1918” University of Alba Iulia, Faculty of Sciences

Dănuțiu Dan-Constantin

“1Decembrie 1918” University of Alba Iulia, Faculty of Sciences

Sustainable development is an economic growth strategy aimed to conciliate economic and social progress without endangering the natural equilibrium of the planet. The true stake of the future is the avoidance of environment degradation through developing of a responsibility sense both of citizens as well as of companies, for the purpose of reaching a stable sustainable development. Environmental accounting expresses the appearance of a new ethics that answer to the human worries for planetary development and progress. Starting from the damage caused to the environment, we ask ourselves about the destructive activity conducted by companies and making them responsible of the problem to the future generations.

Keywords: environmental accounting, social responsibility, environmental cost

JEL code: M41, M14

Sustainable development and corporate social responsibility

Sustainable development means that the needs of the present generation should be met without compromising the ability of future generations to meet their own needs. Sustainable development is the constant re-evaluation of the dialogue between man and nature and the connection between generations in the process of multi-dimensional evolution of human society, proving to be an essential process of this world, also being an approach superior to the environmental management traditional belief.

Protecting the environment is one of the concerns of modern societies. For example, the European Union adopted in 2002 the Sustainable Development Strategy, updated in 2006 and 2009. Within this document, one of the principles of sustainable development politics is the implication of partners from the social and business environments, principle that aims to enhance the social dialogue, corporate social responsibility and private-public partnerships to foster cooperation and common responsibilities to achieve sustainable consumption and production⁶⁰⁵. This is a result of the idea that a concern for the state of the environment cannot be adequately examined without considering corporations⁶⁰⁶.

As a result of this vision over development, the corporation slowly evolves towards logic of responsibility. The company is considered a part of the society, not just a production and profit instrument for the shareholders; therefore, entities have also a social responsibility. This responsibility takes into consideration the interests of all stakeholders, starting from the shareholders, employees, business partners, to the consumers and the community, and needs a social implication strategy that must integrate in the long and medium term communication and development strategy. Today, ethic preoccupation in companies is being underlined and it is brought into discussion the analysis of applying the moral rules of individuals to the concrete decisions made within the company. Companies should consider social responsibility a competition strategy component. Those that have minimized environmental risks are the ones more advanced in developing own policies regarding to employees, shareholders, clients,

⁶⁰⁵ European Union, Renewed EU Sustainable Development Strategy, 2006, p. 5.

⁶⁰⁶ Bullis, C., Ie F., Corporate Environmentalism, In S. K. May, G. Cheney, & J. Roper (Eds.), The debate over corporate social responsibility, Oxford University Press, New York, 2007, p. 321.

suppliers, and they managed to improve long and medium term economic performances. Research related to environment protection has shown that company social responsibility significantly increases client satisfaction and fidelity. Implementing an ecological and responsible business model considers criteria like: implementing an environmental politics that respects the entities' vision and mission; capital allocation for environmental management, implication of human resources in the process; usage of various instruments. The involvement of major corporations in matters of environment shows the concern and the interest of modern industries for environment⁶⁰⁷.

This concern is underlined by the fact that many of the modern companies included environmental problems in the Corporate Social Responsibility Charter. Whilst there is no unitary definition of social responsibility, we consider that this represents the discernment of specific issues, problems, expectations and claims upon business organizations and their leaders regarding the consequences of organizational policies and behavior on both internal and external stakeholders. The focus is upon the products or corporate actions⁶⁰⁸. Social responsibility is just a component of the corporation social politics process which includes corporate social responsiveness, that means development of individual and organizational processes for determining, implementing and evaluating the firm's capacity to anticipate, respond and manage the issues and problems arising from the diverse claims and expectations of internal and external stakeholder⁶⁰⁹.

Developing of such capacity for company need to set up a managerial system of environmental problems, and accounting plays a key role in this system.

Environment accounting – tool of environmental management systems

Environmental accounting represents a methodology for quantifying the costs and effects of environmental conservation activities. Initially integrated in social accounting, environment accounting has its origin in a multitude of legal, economic and social factors. To summarize, three factors are at the base of environment accounting: the legislative basis, costs evolution and pressure from the stakeholders. They challenged companies to review some of the practices regarding their decision-making process and the communication of environmental information. Through the introduction of environmental accounting, companies aim to improve the effectiveness of conservation efforts and implement sustainable environmental policies with quantifiable results over a long term.

Using environment accounting has a number of advantages like⁶¹⁰:

- the possibility of managing more efficiently the flows of energy and materials, including the quantity of wastes, their type and their destination;
- the possibility of better estimating, identifying and managing of general costs and environmental costs;
- obtaining more precise information for starting and sustaining programs for improving environment performance;
- obtaining the necessary information for measuring and reporting the environment performance⁶¹¹, for the purpose of upgrading the image of the organization in relationship with all those interested in its activity (clients, employees, government, investors, stakeholders).

⁶⁰⁷ Briciu S., Sistem informațional privind contabilitatea de gestiune și calculația costurilor în industrie, Publishing House Argus, Bucharest, 2000, p. 103.

⁶⁰⁸ Epstein E. M., The corporate social policy process: Beyond business ethics, corporate responsibility and corporate social responsiveness, California Management Review, 29: 3, spring 1987, p. 107.

⁶⁰⁹ Idem.

⁶¹⁰ Toms, J.S., Environmental Management, Environmental Accounting and Financial Performance, Publication: London CIMA Publishing, 2000, p. 157-168

⁶¹¹ Idem.

Environmental information publication is a key company accountability process, and environment accounting helps entities substantially improve their trustworthiness among the people and enjoy a fair evaluation⁶¹².

Environment accounting is the attempt to use control and tracking analogue instruments (information identification, measurement, accumulation, analysis, interpretation and communication)⁶¹³ in favor of those used in the economic management of a company or a public authority.

Environment accounting is now entirely new but it coexists with previous visions. It evolved in the last two decades and had as motivation the development of an accounting system that would supply a basis for efficient activity planning regarding environment and financial protection. The setting up of economic and environment accounts offers synthetic information to key decision makers regarding environmental resources and it is necessary for determining environmental costs and their consequences over production, income and economy.⁶¹⁴

The main objective of environment accounting is the reform of managerial accounting in order to allow entities to improve their profits by reducing costs. Practically, environment accounting is an instrument with which entities can modify their existing accounting systems so they can offer managers information about environmental costs.

From this point of view, in elaborating entity development politics and strategies, managers must take into consideration environmental costs. These are the expenses linked to the prevention of environment pollution and degradation, evaluating pollution and environment protection and fixing these problems⁶¹⁵. Taking into account the variety of the effects of an entity over environment, it's difficult to quantify the costs of environment degradation. The difficulties are generated by the lack of knowledge regarding nature and the scale of the destructions, but also by the lack of a market price. The main problems identified in quantifying environment costs are: the singularity of environmental investments and polluters, the economic horizon, the absence of a market, the absence of relations between cost and efficiency.

The analysis of environment accounting practices concludes that this branch of accounting has succeeded, in theory, to accomplish its initial objectives. It was about management help tools like accounting environmental aspects and communication of environmental information for what financial accounting stands for.⁶¹⁶

The requirement to establish the financial impact of environment performances was recently introduced in environment performance evaluation and reporting. As a result of such problems, not only environmental information presented in financial statements is subjected to audits, but also information presented in environmental or sustainable development reports⁶¹⁷.

A short analysis of the Romanian companies involvement in environmental matters

Starting from the general objective of the European Union Sustainable Development Strategy, the Sustainable Development National Strategy of Romania establishes that eco-efficient management of resources consumption and their maximum exploitation to be realized by

⁶¹² Bețianu L., Approaches concerning environment-related information included in the annual statements, *Analele Universității din Oradea*, 2009, vol. 3, p. 768.

⁶¹³ Environment and the OECD Guidelines for Multinational Enterprises: Corporate Tools and Approaches Publication: Paris OECD, 2005, p. 34-38.

⁶¹⁴ Tabără N., Horomnea E., Mircea M. C., *Contabilitate internațională*, Editura Tipo Moldova, Iași, 2009, p.542-543.

⁶¹⁵ Briciu S., *Contabilitatea managerială, aspecte teoretice și practice*, Economic Publishing House, Bucharest, 2006, p. 101 – 106.

⁶¹⁶ Lafontaine, J-P., Normalisation et mondialisation : le cas de la prise en compte de l'environnement naturel par les entreprises, XXVème Congrès de l'AFC, Orléans, 2004, p. 1-21.

⁶¹⁷ Bețianu L., Georgescu I., Approaches Of Environmental Information Audit In Annual Reports, *Annales Universitatis Apulensis series Oeconomica*, 2008, 10(1), p. 113.

promoting a production and consumption model which would allow a long term sustainable economical growth and a successive rapprochement to the medium level of performance of European Union's countries.

European integration led to a greater attention given to environment by the economic agents. Romania begun to show some interest in the field of eco-efficiency, as a way to ensure sustainable development, but it lags far behind other European countries. Undoubtedly, the localization of important multinational companies (e.g. Renault, Siemens, Alcatel, and Continental) in Romania contributed to raising corporate awareness in terms of environmental impact and will foster a positive evolution in the field⁶¹⁸.

Sustainable Development National Strategy of Romania is a national document which complies with the sustainable development strategy of the European Union. Its main objective is the continuous upgrade of quality of life, creating durable communities able to capitalize the economy's ecological and social potential, to manage and to use resources efficiently mainly to ensure prosperity, environment protection and social cohesion.

As for the Romanian companies involvement into environmental problems, we will realize an analysis on the base of the expenditure made by these for environment protection.

In Romania, the economic agents' expenses related to environment protection are distinctly underlined for the unspecialized economic agents, the ones that carry out an environmental activity as a secondary or auxiliary activity, and for the specialized economic agents, the ones that posses a department which has environment protection as a main activity.

Table no. 1
Types of environmental expenses by types of producers
- thousand LEI current prices -

	2006		2007		2008	
	Nominal values	%	Nominal values	%	Nominal values	%
Specialized producers (total) from which:	5297304	68	7039354	72	8328234	65
- investments	793154	10	1048084	11	1716516	13
- internal current expenses	4101018	53	5487074	56	5637738	44
- external current expenses	403132	5	504196	5	973980	8
Unspecialized producers (total) from which:	2460918	32	2743422	28	4516525	35
- investments	1125384	15	1329980	14	1550499	12
- internal current expenses	961416	12	913847	9	2153762	17
- external current expenses	374118	5	499595	5	812264	6
Total environment protection expenses	7758222	100	9782776	100	12844759	100

Source: www.insse.ro

⁶¹⁸ Bărglăzan D., Drăghici A., Vartolomei M., Eco-Efficiency – The New Dimension Of Economic Efficiency, în journal Recent, Vol. 10, no. 3(27), November, 2009, p. 180.

Considering this data it can be ascertained that in the producers environment protection expenses total, a big part are the expenses done by the specialized producers (65% in 2008), and the unspecialized producers expenses are only 35% in 2008. In the analyzed periods, the expenses evolved contradictory, but in time they have a constant growth. In 2007 in regard with 2006, the environment protection expenses done by the specialized producers grew by 1.742.050 lei, absolute value and 33% relative value, and in 2008 in regard with 2007 they grew with 1.288.880 Lei absolute value, and 18% relative value.

By analyzing the other component taken into consideration, unspecialized producers environment protection expenses, it is observed that these registered a significant growth in the period 2007-2008. So, in 2007 in regard to 2006 the expenses grew with 282.504 Lei, absolute value, and in 2008 in regard to 2007, with 1.773.103, absolute value, or 65% in relative figures.

The explanation of this evolution is given by Romanian adhesion to the European Union and the necessity of economic agents to abide by the environment requirements imposed by the communitarian aquis.

Table no. 2

Environment protection expenses, domains and types of producers

- thousand LEI current prices -

Environment domain	2006	2007	2008
Unspecialized producers – total, of which	2460918	2743422	4516525
Air Protection	962660	803990	1242606
Water Protection	514629	642085	788120
Waste and used water elimination	411186	479853	1072457
Soil and groundwater protection	237729	179375	619360
Noise and vibration reduction	32338	19093	8900
Natural resources protection and bio-diversity conservation	119123	117202	141974
Other environment domains	183253	501824	643107
Specialized producers – total, of which	5297304	7039354	8328234
Air Protection	21762	44614	55984
Water Protection	1146586	1002417	1352751
Waste and used water elimination	4024884	5843427	6778036
Soil and groundwater protection	30304	27468	65817
Noise and vibration reduction	5912	19728	3165
Natural resources protection and bio-diversity conservation	33189	39384	21900
Other environment domains	34667	62316	50582

Source: www.insse.ro

Analyzing the environment protection expenses of domains and types of producers, we observe that in the three years taken into consideration, the specialized producers invested the largest amount in waste and used water elimination, and the smallest amount, in noise reduction.

The most sensitive environmental domains, air protection and water protection, registered an ascendant trend. Thereby, in 2008 in regard to 2007, expenses for air protection done by the unspecialized producers have risen by 438.616 lei, absolute value. Meanwhile, air protection expenses done by specialized producers have risen by just 11.370 lei, absolute value.

The expenses for water protection rose progressively, reaching 514.629 lei in 2006 for the unspecialized producers and 788.120 lei in 2008. The specialized producers spent 1.146.586 lei in 2006, and 1.352.751 lei in 2008.

Conclusions

In the face of environment problems, companies must become morally responsible, but the way in which each company understands this responsibility is different. The true problem rises in the convergence of social responsibility with economic interest followed by any company with an economic life. In this point environmental accounting intervenes, not as a supplementary cost source, but as a mean of better administration of companies' resources in the perspective of an economic sustainable development.

Environment accounting is an indispensable tool for the application of the "sustainable development" concept and the insurance of environment protection. It is constituted under the form of a system that permits environmental information organization, through physical or monetary indicators.

Companies relate more often to the concept of sustainable development, gently evolving towards responsibility logic. They must take into account more and more the economic and social restrictions of the markets in which they operate. Practically, for obtaining decision assistance tools, each company needs information regarding the state of the environment, quantifying environment costs that affect its activity. Environment accounting must supply this kind of information and to propose a way of evaluation of environment deterioration.

A successful assimilation of the notion sustainable development will take shape in options that modify the companies' business model, in the spirit of a long term vision and a sustainable mission.

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Motoniu Ioan Dumitru

Valahia University of Târgoviște, Faculty of Economics

Vatasoiu Cristian Ionel

Valahia University of Târgoviște, Faculty of Economics

Boca Ileana-Sorina

Valahia University of Târgoviște, Faculty of Economics

In the current context, organizations are evaluated not only in terms of product quality. The modern organization is valued beyond its economic performance, quality management and communication policy, and by its contribution to the social life of the community it takes part of. The new social responsibilities that appear for the companies involve the increasement of information requests from both outside and inside for better management of the entity. Social responsibility accounting is a branch of accounting in the context of scientific knowledge that provides answers to social problems, the causes, manifestations and projections in a dynamic environment. This article aims to show what social responsibility is and how it works according to SA 8000:2008, what would be its implications and its main objectives, emphasizes the importance of publishing additional information on corporate social responsibility other than traditional financial situations.

Keywords: social responsibility, social responsibility accounting, SA 8000: 2008, key areas, quality

Jel code: M41 Accounting

1. Introduction. The concept of social responsibility

Social responsibility is the notion or concept which connotes the obligations of the companys to groups formed in the society, other than shareholders and also those prescribed by law and unions. The two sides of this definition are: firstly, the obligation must be voluntarily accepted (so the behavior influenced by enforcement forces of law or trade union is not voluntary), secondly, the obligation is something broader, meaning it extends beyond the traditional duty to the shareholders, to other groups in society such as consumers, employees, suppliers and neighboring communities. The essence of this conceptual issue is whether the organizations have obligations to other social groups than shareholders⁶¹⁹.

Corporate social responsibility is a concept whereby companies integrate their social part and the environment in their own economic operations and interact with key players in their field of interest voluntarily⁶²⁰.

CSR is what the community expects from it in terms of environmental, economic, legal, ethical and philanthropic view point. The most developed and most widely accepted model of corporate social responsibility is the so-called „quadripartite model of corporate social responsibility", initially proposed by Archie Carroll in 1979 and then refined in a recent work, done in collaboration with AK Buchholtz⁶²¹.

Environmental responsibility. Environmental responsibility is a reflection of sustainable

⁶¹⁹ **Ionescu Gh. Gh.** Cultura Afacerilor- Modelul american, Ed. Economică, București, 1997, 175

⁶²⁰ **Comisia Europeană**, Cartea Verde: Promovarea unui cadru european pentru responsabilitatea socială a corporațiilor, Bruxelles , 2001

⁶²¹ **Carroll, A. B., Buchholtz, A. K.:** Business and Society: Ethics and Stakeholder Management, 4th edition, Cincinnati, South- Western College, 2000

development issues including the ecological aspects considered by the literature⁶²² to be a core value of social responsibility.

Economic responsibility. Companies have shareholders who expect a reasonable profit for their investments. They have employees who want safe and well-paid jobs, they have customers who demand quality products at affordable prices, etc..

Legal Responsibility. Corporate legal responsibility calls for the business to comply with the normative documents in force.

Ethical responsibility. Ethical responsibilities require corporations to do what is just, fair and equitable, even if they are not forced to do so by the existing legal framework.

Philanthropic responsibility. The Greek word "philanthropy" literally means "love of people" and placing this within the context of business covers all those situations where the corporation is free to decide, without any external constraint, to engage in actions aimed at improving quality of life for employees, local communities and ultimately society as a whole.

2. Social Accountability 8000 standard

The Most relevant standards of social responsibility is the SA8000 developed by **CEPA (Council of Economic Priorities Accreditation Agency - USA)** now known as **Social Accountability International (SAI)**. The Social Accountability 8000 Standard (SA 8000), along with other types of certification standards and corporate codes of conduct, represents a new form of voluntary "self-governance" of working conditions in the private sector, initiated and implemented by companies, labor unions, and non-governmental activist groups cooperating together. There is an ongoing debate about whether this type of governance represents real and substantial progress or mere symbolism. Advocates promote SA 8000 and similar codes as a necessary tool to improve workplace conditions, especially in nations that lack robust enforcement of regulatory standards⁶²³.

The **SA 8000** standard is an internationally auditable performance standard relying on International Labor Organization Conventions, on the Human Rights Declaration and the UNO Convention on child's rights. The management system of social accounting can be developed so as to integrate part of the other management systems: quality (ISO 9001:2000), environment (ISO 14001:2004), health and workforce security (OHSAS 18001:1999).

SA 8000: 2001 can apply in all and any organizations which wants to:

- Measure the companies' performance in eight key areas: child's work, forced work, occupational work and security, free association in collective associations, discrimination, disciplinary practices, working hours, remunerations;
- Investigate and solve the employees' or the parties' problems, as well as take some actions with a view to correct them;
- Elaborate a health and occupational security management system to eliminate or minimize the risks of employees or other parties who might be exposed to health and occupational security-related risks associated with their activities;
- Implement, maintain and improve, on a permanent basis, a social accountability management system;
- Make sure this system complies with the company's policy in terms of social accountability;
- Prove this compliance to others;
- Try to get certification/confirmation of its social accountability management system by an external organization.

⁶²² **Crane et al.:** Corporate Social Responsibility. Readings and causes in a global context. Routledge, 2008, 307

⁶²³ **Hiscox et. al,** Evaluating the Impact of SA 8000 Certification, 2008, 2

Generally, CSR can positively influence competitiveness in the following ways⁶²⁴:

- Improved products and/or production processes, resulting in a better customer satisfaction and loyalty;
- Higher motivation and loyalty of employees, resulting in a higher creativity and innovativeness;
- Better publicity due to the award of prizes and/or enhanced word-of-the-mouth;
- Better position at the labour market and better networking with business partners and authorities including better access to public funds due to a better company image;
- Cost savings and increased profitability due to a more efficient deployment of human and production resources;
- Increased turnover/sales due to a competitive advantage derived from the above.

The intent of SA8000 is to provide a standard based on international human rights norms and national labour laws that will protect and empower all personnel within a company's scope of control and influence, who produce products or provide services for that company, including personnel employed by the company itself, as well as by its suppliers/subcontractors, sub-suppliers, and home workers. SA8000 is verifiable through an evidenced-based process. Its requirements apply universally, regardless of a company's size, geographic location, or industry sector.

Complying with the requirements for social accountability of this standard will enable a company to:

- Develop, maintain, and enforce policies and procedures in order to manage those issues which it can control or influence;
- Credibly demonstrate to interested parties that existing company policies, procedures, and practices conform to the requirements of this standard.

SA 8000 is a consensual standard that specifies minimum requirements and include definitions in the following areas:

- Child Labor;
- Forced and compulsory labor;
- Health and Safety;
- Freedom of association and right to collective bargaining;
- Disciplinary Practices;
- Discrimination;
- Work Program;
- Remuneration;
- Management systems.

2.1. Child Labor

The company shall establish, document, maintain, and effectively communicate to personnel and other interested parties, policies and written procedures for remediation of children found to be working in situations which fit the definition of child labour above, and shall provide adequate financial and other support to enable such children to attend and remain in school until no longer a child as defined above.

The company shall not expose children or young workers to any situations – in or outside of the workplace – that are hazardous or unsafe to their physical and mental health and development.

2.2. Forced and compulsory labor

The company shall not engage in or support the use of forced or compulsory labour, nor shall personnel be required to pay 'deposits' or lodge identification papers with the company upon commencing employment. Neither the company nor any entity supplying labour to the company

⁶²⁴ **European Commission**, Enterprise and Industry Directorate-General: Corporate Social Responsibility in SMEs, 2007, 3

shall withhold any part of any personnel's salary, benefits, property, or documents in order to force such personnel to continue working for the company.

Personnel shall have the right to leave the workplace premises after completing the standard workday, and be free to terminate their employment provided that they give reasonable notice to their employer.

Neither the company nor any entity supplying labour to the company shall engage in or support trafficking in human beings.

2.3. Health and Safety

The company shall provide a safe and healthy workplace environment and shall take effective steps to prevent potential accidents and injury to workers' health arising out of, associated with, or occurring in the course of work, by minimising, so far as is reasonably practicable, the causes of hazards inherent in the workplace environment, and bearing in mind the prevailing knowledge of the industry and of any specific hazards.

2.4. Freedom of association and right to collective bargaining

All personnel shall have the right to form, join, and organise trade unions of their choice and to bargain collectively on their behalf with the company. The company shall respect this right, and shall effectively inform personnel that they are free to join an organisation of their choosing and that their doing so will not result in any negative consequences to them, or retaliation, from the company. The company shall not in any way interfere with the establishment, functioning, or administration of such workers' organisations or collective bargaining.

2.5. Discrimination

The company shall not engage in or support discrimination in hiring, remuneration, access to training, promotion, termination, or retirement based on race, national or social origin, caste, birth, religion, disability, gender, sexual orientation, family responsibilities, marital status, union membership, political opinions, age, or any other condition that could give rise to discrimination.

2.6. Disciplinary Practices

The company shall treat all personnel with dignity and respect. The company shall not engage in or tolerate the use of corporal punishment, mental or physical coercion, or verbal abuse of personnel. No harsh or inhumane treatment is allowed.

2.7. Working hours

The company shall comply with applicable laws and industry standards on working hours and public holidays. The normal work week, not including overtime, shall be defined by law but shall not exceed 48 hours.

Personnel shall be provided with at least one day off following every six consecutive days of working. Exceptions to this rule apply only where both of the following conditions exist:

- National law allows work time exceeding this limit; and
- A freely negotiated collective bargaining agreement is in force that allows work time averaging, including adequate rest periods.

In cases where overtime work is needed in order to meet short-term business demand and the company is party to a collective bargaining agreement freely negotiated with worker organisations (as defined above) representing a significant portion of its workforce, the company may require such overtime work in accordance with such agreements. Any such agreement must comply with the requirements above.

2.8. Remuneration

The company shall respect the right of personnel to a living wage and ensure that wages paid for a normal work week shall always meet at least legal or industry minimum standards and shall be sufficient to meet the basic needs of personnel and to provide some discretionary income.

2.9. Management systems

Policy. Top management shall define in writing, in workers' own language, the company's policy for social accountability and labour conditions, and display this policy and the SA8000 standard in a prominent, easily viewable place on the company's premises, to inform personnel that it has

voluntarily chosen to comply with the requirements of the SA8000 standard. Such policy shall clearly include the following commitments:

- To conform to all requirements of this standard;
- To comply with national and other applicable laws and other requirements to which the company subscribes, and to respect the international instruments and their interpretation;
- To review its policy regularly in order to continually improve, taking into consideration changes in legislation, in its own code-of-conduct requirements, and any other company requirements;
- To see that its policy is effectively documented, implemented, maintained, communicated, and made accessible in a comprehensible form to all personnel, including directors, executives, management, supervisors, and staff, whether directly employed by, contracted with, or otherwise representing the company;
- To make its policy publicly available in an effective form and manner to interested parties, upon request.

Management Representative. The company shall appoint a senior management representative who, irrespective of other responsibilities, shall ensure that the requirements of this standard are met.

SA8000 Worker Representative. The company shall recognize that workplace dialogue is a key component of social accountability and ensure that all workers have the right to representation to facilitate communication with senior management in matters relating to SA8000. In unionised facilities, such representation shall be undertaken by recognized trade union(s). Elsewhere, workers may elect a SA8000 worker representative from among themselves for this purpose. In no circumstances, shall the SA8000 worker representative be seen as a substitute for trade union representation.

Management Review. Top management shall periodically review the adequacy, suitability, and continuing effectiveness of the company's policy, procedures, and performance results vis-à-vis the requirements of this standard and other requirements to which the company subscribes. Where appropriate, system amendments and improvements shall be implemented. The worker representative shall participate in this review.

Planning and Implementation. The company shall ensure that the requirements of this standard are understood and implemented at all levels of the organisation.

Control of Suppliers/Subcontractors and Sub-Suppliers. The company shall maintain appropriate records of suppliers/subcontractors' (and, where appropriate, sub-suppliers') commitments to social accountability.

Addressing Concerns and Taking Corrective Action. The company shall provide a confidential means for all personnel to report non-conformances with this standard to the company management, and the worker representative. The company shall investigate, address, and respond to the concerns of personnel and other interested parties with regard to conformance/non-conformance with the company's policies and/or the requirements of this standard. The company shall refrain from disciplining, dismissing, or otherwise discriminating against any personnel for providing information concerning observance of the standard.

Outside Communication and Stakeholder Engagement. The company shall establish and maintain procedures to communicate regularly to all interested parties data and other information regarding compliance with the requirements of this document, including, but not limited to, the results of management reviews and monitoring activities.

The company shall demonstrate its willingness to participate in dialogues with all interested stakeholders, including, but not limited to: workers, trade unions, suppliers, subcontractors, sub-suppliers, buyers, nongovernmental organizations, and local and national government officials, aimed at attaining sustainable compliance with this standard.

Access for Verification. In the case of announced and unannounced audits of the company for the purpose of certifying its compliance with the requirements of this standard, the company shall ensure access to its premises and to reasonable information required by the auditor.

Records. The company shall maintain appropriate records to demonstrate conformance to the requirements of this standard.

SA8000 is based on the principles of international human rights norms as described in International Labour Organisation conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights. It measures the performance of companies in eight key areas: child labour, forced labour, health and safety, free association and collective bargaining, discrimination, disciplinary practices, working hours and compensation. SA8000 also provides for a social accountability management system to demonstrate ongoing conformance with the standard.

Conclusions

Economic globalization is a challenge for organizations worldwide. In this context, an important topic of Social Responsibility gets increasingly higher in present world, being not seldom a tie breaker criteria in auctions in which economic agents with similar activity profile are involved. Accounting, as informational means, must offer information to different users of accurate information. Amongst these users, we can think of the society, in general terms, which is directly interested in knowing the social repercussions of the organization's activities.

According to research carried out, the real problem lies in accounting interpretation of environmental and social concepts, and theoretical position is adopted to talk about them, since, for accounting purposes, it is important the externalization and internalization of social responsibility concept. The social responsibility accounting information are meant not only to meet the society's requirements but also to make their contribution to creation of value inside the organization showing the extent to which the company is socially responsible and contributing to creation of intangible assets. SA 8000 is a voluntary standard for organizations interested in auditing and certification of working practices applied to the premises, and in collaboration with suppliers or partners who demonstrate social responsibility.

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CONTROVERSIAL ASPECTS REGARDING THE ACCOUNTING HARMONIZATION PROCESS IN ROMANIA. HARMONIZATION, CONVERGENCE OR CONFORMITY?

Scorte Carmen Mihaela
Universitatea din Oradea
Facultatea de Stiinte Economice

Popa Dorina Nicoleta
Universitatea din Oradea
Facultatea de Stiinte Economice

Andreica Horia Tudor
Universitatea 1 Decembrie 1918 Alba Iulia
Facultatea de Stiinte

The new configuration of the international economic relations which are in a general globalization process determined by the international capital circulation requires the compatibility and comparison of the information provided by the financial statements. The investors and the entrepreneurs wish to understand and to be able to compare the entities' financial situation and performances, no matter the juridical and accounting system which are subdued to by their localization. The differences between the important variety of the accounting systems were identified long time ago and since then there have been efforts made in order to conceive a economic financial reporting structure, accessible to the entire accounting world. Therefore, there is the need of normalization, harmonization, and convergence in accounting.

Our intention in the current paper is to bring again into discussion the problem of accounting harmonization, emphasizing a few aspects which in the Romanian context we consider to be controversial and which require some clarifications. This paper represents a brief review of the evolution of the accounting harmonization in Romania, analyzing the difficult moments and mainly it is focused on the conceptual understanding of the concepts of harmonization, convergence, and conformity in the Romanian accounting. Our approach is not an exhaustive one, but it has as objective to reflect on the importance of the stages of accounting modernization in Romania. In the last part of this paper, the conclusions that we reached after study, are presented synthetically, as well as the continuation of the approach initiated in other papers.

Keywords: accounting harmonization, normalization and standardization, convergence

JEL Classification M41

Conceptual approaches of the accounting normalization, harmonization, and convergence processes

The first preoccupations regarding the accounting normalization and standardization process were in Great Britain (the beginning of the 19th century) and the United States of America (after the 1929-1933 crisis), but in Germany in 1919 Professor E.Schmalenbach designed the first unitary chart of accounts starting from the Dewey decimal system. Yet the process of normalization is accelerated after the Second World War due to the state's need to get homogeneous and unitary financial accounting information which should allow it to exercise the economic and fiscal control. A second objective of the normalization indicated by Bernard Colasse⁶²⁵ is the need to use accounting information by the external users from time and space comparisons among enterprises. Romanian authors Niculae Feleagă and Ion Ionașcu⁶²⁶ added to

⁶²⁵ Colasse B, Contabilitate generală, Editura Moldova, 1995, apg 38-39;

⁶²⁶ Feleagă N, Ionascu I, Tratat de contabilitate financiară vol 1, Editura Economică, București 1998, pag 263-364;

these objectives also the contribution of this process to a better re-allocation of financial resources at the country level. The highest part of those interested in defining the process of normalization has convened on the same type of this process approaches:

- A regulated approach which is actually one of political type within which there the state intervention. This can be considered as a forced normalization, but its absence could lead to the appearance of the market cartels and monopolies;
- The pragmatic professional approach within which the central part is played by the accounting profession. In this case, the normalization is voluntary;
- And another of a mix type which is actually a combination of the two mentioned above, for the accounting norms worded out by professional bodies are validated by public institutions or they require an active participation of the accounting profession, of the trades and employer associations when design accounting norms⁶²⁷.

Regarding the object of accounting normalization, it has been agreed that in accordance with the public or private nature of the normalization, it refers to the determination of a unitary terminology and some generally accepted accounting principles, to the design of unitary financial statements in what their format is concerned, the structure, definition, familiarity and evaluation of the financial statements items and the design of the general account charts.

The need for accounting normalization is required by the differences between the accounting solutions adopted, a phenomenon generating a series of problems. The most frequent problems mentioned are:

- *problems for which the companies having to draw up the financial reports* according to different national norms or standards, a fact generating more work and sometimes difficulties in choosing the rules when it is not clear which set of norms is the most suitable;
- *problems for the users*, those who have to read and interpret the financial statements and who scarce or very vague accounting knowledge, and not to mention international accounting knowledge;
- *a general problem referring to the "unfair conditions"*, for accounting has economic consequences not only indirectly, through investment decisions, but also directly because accounting is the basis for making decision regarding the negotiation of wages, prices, setting up the dividends and in some countries it is the basis for the decisions made by taxation, and by the state in its efforts to redirect and stimulate the businesses.⁶²⁸

Normalization as a process drawing up rules, norms to present the synthesis documents and defining the methods and the accounting terminology, totally or partially applicable to a group of countries or enterprises, has as objectives⁶²⁹:

- to ensure the regulation of the accounting practices and therefore to determine the bettering of the accounting;
- to allow the accounting information users to make rational decisions, based on the accounting information;
- to create a trustful environment between the capital holders and the business managers;

⁶²⁷ Cristea Șt. M. Armonizare contabilă internațională și practicile contabile naționale. Studiu de caz pentru România și Italia, Editura Accent, Cluj Napoca, 2007, p.45;

⁶²⁸ Bogdan V, Armonizare contabilă internațională, Editura Economică, Bucuresti 2004, p. 85;

⁶²⁹ Feleață N., Îmbălânzirea junglei contabilității, Editura Economică, București, 1996

- to act as a referee between different parties participating to the economic life, and especially, between the accounting information producers and the accounting auditors certifying the quality of the information, thus ensuring the social credibility of the accounting information;
- to give a certain protection to the accounting auditor by confining his responsibilities;
- to allow the consolidation of the accounting information at the groups of firms level;
- to allow the drawing up of national statistics.

The normalization effort is capitalised in the enunciation and definition of accounting postulates, principles and standards (norms). If the accounting postulates and principles refer to very general elements, produced by the normalization act for a long period of time, the accounting norms can be applied to particular cases.

A postulate represents a sentence whose acceptance is required in order to make a demonstration. The accounting postulates are based on the observations made on: the economic environment by identifying the users of the financial information and the objectives of the financial information process. The observations considered useful to a formulation of accounting principles and norms are catalogued as accounting postulates.

The accounting principles are conceptual elements guiding the normalization makers in drawing up accounting norms, starting from the accounting postulates. Also, they are support elements for the financial information producers in order to correctly acknowledge in the financial statements the transactions and other events, as well as to faithfully represent the financial position, the performances and the evolution of the financial position through these synthesis documents. Finally, the accounting principles are guides for the auditors in their activity to certify the accounts. They have a lesser degree of generality than the postulates, but a higher degree than the accounting norms.

No matter they are called accounting postulates or accounting principles, they can be defined as accounting statements based on the direct acknowledgment and which are considered true, without necessarily being obvious.⁶³⁰

The accounting standards (norms) are precise rules to acknowledge, evaluate, classify, and present the accounting information. It results that, often, the accounting normalization consists in defining the norms and then in applying them.⁶³¹

The normalization efforts made in the attempt to reduce the number of accounting alternatives, treatments internationally, was not on the profession's agenda until 1973, the year when by creating IASB the efforts made for the accounting harmonization were intensified. The pressure for the accounting harmonization to become the means to do the comparability is increasing.

The international normalization is meant to facilitate to a considerable extent the international economic and industrial exchanges. The international harmonization is more and more gaining ground and lately we have felt a progressive evolution of passing from the European harmonization to the international harmonization.

The normalization and the harmonization are two indispensable processes and sometimes complementary. The former has in view the setting up of norms and the latter the comparability between different norms.

To harmonize means to put in a perfect agreement the elements of a whole⁶³², which sometimes means to prescribe changes, changes from which some win and some lose.

⁶³⁰ Todea N. Teorie contabilă și raportare financiară, Editura Aeternitas, Alba Iulia 2009, p. 32

⁶³¹ Feleagă L. Feleagă N. Convergențe contabile internaționale prin prisma aderării la Uniunea Europeană, Revista Economie teoretică și aplicată, pp. 37-44

⁶³² DEX

The international accounting harmonization is the process through which the national rules or norms, different from one country to another, are improved in order to become comparable and to give the same interpretations to transactions and events.

Taking place internationally as a result of more and more pronounced globalization and financialization and deriving from the accounting normalization which has as objectives: the determination of an accounting terminology and principles generally accepted, the acknowledgment and evaluation of the items making the financial statements, the manner to present the financial statements and the adoption of the most suitable accounting norm instrument, **the accounting harmonization means “the complete match of the elements of a whole”, but in the context of a “good understanding between groups of people”⁶³³ in order to satisfy the requirements of the financial and accounting information users.** In this view, the elements of the whole are considered to be represented by the national accounting rules and practices, different from one country to another, sometimes divergent, which in order to be “*completely matched*” are improved to be made comparable.

The harmonization process is trying a way to conciliate the different points of view, the homogeneous presentation of information not being necessary anymore, but the assurance of a unitary meaning even for those who use different standards. If the normalization means total homogeneity, the harmonization means flexibility in total diversity, that is the harmonization establishes the limits’ within which the accounting practices can vary, taking into account, to a higher extent, the national differences.

Mainly supported by the international accounting community, *the accounting harmonization movement*, globally, whose essence leads, on long term, to a certain homogeneity of the national norms and practices, deals with a variety of the objectives attributed to the financial statements, but especially, with the economic, social and cultural environment of different accounting systems, culminating with manifestations to state the national sovereignty and identity.

The Commission for Stock Exchange Operations emphasises **the necessity to assure the international harmonization** in the following terms: “The increasing internationalization of the financial markets means that a better compatibility should be more and more ensured of the firms’ accounts in different countries. Actually, the divergences between the financial statements set up according to the international norms by each country, the lacunas revealed in the accounting information put forth by some of them and, sometimes, the variations of a national norm from one year to another, make the comparisons impossible: for example, the comparison of the average productivity of the personnel between the groups of a country and the ones from another country when actually the firms in these countries are not even constrained to indicate in their annual reports the number of employees or the costs involved by them?”⁶³⁴

The international accounting harmonization is required also by the *privatization tendency* of some enterprises. The transfer of some more and more firms from the state property to the private sector is requests new needs in terms of private capitals, which, usually, are too big in order to be fulfilled by the capital markets of a single country. In these conditions, the wish of such enterprises to create and apply some homogeneous accounting norms is justified.

Regarding the harmonization process, it is subject to a staging process, therefore we can speak about different degrees of achievement of the international accounting harmonization. Thus, if the normalization has allowed the unitary drawing up of the financial accounting information in order to rigorously capitalize the decisions by the users, the harmonization should determine similar decisions of the users in similar conditions, no matter the geographical positioning of the entity.

⁶³³ Dicționarul explicativ al limbii române, 1975, p. 52

⁶³⁴ Farcane N., Cotleț D., Reforma în sistemul contabil românesc, Editura Orizonturi Universitare, Timișoara, 1999, p. 117

In this point the concept of convergence appears on the international accounting “stage”. The accounting convergence has in view the identification of some objectives that the enterprises and the accounting professionals all over the world follow as a final aim in the presentation of the annual financial statements, without imposing the application treatments, rules and procedures and being useful to the users.

No matter that we talk about normalization, harmonization, or convergence, the essence of these processes is information. The problem of information is vital for the organization, for a system, for a process. Information represents knowledge intelligibly presented to a person. The information is that entity totally or partially removing the state of non-determination called entropy, based on a message addressed to a receiver. To be useful, the information must have some fundamental characteristics: to be consistent, relevant, exact, desirable, accessible, complete, and concise.⁶³⁵

The triggering of the convergence process took place in October 2002 when the Financial Accounting Standard Board and the International Accounting Standard Board announced the signing of an agreement memorandum which was updated on 27th February 2006 with perspective until 2008.

The convergence process takes place on three levels:

- on the first level, there is the convergence between the IASB and FASB norms;
- on the second level, there is the convergence between the regional norms and IAS (the EU case);
- on the third level, there is the convergence between the national and regional standards, as in the case of the accounting systems of the EU member states.

The situation in evolution of the normalization, harmonization, convergence, and standardization process in Romania. whether Romania?

For the beginning, it is fair to mention that we cannot talk about a purely Romanian accounting system for almost always the accounting system practised in our country, no matter it was the result of a historical fracture or not, was and still is an imported product. As the indefatigable researcher of the accounting meanings, N. Feleagă, stated, the Romanian accounting system is of French inspiration, *“aligned to the requirements of the European and international norms, in which the Romanian norm makers hallmarked some Romanian characteristics, partially acceptable, partially arguable.”*⁶³⁶

The national accounting normalization is characterised by three specific aspects:

- it is of public authority for the accounting norms are issued by the state institutions, in compliance with the accounting policies of the Ministry of Public Finances and is based on laws and other normative acts consecrated to accounting and which are compulsorily to be complied with by all the enterprises;
- the main piece of normalization in Romania is represented by the general account chart, still in force, structured according to the French model, into patrimonial accounts, balance sheet accounts (classes 1-5), economic processes accounts (classes 6-7), off-balance sheet accounts (class 8) and accounts for the management accounting (class 9);
- it is based on a theoretical frame of accounting with both continental and Anglo-Saxon influences.

The Romanian theoretical frame contains regulations and norms issued by the institutions authorised and it is characterised by the fact that the current system of Romanian accounting norms is comparable with the accounting law of the European Union by integrating in the

⁶³⁵ Briciu S. et al, Managementul prin costuri, Editura Risoprint, Cluj Napoca, 2003, pp.27-31

⁶³⁶ Bogdan V. Armonizare contabila internațională, Editura Economică, Bucuresti 2004, p. 337

Romanian accounting law of the provisions of the 4th European Directive (1978) on the annual accounts of companies, of the provisions of the 7th Directive (1983) on the consolidated accounts and of the 8th Directive on the auditing norms of financial statements.

The process of Europeanization and internationalization of the Romanian accounting system is passing also through the process of assimilating the results of the convergence between the two global accounting referential promoted by IASB and FASB. More than 1,000 Romanian enterprises started once with the issuing of the Order no 94 of Ministry of Public Finances of February 2001, the adventure of knowing and implementing the international accounting standards (IAS).

The start of the international accounting harmonization and convergence has determined the Romanian law maker to review the strategy of action within the Romanian accounting reform by reconsidering the adaptability of IAS/IFRS to the Romanian business environment. In the same time, the adoption of Directive 51/2003 by the European Commission in order to modernize the 4th and 7th Directives has determined the Ministry of Finances to change the legislative frame which stipulated a partial harmonization both with IAS and with the modernized European standards. At the present, Romania has chosen to eliminate the concept of harmonized regulations, preferring the term of corresponding accounting.

The regulations of a new order (no. 1752), applicable in Romania starting with 1 January 2006 require being in accordance with the European Directives on accounting. When Order 1752/2005 came into force, both Order 94/2001 on the sanctioning of the Accounting Regulations harmonized with the 4th Directive of the European Economic Community and with the International Accounting Standards and Order 306/2002 on the sanctioning of simplified Accounting Regulations harmonized with the European Directives are abrogated. As it results from the title of these Regulations, they want to be not only *harmonized* with the European Directives but also *in accordance with* them, meaning similar with them. This change has led to the split of opinion among professionals: some consider this moment as being a step back, a waste of the efforts made by the companies to adopt and use the standards, and others say that this moment has been the natural consequence of the evolution of the international accounting. Certainly, when the decision was made, there was the problem of the cost-efficiency-benefit ratio afferent to the further application of the IFRS stipulations. Maybe this question was the result of an empirical study presented at the Accounting Association European Congress in 2006 by Ion Ionascu, a study which discloses the fact that at the level of the companies quoted on the Bucharest Stock Exchange, the cost of IAS/IFRS implementation was approximately 30,000 Euro per entity, an amount which represented for the authors only 0.035% costs average of these particular companies in 2004.

Conclusions

In conclusion, we can emphasise that in what the segment of small and middle sized enterprises and of the other entities which do not frame within the category of enterprises applying the IAS/IFRS norms is concerned, the accounting harmonization is being translated in the conformity with the provisions of the 4th and 7th European Accounting Directive, this thing being done through the accounting regulations sanctioned by the Ministry of Public Finances.

Regarding the segment of public interest entities, under the incidence of the IAS/IFRS provisions, the harmonization can be understood as the convergence existing between the OMFP 1126/2006 provisions and the requirements of the international referential.

The novelties in the field of accounting regulation are brought by OMFP 3055/2009 applicable from 01.01.2010, according to which the corporate bodies which at the date of the balance sheet exceed the limits of two of the following 3 criteria, further called size criteria:

- total assets: 3,650,000 euro;
- net turnover: 7,300,000 euro;

-average number of employees during the financial year: 50 draw up financial statements in compliance with the provisions of the 4th and 7th Directives of the European Economic Community.

A new challenge for the Romanian entities is represented by the design and development of own accounting policies. They contain the accounting treatments established based on Order 3055/2009 for each of the operations performed and must be approved by the managers.

In the process of accounting reform in Romania, a supplementary effort is necessary for the accounting professional to impose himself in the relation with other decision makers, this imposition being possible by instituting the public private partnership in the field of accounting, which would have as result the appearance of a robust and modern accounting system.

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PREVENTION AND DETECTION OF FRAUDULENT FINANCIAL REPORTING IN THE CONTEXT OF THE FINANCIAL CRISIS

Sgardea Florinel Marian

Academia de Studii Economice din București

Turlea Carmen

Academia de Studii Economice din București

Budacia Lucian Constantin Gabriel

Universitatea Romana Americana București

Vuta Mihai

Universitatea Hyperion București

Prevention and earlier detection of fraudulent financial reporting must start with the entity that prepares financial reports. Thus the first focus of the Sarbanes-Oxley Act's recommendations is the public company. These recommendations, taken together, will improve a company's overall financial reporting process and increase the likelihood of preventing fraudulent financial reporting and detecting it earlier when it occurs. For some companies, implementing these recommendations will require little or even no change from current practices; for other companies, it will mean adding or improving a recommended practice. Whether it means adding or improving a practice, the benefits justify the costs. The Sarbanes-Oxley Act is a direct response to the recent scandals in the US corporate world. Governance, compliance, risks and internal controls are mounting concerns for almost all organizations. As the numbers of rules, regulations and contractual obligations steadily rise, management is growing more and more concerned about their exposure on day-to-day operational decisions!

Key words: fraud, internal control, COSO, risks

Cod jel : M11, M41

Haw can defined the internal control?

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), is a [U.S.](#) private-sector initiative, formed in [1985](#). Its major objective is to identify the factors that cause fraudulent financial reporting and to make recommendations to reduce its incidence. COSO has established a common definition of internal controls, standards, and criteria against which companies and organizations can assess their control systems. COSO is sponsored and funded by 5 main professional accounting associations and institutes; [American Institute of Certified Public Accountants](#) (AICPA), [American Accounting Association](#) (AAA), [Financial Executives Institute](#) (FEI), [The Institute of Internal Auditors](#) (IIA) and [The Institute of Management Accountants](#) (IMA).

Internal controls are put in place to keep the company on course toward profitability goals and achievement of its mission, and to minimize surprises along the way. They enable management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations.

Internal control means different things to different people. This causes confusion among businesspeople, legislators, regulators and others. Resulting miscommunication and different expectations cause problems within an enterprise. Problems are compounded when the term, if not clearly defined, is written into law, regulation or rule. This report deals with the needs and expectations of management and others. It defines and describes internal control to:

The COSO framework involves several key concepts. [Internal control](#) is a *process*. It is a means to an end, not an end in itself. Internal control is affected by *people*. It's not merely policy manuals and forms, but people at every level of an organization. Internal control can be expected to provide only *reasonable assurance*, not absolute assurance, to an entity's management and board. Internal control is geared to the achievement of *objectives* in one or more separate but overlapping categories.

Establish a common definition serving the needs of different parties. Provide a standard against which business and other entities large or small, in the public or private sector, for profit or not can assess their control systems and determine how to improve them. *Internal control is broadly defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations.*

The first category addresses an entity's basic business objectives, including performance and profitability goals and safeguarding of resources. The second relates to the preparation of reliable published financial statements, including interim and condensed financial statements and selected financial data derived from such statements, such as earnings releases, reported publicly. The third deals with complying with those laws and regulations to which the entity is subject. These distinct but overlapping categories address different needs and allow a directed focus to meet the separate needs.

Internal control systems operate at different levels of effectiveness. Internal control can be judged effective in each of the three categories, respectively, if the board of directors and management have reasonable assurance that they understand the extent to which the entity's operations objectives are being achieved, published financial statements are being prepared reliably, applicable laws and regulations are being complied with.

While internal control is a process, its effectiveness is a state or condition of the process at one or more points in time. Internal control consists of five interrelated components. These are derived from the way management runs a business, and are integrated with the management process. Although the components apply to all entities, small and mid-size companies may implement them differently than large ones. Its controls may be less formal and less structured, yet a small company can still have effective internal control.

The components of the internal control

The components are: *Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring.*

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors.

Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to *risk assessment* is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all

functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Pertinent information must be identified, captured *and communicated* in a form and timeframe that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders.

Internal control systems need *to be monitored* a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

The internal control system is intertwined with the entity's operating activities and exists for fundamental business reasons. Internal control is most effective when controls are built into the entity's infrastructure and are a part of the essence of the enterprise. "Built in" controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions.

There is a direct relationship between the three categories of objectives, which are what an entity strives to achieve, and components, which represent what is needed to achieve the objectives. All components are relevant to each objectives category. When looking at any one category the effectiveness and efficiency of operations, for instance all five components must be present and functioning effectively to conclude that internal control over operations is effective.

Internal control can help an entity achieve its performance and profitability targets, and prevent loss of resources. It can help ensure reliable financial reporting. And it can help ensure that the enterprise complies with laws and regulations, avoiding damage to its reputation and other consequences. In sum, it can help an entity get to where it wants to go, and avoid pitfalls and surprises along the way.

An internal control system, no matter how well conceived and operated, can provide only reasonable not absolute assurance to management and the board regarding achievement of an entity's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the collusion of two or more people, and management has the ability to override the system. Another limiting factor is that the design of an internal control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Who has responsibility for internal control ?

Everyone in an organization has responsibility for internal control. The chief executive officer is ultimately responsible and should assume "ownership" of the system. More than any other individual, the chief executive sets the "tone at the top" that affects integrity and ethics and other

factors of a positive control environment. In a large company, the chief executive fulfills this duty by providing leadership and direction to senior managers and reviewing the way they're controlling the business. Senior managers, in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the unit's functions. In a smaller entity, the influence of the chief executive, often an owner-manager, is usually more direct. In any event, in a cascading responsibility, a manager is effectively a chief executive of his or her sphere of responsibility. Of particular significance are financial officers and their staffs, whose control activities cut across, as well as up and down, the operating and other units of an enterprise.

Management is accountable to the board of directors, which provides governance, guidance and oversight. Effective board members are objective, capable and inquisitive. They also have a knowledge of the entity's activities and environment, and commit the time necessary to fulfill their board responsibilities. Management may be in a position to override controls and ignore or stifle communications from subordinates, enabling a dishonest management which intentionally misrepresents results to cover its tracks. A strong, active board, particularly when coupled with effective upward communications channels and capable financial, legal and internal audit functions, is often best able to identify and correct such a problem.

Internal auditors play an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness. Because of organizational position and authority in an entity, an internal audit function often plays a significant monitoring role.

Internal control is, to some degree, the responsibility of everyone in an organization and therefore should be an explicit or implicit part of everyone's job description. Virtually all employees produce information used in the internal control system or take other actions needed to effect control. Also, all personnel should be responsible for communicating upward problems in operations, noncompliance with the code of conduct, or other policy violations or illegal actions.

A number of external parties often contribute to achievement of an entity's objectives. External auditors, bringing an independent and objective view, contribute directly through the financial statement audit and indirectly by providing information useful to management and the board in carrying out their responsibilities. Others providing information to the entity useful in effecting internal control are legislators and regulators, customers and others transacting business with the enterprise, financial analysts, bond raters and the news media. External parties, however, are not responsible for, nor are they a part of, the entity's internal control system.

Actions that might be taken as a result of this report depend on the position and role of the parties involved: Senior Management, Board Members, Other Personnel, Legislators and Regulators

Most senior executives who contributed to this study believe they are basically "in control" of their organizations. Many said, however, that there are areas of their company a division, a department or a control component that cuts across activities where controls are in early stages of development or otherwise need to be strengthened. They do not like surprises. This study suggests that the chief executive initiate a self-assessment of the control system. Using this framework, a CEO, together with key operating and financial executives, can focus attention where needed.

Under one approach, the chief executive could proceed by bringing together business unit heads and key functional staff to discuss an initial assessment of control. Directives would be provided for those individuals to discuss this report's concepts with their lead personnel, provide oversight of the initial assessment process in their areas of responsibility and report back findings. Another approach might involve an initial review of corporate and business unit policies and internal audit programs. Whatever its form, an initial self-assessment should determine whether there is a need for, and how to proceed with, a broader, more in-depth evaluation. It should also ensure that ongoing monitoring processes are in place. Time spent in evaluating internal control represents an investment, but one with a high return.

Members of the board of directors should discuss with senior management the state of the entity's internal control system and provide oversight as needed. They should seek input from the internal and external auditors.

Managers and other personnel should consider how their control responsibilities are being conducted in light of this framework, and discuss with more senior personnel ideas for strengthening control. Internal auditors should consider the breadth of their focus on the internal control system, and may wish to compare their evaluation materials to the evaluation tools.

Government officials who write or enforce laws recognize that there can be misconceptions and different expectations about virtually any issue. Expectations for internal control vary widely in two respects. First, they differ regarding what control systems can accomplish. As noted, some observers believe internal control systems will, or should, prevent economic loss, or at least prevent companies from going out of business. Second, even when there is agreement about what internal control systems can and can't do, and about the validity of the "reasonable assurance" concept, there can be disparate views of what that concept means and how it will be applied.

Corporate executives have expressed concern regarding how regulators might construe public reports asserting "reasonable assurance" in hindsight after an alleged control failure has occurred. Before legislation or regulation dealing with management reporting on internal control is acted upon, there should be agreement on a common internal control framework, including limitations of internal control. This framework should be helpful in reaching such agreement.

Rule-making and other professional organizations providing guidance on financial management, auditing and related topics should consider their standards and guidance in light of this framework. To the extent diversity in concept and terminology is eliminated, all parties will benefit.

Conclusions

This framework should be the subject of academic research and analysis, to see where future enhancements can be made. With the presumption that this report becomes accepted as a common ground for understanding, its concepts and terms should find their way into university curricula. We believe this report offers a number of benefits. With this foundation for mutual understanding, all parties will be able to speak a common language and communicate more effectively. Business executives will be positioned to assess control systems against a standard, and strengthen the systems and move their enterprises toward established goals. Future research can be leveraged off an established base. Legislators and regulators will be able to gain an increased understanding of internal control, its benefits and limitations.

Internal auditors play an important role in evaluating the effectiveness of control systems. As an independent function reporting to the top management, [internal audit](#) is able to assess the internal control systems implemented by the organization and contribute to ongoing effectiveness. As such internal audit often plays a significant *monitoring* role. In order to preserve its independence of judgment Internal Audit should not take any direct responsibility in designing, establishing, or maintaining the controls it is supposed to evaluate. It may only advise on potential improvement to be made COSO publications are available through the American Institute of Certified Public Accountants.

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THE “CREDIBILITY CRISIS” OF AUDITING PROFESSION: AN EMPIRICAL STUDY IN ROMANIA

Știrbu Dan

West University of Timișoara

Faculty of Economics and Business Administration

Moraru Maria

West University of Timișoara

Faculty of Economics and Business Administration

Popa Adina

University „Eftimie Murgu” Reșița

Faculty of Engineering

Farcane Nicoleta

West University of Timișoara

Faculty of Economics and Business Administration

Blidișel Rodica

West University of Timișoara

Faculty of Economics and Business Administration

For decades the accountancy profession has responded to the “credibility crisis” by coining, reciting and hiding behind the phrase “audit expectation gap” — a phrase which denotes the differences between the public’s and Auditors’ perceptions of the role of an audit function. This paper reports the findings of a questionnaire survey on the audit expectation gap conducted in Romania. The aims of the study are to examine whether an expectation gap exists in Romania among the auditors, auditees and audit beneficiaries in relation to the auditors’ duties. The results proved the existence of an audit expectation gap in Romania. The study shows that the auditees and audit beneficiaries placed much higher expectations on the auditors’ duties when compared with what auditors have perceived their duties to be. The analysis of the expectation gap indicated the existence of unreasonable expectations of the part of users.

Key words: audit, audit expectation gap

JEL code: M42, G30

1. Introduction

External auditing plays a critical role in the business environment as modern industrial economies are based on capitalism, a system of economy designed to allocate resources using market mechanisms (Watts & Zimmerman 1983). To ensure efficient allocation of resources in a capitalist economy, credible information about the companies’ operation should be made available for decision making processes (Koo & Sim 1999). Such information can be obtained through financial statements.

The spate of corporate failures (for example Enron and WorldCom in USA), financial scandals and audit failures has led to a significant increase in criticism of and litigation against the auditing profession (Maccarrone 1993). According to Godsell (1992), this phenomenon may be due to common beliefs that the stakeholders of the company should be able to rely on its audited accounts as a guarantee of its solvency, propriety and business viability. Hence it is shown that the nature and objectives of auditing have been perceived differently by the users and these misperceptions are known as the “audit expectation gap”.

Despite the importance of the audit expectation gap to the auditing profession, there has been a significant lack of scientific study conducted on how to address this issue in Romania. The substantial research findings on the audit expectation gap (Chowdhury et al 2005; Epstein & Geiger 1994; Humphrey et al 1993; Leung & Chau 2001; Lin & Chin 2004; Dixon et al 2006) may not be applicable in Romania because the findings are influenced and possibly distorted by economic, social or legal factors unique to those countries in which the studies took place.

The purpose of this article consists in identifying the perceptions of the financial reports users regarding the responsibilities of statutory auditors in Romania, in order to ascertain to what extent we can speak of the existence of a certain differences in expectations on the work of statutory auditors in Romania.

2. Literature review

2.1. The concept of audit expectation gap

The definition of the expectations gap varies among researchers. The term “audit expectation gap” was first introduced to audit literature by Liggio (1974). He defined the audit expectation gap as the difference between the levels of expected performance as envisioned by both the user of a financial statement and the independent accountant. The Cohen Commission (1978) in the USA extended Liggio’s (1974) definition by taking into account whether a gap may exist between what the public expects or needs and what auditors can and should reasonably expect to accomplish. Porter (1993) claims that the definition of audit expectation gap provided by Liggio (1974) and the Cohen Commission (1978) is too narrow as they fail to recognize that auditors may not accomplish “expected performance” (Liggio 1974) or what they “can and reasonably should” (Cohen Commission 1978). Porter (1993) argues that the recent increase in criticism of and litigation against auditors is due to the failure of auditors to meet society’s expectations, whose failure in turn undermines confidence in the audit function. Limperg (1932 cited in Porter *et al* 2005 p.119) points out that the “audit function is rooted in the confidence that society places in the effectiveness of the audit and in the opinion of the accountant...if the confidence is betrayed, the function, too, is destroyed, since it becomes useless”. Hence, to narrow the audit expectation gap, it is necessary to ascertain: i) the duties society expects auditors to perform; ii) the duties that are reasonable to expect auditors to performance; and iii) the extent to which society’s reasonable expectations are satisfied (or, more pertinently, not satisfied) by auditors (Porter *et al* 2005). Porter’s (1993) structure of the audit expectation-performance gap has two major components, namely:

1 Reasonable gap - the difference between "what the public expects auditors to achieve and what they can reasonably be expected to accomplish"; and

2 Performance gap - the difference between "what the public can reasonably expect auditors to accomplish and what auditors are perceived to achieve".

The performance gap is further subdivided into:

2.1 Deficient standards - the gap between “what can reasonably be expected of auditors and auditors' existing duties as defined by the law and professional promulgation.”

2.2 Deficient performance – the gap between “the expected standard of performance of auditors' existing duties and auditors' perceived performance, as expected and perceived by the public.”

3. Research methodology

We used the questionnaire technique for collecting the primary data, as it is an efficient means of collecting answers from a large sample size. The questionnaire is adapted according to the one used by Alleyne and Howard (2005). The questionnaire was designed in order to enable us to extract the necessary accurate information from the respondents’ answers, and to make sure that collected information is adequate for achieving the objectives of this study. The questionnaire is divided in two sections, Section I and Section II. Section I consists of 8 questions related to

respondents' demographics. Section II consists 11 questions that targeted 11 duties of auditors in the following areas: i) the duties of auditors under the International Standards on Auditing (ISA), adopted by the Board of Financial Auditors in Romania, ii) a part of the inexistent duties of auditors advanced by Porter's study (1993), which focused on the following areas: i) auditors as guarantors of a company's financial statements accuracy and solvency, ii) auditors give an early warn of the company's failure, iii) the auditors detect fraud and report to the shareholders and iv) they discover illegal activities.

The questionnaire contains Likert-like questions, on a five-point scale, and respondents had to chose from a scale ranging from „strongly agree” to „strongly disagree”. The questions were designed based on a detailed review of the features of prior studies (Alleyne & Howard, 2005; Gay et al., 1997; Innes et al., 1997; Gay et al., 1998; Frank et al., 2001; Best et al., 2001) and subsequent to an in-depth review of audit standards disclosing auditors' responsibilities. Furthermore, the questions are arranged in an order corresponding to the order provided by the Approved Auditing Standards in Romania. The survey is applied at „national” level, as we aim to obtain representative results for entire Romania. The participants in this survey can be divided into four groups, namely: auditors, managers, bankers and financial analysts. Data were collected throughout Romania to avoid territorial subjectivity. On-line questionnaires were sent to all participants.

The auditors' group includes all auditors who may exercise this profession throughout Romania; the auditors are officially recognised by the Chamber of Financial Auditors of Romania, and therefore, they are included in the „Romanian Public Register of Auditors. In terms of the managers' group, the persons were selected from companies listed on the primary and secondary markets of Bucharest Stock Exchange, as these companies have to audit their annual financial statements. In terms of bankers' group, these persons were selected among employees in the credit departments of the major banking institutions in Romania. The fourth category consists of respondents in the category of financial analysts and investment analysts. The category includes all those persons or institutions that could use the information provided by the auditor in his report, for the substantiation of investment decisions, either on their own or on behalf of third parties as a profession.

The responses cover most of the development areas in the country, thus removing subjectivity. In our opinion, the technique adopted for data collection resulted in a very good yield of 38.3% response rate. A detailed disclosure on each category of respondents is presented in table 1.

Table 1 Situation of responses by category of respondents

Interviewed groups	Sample	Successfully sent	Returned	Answers received	% response rate / successfully sent
Auditors	978	889	89	319	35.88%
Managers	651	575	76	221	38.43%
Bankers	121	89	32	43	48.31%
Financial analysts	178	131	47	62	47.33%
TOTAL	1928	1684	244	645	38.3%

In terms of percentage, the most representative group is the one of the financial auditors, with 30.2%, followed by the group of managers, with 27.3%, and the one of bankers, with 21.2%.

The analysis of the general answers related to respondents (first section) enabled us to observe that most of the respondents have accounting qualifications and audit experience. Furthermore, more than 90% of the respondents claimed that they were aware of what auditors do. The high level of awareness, combined with their accounting qualifications and audit experience, should add credibility to the findings of the study.

After the responses were received, a model developed by Cronbach was applied (meaning the extent to which respondents gave correlated answers). Thus, after applying "reliability analysis", we obtained the following results:

- For the first group of questions on the "function" of the auditor, we obtained a value " $\alpha = 0.867$."
- In the second part, comprising questions about "understanding" the report issued by the auditor, we obtained a value " $\alpha = 0.5287$ ".

4. Findings and discussions

As formerly asserted, the second section was designed to enable us to verify the existence of some discrepancies between expectations and reality in audit activity in Romania. To determine whether in Romania there is a gap of expectations in audit, about the responsibilities of auditors, we first performed the tests of "normality" of distributions that different study groups represent for each variable. To this end, we applied the test of "Kolmogorov-Smirnov" depending on the hypothesis we wanted to oppose. After applying this test separately for each group of respondents, we ascertained that virtually none of the cases is the condition of normality. The next step was to oppose the hypothesis, using the non-parametric test of "Kruskal-Wallis", used in the case of more than 2 independent samples. For this study we used an importance level of 0.05. Respondents' answers are presented in Table 2.

Table 2. Kruskal-Wallis test for the interviewed groups of respondents (first case)

Questions proposed	Mean values of groups of respondents				Chi square	Asymp. Sig.
	A	M	BA	FA		
1. The responsibility of the auditor is:						
1.1. The development of the audited company's financial statements	1,32	3,4	2,59	2,5	113.597	0.000*
1.2. Ensuring the full uprightness of the audited financial statements	2,47	3,63	3,61	3,64	87.583	0.003*
1.3. Checking all accounting transactions	2,76	3,76	3,66	3,85	111.990	0.000*
1.4. Detection of all fraud and error in the financial statements	2,25	3,72	3,64	3,78	159.594	0.000*
1.5. Prevention of all fraud and error within the company	2,25	3,72	3,64	3,78	159.594	0.000*
1.6. Plan accounting and internal control systems	2,1	3,14	2,73	2,64	47.583	0.003*
1.7. Analyzing and presenting the audit report information on the efficiency and effectiveness of internal control of the auditee	2,76	3,76	3,66	3,85	111.990	0.000*
1.8. Confidential reporting to a legislative authority, if the auditors discovered a fraud committed by an employee of the entity that has a leading position	2,77	2,86	3,08	3,15	8.672	0.034 ^{ns}
1.9. Presentation in the audit report of illegal activities committed by the entity's management, which are discovered	3,77	4,11	3,66	3,48	19.097	0.000*

during the audit and have a direct impact on the audited financial statements						
2. The auditor is the one expressing whether the financial statements reflect the company's financial and economic situation	4,83	4,88	4,96	4,88	4.459	0.216 ^{ns}
3. In his report, the auditor only expresses opinions on the annual financial statements	4,69	4,26	4,36	4,33	42.813	0.000*
4. To ensure that accounting standards are met	4,72	4,77	4,86	4,82	9.710	0.021**
5. To audit the semestrial financial statements	3,84	3,95	3,73	4,06	3.621	0.305 ^{ns}

* Statistically significant at 1%, ** statistically significant at 5%, NS = statistical insignificant

The average values measured correspond to a scale from 1 - totally disagree to 5 agree.

Where: A - Auditors, M - Manager, BA-bankers, BR - brokers

There is a total of 13 statements and for each statement in part we calculated the mean and deviations of the responses. Responses to an average of less than 3 indicate that users have lower expectations from the auditors on those tasks, whereas responses with a high average value (over 3) indicate that users understand the duties and responsibilities of auditors. The study results indicate that statistically, there are significant differences between the four groups in terms of perceptions on the responsibilities of the statutory auditor, which means that there is an expectations gap between auditors and other groups of respondents related to 10 of the 13 responsibilities.

Moreover the result (claim 1.2 to 5) indicates that users have higher expectations regarding the duties and responsibilities of auditors. Although statistically the differences between the categories of respondents are related to the first statement, it should be noted that the results for each category of respondents in part , the threshold stands below 3, with the exception of the manager, meaning that other categories of users outside managers do not consider preparing financial statements to be the responsibility of auditors. This result is consistent with the results recorded by other researchers (Gay et al., 1998 and Best et al., 2001). Users agreed that the auditors are responsible for preventing and detecting fraud and error (statement 1.4, 1.5). This result is showing the existence of a discrepancy between expectations and reality on the auditor's responsibilities concerning the prevention and detection of fraud.

A discrepancy exists here because the audit standard ISA 240 „Fraud and error” in its revised form which enter into force on December 15, 2009, clearly states that management is responsible for preventing and detecting fraud and error, and the main responsibility of auditors is to detect fraud and errors with significant impact on the financial statements. It is interesting to note responses to statements 1.2. and 1.3, which from our standing-point, highlight some unreasonable expectations (medium levels of response except the auditors’, ranks above the average of 3) in so far as it is practically impossible to verify all transactions in an audit mission. This means that by resorting to samples, there is an inherent risk involved, which is why it is impossible for the auditors to ensure full accuracy of the information in the financial statements. Users seem not to understand how an auditor shall perform the tasks of the audit, and that usually sampling is resorted to.

We introduced within the questionnaire questions covering responsibilities that are not reviewed by the auditing standards applicable in Romania but which we found in other studies (Porter,

1993). They regard liabilities related to the reporting and presentation of illegal activities discovered during an audit. The answers to these two claims (claim 1.7, 1.9) should be considered in the context of the requirements of auditing standards applicable in Romania, which do not require the auditor to submit these aspects in his report, but advise the auditor to seek legal aid to initiate proceedings usual in this case.

The results presented lead to the idea of "rejection" of the hypothesis, regarding equal perceptions between groups, in terms of function of the statutory auditors.

5. Conclusions

This study explores the perceptions that different categories of users of audit reports have on the responsibilities of statutory auditors and to the way they understand the information in the auditor's report. Analysis of these perceptions actually seeks to identify differences in expectations on statutory audit work in Romania.

The study highlights that there are significant differences between different categories of respondents in the survey on both responsibilities of auditors and the manner in which they understand the information in the audit report. Thus we should note that some components of this concept that we talked about in the literature analysis are valid in the environment in Romania. Thus we have identified some exaggerated expectations (irrational) such as those related to verification of all transactions or fully guarantee the correctness of the financial statements. From our standing-point, we believe we can also talk about poor standards and we have in mind here the problems caused by understanding the concept of the materiality, whose level would be beneficial if it were stated by the auditors in the audit report in this way each user having the possibility to make decisions advisedly. Thus, users of the audit report would have the possibility of appreciating the suitability of the materiality threshold size from case to case.

In our view, this situation may be improved through different strategies, of which most likely to succeed being: i) educating the users on the role and actual duties of auditors; ii) by expanding the scope of the audit to meet market expectations. Education may help in solving the misconception problem. Expanding the scope of an audit may help to improve the expectation gap. It is hoped that by implementing both approaches, the public expectations and the auditors' duties will be better attuned.

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THE BUDGET, AN INSTRUMENT FOR PLANNING AND CONTROLLING THE COSTS

Todea Nicolae

Univ. 1 Decembrie 1918 Alba Iulia

Călin Anca

Parchetul de pe lângă Curtea de Apel Alba Iulia

The budget is a management instrument used by any entity, financially ensuring the dimension of the objectives, revenues, expenses and results at the management centers level and finally evaluating the economic efficiency through comparing the results with those budgeted for.

A major component of the managerial control, the effectiveness of the budgeting process is reflected in the fact that: requires the strategic planning and implementing the plans, offers a frame of reference for performance evaluation, contributes to personnel motivation, encourages the coordination and communication.

Keywords: budget, management centers, managerial control, strategic planning

Cod JEL lucrare: H61

The Budget and Budgetary Cycle Concepts

All throughout the activity, regardless of how perfect the unit's strategy is, controlling the predictions is necessary to track down the causes that lead to certain deviations, to assign responsibilities and to anticipate some corrective measures for them. This prediction control system that contributes to achieving the time-targeted objectives, of one year deadline usually, is called *budgeting*.

Budgeting represents the accounting instrument used by companies on a regular basis to plan and control their actions in order to satisfy their clients and secure their success on the market⁶³⁷.

The budget can be defined as a „financial plan that includes calculating the revenues and expenses of the state, a social or economic organization for a determined period of time”⁶³⁸.

The budget is the quantitative expression of the plan framed by the administration for a specified period and a support for the coordination of the necessary activities in implementing that plan. A budget may reflect both financial and non-financial issues concerning the plan and represents a „schedule” regarding the forthcoming period. A budget that includes financial aspects quantifies the administration's predictions regarding the profit, treasury's cash flows and financial statement of the entity. The financial statements for the forthcoming period can be drawn up the same way as those for the former periods. Non-financial budgets can be drawn up in addition to these financial budgets such as those regarding the number of products, the number of employees or the number of new products introduced on the market.

The budget may become an instrument for the amortization and optimization of the relation between revenues and expenses within an entity whereas the costs budgeting may become a systematic economical practice that demands carrying out a formal process by which financial resources are distributed in order to achieve the time-objectives for the forthcoming periods⁶³⁹.

⁶³⁷ Charles T Horngren, Srikant M. Datar, George Foster, *Costs accounting, a managerial perspective*, Arc Publishing, Craiova, 2006, p. 198;

⁶³⁸ Gheorghe D. Bistriceanu *Finances, banks and insurances thesaurus, Vol. I*, Economica Publishing, Bucharest, 2001, p. 234

⁶³⁹ Sorin Briciu, *Managerial accounting, theoretical and practical issues*, Economica Publishing, Bucharest, 2006, p. 248.

Practically, the budget can be viewed as a list, a document that includes the predictable revenues and expenses of an entity, regardless of its size, within a certain period of time. The budget represents the underlying activity of the economical agents.

The budget reflects the economical unit's revenues and expenses, financial results, proper funds including the employees' contribution to the profit, bank loans and their reimbursement, payments to the treasury and information regarding the main indicators of its activity.

The budget contributes to maintaining a permanent balance between receivables and payments and also ensures a continuous capacity of payment. The budget of an enterprise reflects the potential of achieving its revenues, the expenses' limit as well as its final results. The unit's financial balance must permanently reflect the match between the monetary resources and the actual needs, according to the requirements of a lucrative economical-financial activity.

In the context of economic competition, where the companies' activity must be lucrative, the budget contributes in increasing the profit and decreasing expenses, therefore the budget represents a leading instrument. The budget is an instrument used by any entity, financially ensuring the dimension of the objectives, revenues, expenses and results at the management level and finally evaluating the economic efficiency through comparing the results with those budgeted for.

The elaboration, monitoring and controlling the budgets is mandatory for the purpose of acknowledging the results and delivering private information necessary for the decision making. If the budget is designed to present all the predictable figures of the enterprise, it is questioned whether autonomous subsystems called expenses centers (places) aimed at optimizing the use of resources and making profit should be created within. The expenses center is a recognizable function or a part of the enterprise for which the expenses can be identified. In the case of the profit center, both the expenses and revenues can be identified.

The budget center represents a sector of an entity that can be controlled and budgeted. A budget center may be an expenses centre, an assembly of expenses centers or may coincide with a profit center. Depending on its size, a common profit center may consist of several budget centers which may independently consist of either a single expenses center or an assembly of interconnected expenses centers.

The budgeting process is characterized by the following features:

a) Planning and coordination

The budgeting process is based on some more general long-term objectives with the purpose of elaborating thorough operational plans for different sectors or executive links of the enterprise. Planning is the key to success in any business and it is encouraged by the allotment of budgetary resources.

Planning is reflected in the *master budget* that includes all the *secondary budgets*, a fact that determines the managers to consider the relation among the function of the budgets and the various departments of the enterprise and to analyze the way in which they contribute to achieving the objectives.

b) Authority and responsibility

The budgeting process assumes that the entity is organized in responsibility or budgetary centers and follows clear instructions regarding the responsibilities of each manager that has a budget as well. Adopting a budget includes the authorization of all its activity plans, allowing the exceptional management which means that a subordinate is given a specified role and also the authority and necessary resources to carry out the assigned part of the plan but if the activities do not follow the plan, the variations are reported to the superior authority.

c) Communication

The budgeting process involves all the managerial levels and constitutes an important means of communication between the superior and middle management regarding the targeted objectives and their achievement. When the budgeting process ends, the approved plans are communicated to the entire involved personnel.

d) Control

This element of budgeting is the least expected by employees. The process of comparing the current results with the planned or budgeted results and reporting the comparison's results, which is in fact the budgetary control, establishes a guideline for carrying out the plans within the set limits for the expenses.

e) Performance evaluation

The performance of the managers is partially evaluated according to their ability to implement the budgets. The data regarding the manager's budget and his ability to achieve the budget objectives is an important factor whenever a manager is evaluated to be promoted, to be given a raise or in any other kind of assessment. The budgets used as objectives may assist a manager in monitoring his own performance.

The budget objectives are:

- provide the basic information, the cost for elaborating the development plans;
- indicate the conditions under which the patrimonial unit must work to achieve the targeted objectives (e.g. the amount of sales that ensure the predicted profit until the end of the trimester);
- represents an instrument for coordinating the activity within the patrimonial unit encouraging the information circuit regarding the costs and increases the awareness among the individuals responsible for the expenses centers;
- increases the capacity to anticipate the consequences of the decision made or that are about to be made, since the budgets are a referential image directed by the decision makers.

The budgeting procedure can be divided into the following stages:

1. Setting of the company's objectives for the following year (operational plan) by the general administration and communicating them together with the information regarding the business environment to the management centers;
2. Elaboration of the provisional budgets (prebudgets) by each individual responsible for the designated centers within the enterprise and the selection of one desirable version;
3. The assessment of budgetary coherence according to which the provisional budgets of each responsibility center are regrouped at the level of general administration so that the coherence among the different components of the budget is evaluated. The management centers and the budget committee organize a debate on the objectives and resources allotted for their achievement, negotiating the objectives and assigned resources for each budget. The management controller has a very important role in this stage because he analyzes the credibility of the initial hypothesis and objectives, evaluates the sensitivity of the results in relation with the most uncertain variables and ensures the existence of a reserve fund at the level of general administration that can be used throughout budgets' execution in the case of an unfavorable turn of events or an unexpected management situation at the level of budgeted entities.
4. The elaboration of definitive budgets and their delivery to the responsibility centers;
5. Monitoring the budgets' execution and their update depending on the evolution of the business environment and the achievement of the objectives;

The advantages of the budgeting process are:

- the manager of the patrimonial unit has the possibility of coordinating all of its functions (supply, production, sale);
- indicates the conditions under which the patrimonial unit can achieve the targeted objectives;
- provide the necessary information for setting up future actions;
- allows the comparison of the targeted objectives with the performance of the patrimonial unit;
- allows the anticipation of certain difficulties that might be met and the solutions for their prompt counteraction.

The disadvantages of the budgeting process are:

- the risk of having the patrimonial unit's activity blocked on one single plan of action;
- the aversive reaction of the employees in the case of unrealistic objectives;

- the risk of losing control over the costs due to the misconceptions of the employees and chiefs of departments according to which smaller resources will be allotted for the next year if during the current year a smaller amount of resources than allotted are used.

Another important issue regarding budgets is the *budgetary management*. The budgetary management or the budgetary system represents the management process consisting of translating the numerical action plans called budgets, the decisions made by the administration with the participation of the responsible agents. The budgetary management includes preparing the budgets, analyzing the errors and correcting them.

The budgetary management is based on the following principles:

- *the integrity principle*, which entails that all the activities of a patrimonial unit should be characterized by a perfect coordination between the various functional and operational services;
- *the principle of superposition* of the budgetary system over the authority system from the patrimonial unit, which means that the budget must be identified with a responsible individual and its accounting authority description;
- *the principle of maintaining the solidarity among departments and the congruence with the strategic objectives of the patrimonial unit*;
- *the versatility principle*, which means adjusting the budgets to the changes in the economical variables;
- *the principle of personnel policy coupling* to determine the motivation and adhesion of the personnel to the targeted strategic objectives;
- the principle of updating the budgetary predictions.

The budgetary management has the following characteristics:

- is a result of the strategy and predictions;
- is an element of coordination among several levels of activity, since the budgets are inter-correlated;
- has some limitations such as being too theoretical, expensive and sometimes unusable.

The effectiveness of the budgetary management depends on the quality of predictions but also on the corrective measures taken.

The elaboration of an organization's budget is important to its success for three reasons. First of all, the elaboration of the budget requires the management to analyze the future activity and plan the objectives and events in the short run as well as in the long run. Second, the entire managerial team must collaborate in the setting and following these plans. Third, performance analysis on each managerial level is possible by comparing the budgets with the actual results.

The budgetary system of an entity is one of the most practical management control procedures, precisely organizing the tasks for enhancing the enterprise's performance and correcting the potential errors. It indicates the way in which profit is obtained, allowing the decision makers to understand the factors that generate profit and to operate upon the controllable variables that influence the achievement of foreground objectives. Moreover, the budgetary system directly contributes to the elaboration of provisional synthesis documents: provisional balance sheet, provisional income accounts, treasury and financing plans.

In order to achieve its objectives, the budgetary system must meet the following conditions:

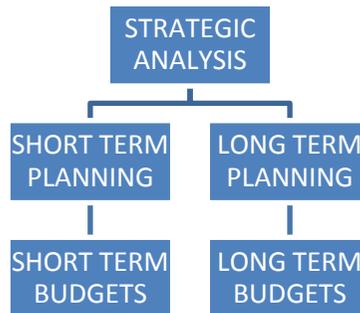
- implication and support from the top management;
- implication of all department managers in throughout all aspects of the budgeting procedure;
- clearly defining the long-term objectives;
- a realistic organizational structure, with clearly defined responsibilities;
- the accounting and informational system must be adequate;
- the regular revision of the budgets and the objectives;
- the administration of the budgets in the most flexible way⁶⁴⁰.

⁶⁴⁰ Briciu Sorin, *The Informational System regarding the management accounting and calculation of costs in industry*, Argus Publishing, Bucharest, 2000, p. 47.

A major component of the managerial control, the effectiveness of the budgeting process is reflected in the fact that: requires the strategic planning and implementing the plans, offers a frame of reference for performance evaluation, contributes to personnel motivation, encourages the coordination and communication.

1. Strategic planning and implementing the plans

Budgeting is effective if it is a part of a company's strategic analysis, which means that the long term planning is used in the elaboration of long term budgets whereas the short term planning is used in the elaboration of short term budgets.



2. The budget, a frame of reference for performance evaluation

A company's performance can be evaluated through its reference to the elaborated budgets for those plans, which contributes to the elimination of some difficulties concerning the use of past results in analyzing the current results such as:

- the past results include the activity's failures, the substandard performance within the previous period;
- the activity's conditions can differ in the future as compared to those in the past.

The evaluation of individual professional performance represents the set of processes and procedures implemented annually through the application of performance criteria for the degree of accomplishing the professional objectives based on the job description.

The individual objectives must meet the following requirements:

- the activities must be specific and in accordance to the requirements listed in the job description
- to be measurable, and have a concrete form of achievement;
- include deadlines;
- set realistic expectations that can be accomplished within the specified deadlines and with the allotted resources;
- are flexible in the sense that they can be revised depending on the encountered modifications and priorities.

The evaluation of individual professional performance is based on special legal regulations for each personnel group, requiring the different approach of these issues.

The score for achieving the objectives is obtained by calculating the arithmetic average of the grades given for the achievement of each objective, including the individual revised objectives in the case a revision was necessary during the evaluation period. The score for achieving the performance criteria is obtained by calculating the arithmetic average of the grades given for achieving each criterion. The final score of the annual evaluation is obtained by calculating the arithmetic average of the individual objectives and performance criteria grades.

The evaluation procedure consists of three stages as follows:

- drafting the evaluation report by the evaluator;

- the interview;
- registering the evaluation report.

3. *The budget, a motivational factor for achieving the objectives*

Research studies report that “bold” budgets contribute to improved results since the incapacity to accomplish the predicted levels budgeted for is perceived as a failure. The majority of the employees is motivated by the desire to avoid failure and succeed; as soon as they get closer to achieving an objective, they intensify their efforts to attain it. For these reasons, setting high but achievable objective is important.

Training is a difficult task of the management, entailing decisions that determine the personnel to participate in the process of targeting and achieving the objectives, taking into consideration the motivational factors.

Therefore, I estimate that the chief of departments should try to get to know each subordinate’s personality and more importantly their professional interests and their predispositions with regard to a certain working activity.

From the point of view of the instrumentality of personnel motivation, the manager of each organizational link may intervene in the following ways:

- through positive motivational factors, offering the subordinate employees the possibility to attain their professional goals, to publicly recognize their achievements, to facilitate their promotion, to facilitate their personal development;
- through diminishing the effects of negative motivational factors (hygiene factors), the supervision strategies, promoting interpersonal relations, ensuring an adequate working environment, organizational culture.

4. *The budget, an instrument for promoting the coordination and communication among the institutional structures*

Coordination represents the deployment and trimming of all production or service factors from all economical functions and departments in the most effective way to allow the company to achieve its objectives.⁶⁴¹

Communication assumes that the personnel from all organizational subunits understands and accepts these objectives.

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⁶⁴¹ Charles T. Horngren, Srikant M. Datar, George Foster, *Costs accounting, a managerial perspective*, Arc Publishing, Craiova, 2006, p. 201

HUMAN RESOURCES ACCOUNTING – ACCOUNTING FOR THE MOST VALUABLE ASSET OF AN ENTERPRISE

Vatasoiu Cristian Ionel

Valahia University of Târgoviște, Faculty of Economics

Cornescu Alina

Valahia University of Târgoviște, Faculty of Economics

Motoniu Ioan Dumitru

Valahia University of Târgoviște, Faculty of Economics

Employees are the most important assets of an enterprise and its success or failure depends on their qualifications and performance. Human resources are not properly evaluated because the enterprises consider the wages, actually an investment in the qualification and improvement of the staff as expenditure and not as an investment in the most important asset of an enterprise – the human capital. The current accounting system is not able to provide the actual value of employee capabilities and knowledge. This indirectly affects future investments of a company, as each year the cost on human resource development and recruitment increases. Human resource accounting is a direct part of the social accounting and aims to provide information on the evaluation of one of the most important components of the organization, namely human capital. This article seeks to show the importance of human resources for an enterprise, what human resource accounting is, which would be its implications and what are its main objectives.

Keywords: Human Resources Accounting, human capital, knowledge, intangible assets, Lev & Schwartz model

Jel code: M41 Accounting

1. Introduction

In recent years, the economic, political and social environment underwent profound changes that caused a higher level of globalization and an increasingly greater competition. Corporations have become increasingly strong and rising the problem of responsibility assuming, the companies have started to give increasingly more importance to corporate social responsibility. Customer expectations increased regarding product quality and environmental protection by producers.

We are in an unbelievable economic crisis, but this will end, sooner or later. It is therefore very important to know what role investment in human capital plays in solving this dilemma. In an economy based on knowledge, people being knowledge-holders become the most valuable asset of an organization⁶⁴².

In the economy of knowledge, there are the typical organizations developing, called knowledge or cognitive-intensive organizations. The term "knowledge-intensive" apply to organizations in which knowledge has more importance than other inputs and human capital predominates over other forms of capital⁶⁴³.

Specific to knowledge are two dimensions - human and economic. At company level, knowledge is reflected in the workforce (human capital), in the requirements and preferences of customers (customers as capital), in the products, processes, capabilities and its systems (structural capital). As a result, the value of knowledge assets can significantly exceed the value of tangible assets. Assessments of companies like Microsoft are telling in this regard.

⁶⁴² Nicolescu O., Nicolescu L.: *Economia, firma și managementul bazate pe cunoștințe*, Editura Economică, București, 2005.

⁶⁴³ Starbuck W.: *Learning by knowledge-intensive firms*, *Journal of Management Studies*, No.3, 1992.

2. Human resources. Most valuable asset of an enterprise.

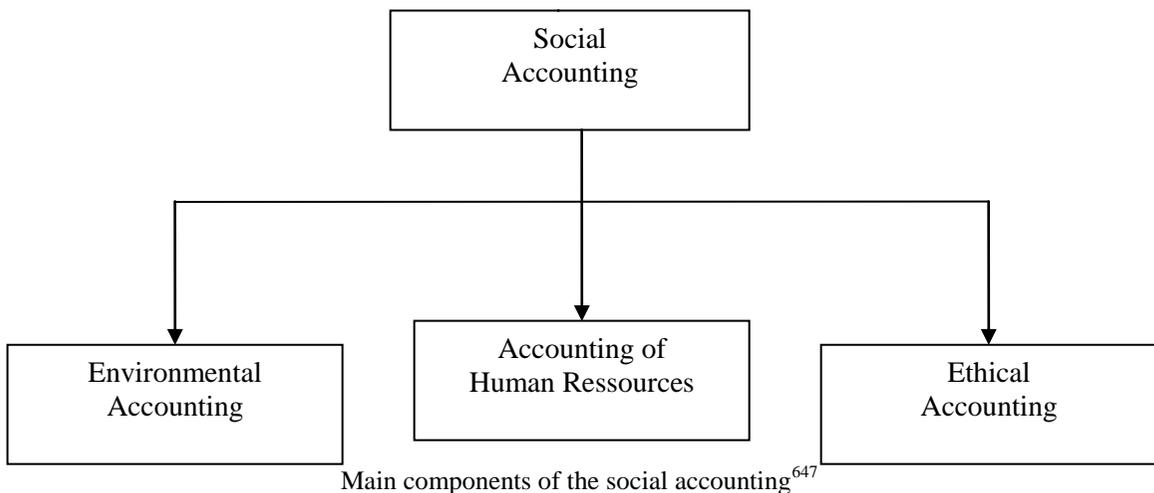
Resources are "all human, material, real and monetary elements that can be drawn and used in the production of economic goods to satisfy social needs"⁶⁴⁴. With the advent of the new economy, knowledge-based economy it has been concluded that human resources becomes increasingly more important in determining the total value of an organization. Human capital refers to a set of knowledge and competence, skills and training, innovation and capabilities, attitudes and skills, learning ability and motivation of the people who form the organization.

Although the technical installations, equipment or financial capital are important, human resources, in particular, very important⁶⁴⁵. Manolescu asserted that the traditional approach is to treat people as mere "expenditure" or in the accounting approach tendency as mere costs⁶⁴⁶.

Joint human resource paradigm is incomplete and limited. It takes your mind to a consumable resource type at a cost and therefore the administration in terms of minimizing costs. Actually it is about an essential strategic element in the company's future, it is about human capital. Human capital includes the combined knowledge, skill, creativity, resourcefulness and ability of each employee of a firm to conduct routine activities. It also includes the company's values, its culture and philosophy.

3. Accounting of Human Resources

Accounting of human resources forms direct part of the social accounting with the environmental and ethical accounting:



The American Accounting Association's Committee on Human Resource Accounting has defined Human Resources Accounting as the process of identifying and measuring data about human resources and communicating this information to interested parties. Human Resources Accounting, thus, not only involves measurement of all the costs/ investments associated with the recruitment, placement, training and development of employees, but also the quantification of the economic value of the people in an organisation⁶⁴⁸. Flamholtz⁶⁴⁹ too has offered a similar

⁶⁴⁴ Dobrota N. - coordinator: Dictionar de economie, Ed. Economica, Bucuresti, 1999, 159.

⁶⁴⁵ Armstrong, M., " A Handbook of Human Resource Management, Kogan Page, London, 2001.

⁶⁴⁶ Manolescu, A., " Human Resources ", Economic Publishing House, Bucharest, 2003.

⁶⁴⁷ Giju George Ciprian. Social accounting to make the social results visible, 2007.

⁶⁴⁸ American Accounting Association Committee of Accounting for Human Resources, Report of the Committee on Human Resource Accounting, 1973.

⁶⁴⁹ Eric G. Flamholtz: *A Model for Human Resource Valuation : A Stochastic Process with Service Rewards*, 1971.

definition for Human Resources Accounting. They define Human Resources Accounting as “the measurement and reporting of the cost and value of people in organizational resources”. Looking at different proposals⁶⁵⁰, the resource theory considers human resources in a more explicit way. This theory considers that the competitive position of a firm depends on its specific and not duplicated assets. The most specific (and not duplicated) asset that an enterprise has is its personnel. It takes advantage of their interdependent knowledge. That would explain why some firms are more productive than others. With the same technology, a solid human resource team makes all the difference⁶⁵¹

Characteristics of Human Resources Accounting:

- Its a system of accounting in which identification of human resources is made.
- Investment made in human resources is recorded.
- Measurement of costs and values are made.
- Changes occurring in human resources over a period of time are also recorded.
- Communicates information through financial statements to interested parties.

The main objectives of Human Resources Accounting are:

- Proper management of human resources
- Improvement of human resources.
- Depicting the true value of the organization.
- Provides quantitative information on human resources which helps the managers and investors in making decisions.
- Human Resources Accounting communicates the worth of human resources to the organization and to the public.

4. The treatment of Human Resources Accounting

According to Barcons et al⁶⁵² Human Resources Accounting can be treated from two perspectives:

4.1. Treatment from a Financial Accounting Perspective

Romanian accounting records to be kept in harmony with accounts in Class 4 Third party accounts and Class 6 expense accounts, namely:

- Group 42 “Personnel and assimilated accounts” (in which find both the accounting function of active accounts, the economic content of debt and liability accounts with the accounting office, the economic content of debt);
- Group 43 "Social security, welfare and similar accounts" (accounts with the accounting function of liability, the economic content of debts except the account 4382 "Other social debt "which has the function of active accounts, the economic content of debt);
- Account 444 "Tax on income from wages" account according liability account, the economic content of debt
- Group 64 "Staff costs" accounting with asset accounts function, uses economic content.

Following the definitions already explained, as long as future benefits are expected to come from these training costs, they can be treated as assets. However, this does not hold true in reality. As Cea García⁶⁵³ states: "There is a clear absence of correspondence between the real assets in the present firms and those recognised in the balance sheet... In fact, assets are too related to its juridical conception (that is, owned by the firm...), in front of a pure economic approach where

⁶⁵⁰ Conner, K.: A Historical Comparison of Resource-Based Theory and Five Schools of Thought Within Industrial Organization Economics: Do We Have a New Theory of the Firm?," *Journal of Management*, 17, 1, 1991, 21-54.

⁶⁵¹ Archel, P.: Activos intangibles: análisis de lagunas partidas polémicas, *Revista técnica del Instituto de Censores Jurados de Cuentas de España*, 7, 1995.

⁶⁵² Barcons et al: Human Resource Accounting, *International Advances in Economic Research*, 1999, 386-394.

⁶⁵³ Cea García, J. L. "Las cuentas anuales y la imagen fiel," *Partida Doble*, 4, September 1990.

asset is every instrument or way that can be used in the production-distribution firm's process or, in general, every category of economic value which can be transformed into goods or service or any instrument at the service of the firm or that the firm uses, regardless [of] its juridical state...and also all those goods and rights that the firm does not own now but used to own or will own later on, by virtue of collateral contracts or agreements which may induce it."

So, a diagnosis is reached about the predominant asset concept. This situation can be explained by two important problems that are met when referring to intangibles: Identify the assets cost and estimate the period in which the asset should be amortized.

In international accounting, besides clearly recognizing some items as assets (cash, stock, machinery, and so on) there is great debate whether certain other items are considered capitalization. These are known as deferred charges in English accounting literature⁶⁵⁴. It can be said then that not only are the limits unclear between intangible, fixed assets and deferred charges, but also which elements are considered assets and which elements are considered expenses.

4.2. Treatment from a Managerial Accounting Perspective

Personnel working for a determined enterprise is actually participating in a value-creation process. That is, any economic activity makes the firm incur costs. One traditional classification takes into account the cost categories of raw materials, industrial plants, and personnel. When adding income flow to an organization's market goods and services, if it is superior to the cost flow, it becomes added value. This value is a consequence of the interaction between material and human resources in production. Because it is difficult to know and measure value, accounting has used substituted measures such as acquisition cost, substitution cost, and even opportunity cost⁶⁵⁵.

5. Methods/Models Of HUMAN RESOURCES ACCOUNTING

Many models have been created to value human capital. Some are based on historic costs while some are based on future earnings. But each has its own limitations and one model has proved to be more valid than other. In The following we will make a short description of the most important models of Human Resources Accounting:

Historical Cost Method. Actual cost incurred for recruiting, hiring, training and developing the human resources of the organization are capitalized and amortized over the expected useful life of the human resources.

Replacement Cost Method. This is the measure of the cost to replace a firm's existing human resources. This method has the advantages of adjusting the human value of price trends in the economy.

Opportunity Cost Method. In this method, the human resource of an organization has to be valued on the basis of the economist's concept of opportunity cost which is value of benefit foregone by putting it to present use.

Present Value Of Future Earnings Method. It recognizes an individual's expected economic value to the enterprise during his remaining service period. An estimate about the future earning is made, and these earnings relate to the period which extends to the date of retirement of the employees. Such earnings are discounted by an appropriate range to get the present value.

The Lev & Schwartz Model. The Lev and Schwartz model states that the human resource of a co is the summation of value of all the Net present value (NPV) of expenditure on employees. The human capital embodied in a person of age r is the present value of his earning from employment

Under this model, the following steps are adopted to determine HR Value.

⁶⁵⁴ Hendriksen, E. S.; Van Breda, M. S. *Accounting Theory*, Homewood, IL: Richard D. Irwin, 1992

⁶⁵⁵ Marqués, E. "Contabilidad y gestion de los recursos humanos," *Pirámide*, 1974

- Classification of the entire labour force into certain homogeneous groups like skilled, unskilled, semiskilled etc. and in accordance with different classes and age wise.eg. In Infosys the classification is based on software professionals & support staff etc.
- Construction of average earning stream for each group.eg. At Infosys Incremental earnings based on group/ age have been considered.
- Discounting the average earnings at a predetermined rate in order to get present value of human resource's of each group.
- Aggregation of the present value of different groups which represent the capitalized future earnings of the concern as a whole,

$$V_r = \frac{I(t)}{(1+r)^{t-r}}$$

Where, V_r = the value of an Individual r years old

$I(t)$ = the individual's annual earnings up to retirement

t = retirement age

r = a discount rate specific to the cost of capital to the company.

Critical appraisal of the Lev & Schwartz model:

- It is essentially an input measure .It ignores the output i.e. productivity of employees.
- Service state of each individual employee is not considered.
- The training expenses incurred by the company on its employees are not considered.
- The attrition rate in organization is also ignored.
- Factors responsible for higher earning potentiality of each individual employees like seniority, bargaining capacity, skill, experience etc. which may cause differential salary structure are also ignore.

Just like the environmental accounting, human resources accounting is necessary to get incorporated into the financial statements due to internal or management usefulness in taking decisions by potential users as well as externally for making decisions on staff by management. Accounting of Human Resources incorporates in the present financial statements of information on the assessment of one of the most important components of the organization, namely human capital.

In order not to conflict with International Accounting Rules we consider the easiest solution to be the legislation on the adoption of an annex to the annual financial statements that should include information about human capital, namely:

1. *Non-financial information:* leadership; motivation; ability of execution of delegated tasks; relation; number of employees; seniority in the company; stability in the company post; number of managers; number of women managers; percentage of managers with higher education; the average age of employees; the average length of training programs (hours/employee); IT knowledge.

2. *Financial information:* expenditure on advertisement for recruitment; cost of selection; training cost; on the job training cost; subsistence allowance; contribution to provident Fund; educational tour expenses; medical expenses; ex-gratia payments; employee's welfare fund.

As you can see all the individual capabilities, skills and experience of employees and management, creativity and spirit of innovation, investment in recruitment, selection, contracting, personnel qualification and improvement are included in the term of human capital. From the above discussions, it is felt that, Human resource accounting provides quantitative and qualitative information about the value of human asset, which helps the top management to take decisions regarding the adequacy of human resources. Hence, It is Concluded that, the Human Resources are an indispensable but often neglected element is thus to be foregrounded into the industrial area for the betterment of the economy.

Conclusions

The claims of the investors, the need for greater transparency and the free access to information, as well as the increasing of the value of intangible assets will make the financial report of companies have a much broader approach in the future. Thus, it could include the measurement of sustained effort, of corporate governance or human capital. The nature of the financial ratio will change in the future, as the importance of figures will not be the only aspect to consider. Thus, a financial report could measure human capital, the company's social responsibility or even carbon emissions.

Present accounting system ignores the importance of human resource value and Managers lack information about the effectiveness and efficiency of human resource investment. IASB treats most human capital related costs as expenses, instead of assets. The more the company invests in human capital, the less the current net income.

No model of human resources accounting is accepted by the accounting bodies all over the world. However, still we find some application of Lev & Schwartz model is most public sector units and IT based sectors. What is needed is measurement of abilities of all employees in a company, at every level, to produce value from their knowledge and capability. Human Resource Accounting (Human Resources Accounting) is basically an information system that tells management what changes are occurring over time to the human resources of the business. Human Resources Accounting also involves accounting for investment in people and their replacement costs, and also the economic value of people in an organisation

Recommendations:

- Use data and information on human resources costs to base internal decisions and their disclosure through an annual report of the organization;
- Treating investments in staff development at the same level with other investments;
- Treating costs like staff training and development as capital investment expenditures that increase the productive capacity of employees.

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SECTION: MANAGEMENT AND MARKETING

SUB-SECTION: MANAGEMENT

PERFORMANCE ASSESSMENT IN OPERATING DRY PORTS

Ciortescu Cezar-Gabriel

“Alexandru Ioan Cuza” University of Iași

Faculty of Economics and Business Administration

In this paper, an approach for recognizing and defining correct and operable performance will be presented with the purpose of evaluating the effectiveness and efficiency of processes in dry ports (inland intermodal hubs). The challenge in evaluating the possible improvements of the underlying processes lies in the special nature and the complex structure of dry ports. It is important to consider that all the processes are highly interconnected and that changes in parameters in one process also have an impact on parameters in other processes. Furthermore, the performance of dry ports, seen as the backbone of the system, has a significant impact on the overall performance of the whole transportation network.

Key words: dry ports, logistic performance indicator, container, freight, transportation, TRANS-TOOLS, ASYCUDA

JEL codes: A12, C53, C83, D78, D85, F14, L92, M13, O21, O47, Q55, R11, R4

Introduction

The first shipping container was invented and patented in 1956 by an American named Malcolm Mc Lean. From that moment on, the container shipping industry has improved its performance at an impressive pace, with containers production reaching high numbers, megacarrier container ships reaching 14000 TEU⁶⁵⁶ (World Cargo News, 2006), and the seaports container terminals expanding the capacity already increased by the existing ones (McCalla, 1999). As container transport volume continues to grow, seaport inland access becomes a critical factor for the seaports' competitive advantage. Therefore, progress only in the maritime part of the transport chain and in seaport terminals, without improvements in seaport inland access, is not sufficient for the entire transportation chain to function successfully.

One of the issues, which has been neglected for many years or sporadically implemented on different continents, is the dry port concept, which represents the focus of this paper. The concept was recently reborn due to increased interest in environmental issues related to growing containerized maritime transport. Many studies and researches have been made for the concept to be integrated into world freight trade.

Methodology used in this paper is based on extended literature review, interviews and case studies, with external validation regarding dry ports implementation, and is primarily meant to highlight the main impediments which influence implementation of dry ports and the actors involved in containerized freight trade, after a proper definition or at least after defining the concept.

Definition and classification the concept of dry ports

The definition of the concept required investigation of previous names for inland intermodal terminals, as there are different names all over the world: Gueterverkehrszentren in Germany, Plateformes Multimodales Logistiques in France, Freight villages in UK or Interporti in Italy, Inland Port in US, Inland Container Depots in India and Asia, Estacao Aduaneira do Interior in South America, particularly in Brazil, meaning Interior Customs Station. They all provide transshipment from one mode to

⁶⁵⁶ One freight container standard size = twenty equivalent unit, TEU

another as well as auxiliary services such as warehouses, customs, maintenance workshops, insurance offices and other (Roso, 2009). India introduced Inland Container Depots – ICDs, in 1983 and Indian Customs (2004) bases its definition of an ICD on the UN ECE definition below, but restricts it to containers. India also uses the term Container Freight Station - CFS, which differs from an ICD since containers are stuffed and stripped there. Hence, an ICD is a consolidation node for containers whereas a CFS aggregates individual consignments into containers. A CFS function might be added to an ICD. ICDs are normally located outside the port towns but there are no site restrictions regarding CFSs. In Europe there has been a focus on business areas offering a wide range of logistics services. In a survey (Cardebring and Warnecke, 1995), a definition was provided for an Intermodal Freight Centre as a concentration of economically independent companies working in freight transport and supplementing services on a designated area where a change of transport containers between traffic modes can take place. An Inland Freight Terminal is “any facility, other than a port or an airport, operated on a common-user basis, at which cargo in international trade is received or dispatched” (UN ECE, 1998). An Inland Port is located inland, generally far from seaport terminals; they supply regions with an intermodal terminal offering value added services or a merging point for different traffic modes involved in distributing merchandise coming from ports (Harrison et al, 2002). The term dry port is used synonymously. Finally, according to the Economic Commission for Europe (ECE, 2001), a dry port is simply “an inland terminal which is directly linked to a maritime port”. However, a dry port definition that corresponds to the definition of an Inland Clearance Depot - cited above - was used (Beresford and Dubey, 1990). Since the former definition on dry port is rather broad in its meaning, all above mentioned terminal facilities might use the notion of dry port due to their links to seaports. Another definition describes a dry port as “an inland intermodal terminal directly connected to seaport(s) by rail where customers can leave/pick up their units as if directly to a seaport” (Roso, 2009). Despite the fact that the frame of reference is ambiguous, we nevertheless get a general perspective from the above quoted definitions. Research done in 2007 (Roso, 2009) classifies dry ports as it follows: close dry ports, mid range dry ports and distant dry ports. This classification is based on the distance between the seaports that dry ports are servicing and the dry ports themselves. However, one such classification could not be sufficient in order to get a clear definition of the dry port concept. There is still a wide area for research regarding the concept and we will mention other criteria of classification as it follows:

- According to size (meaning how many TEU it can handle per year): small, medium, large and mega dry ports, which can be implemented in land-locked countries.
- According to means of access: depending on how many rail tracks and roads are in and out of facility.
- According to value added services: as stuffing / stripping of containers, maintenance of container, handling and storage of refrigerated / frozen and dangerous goods.

A summative definition, as observed from above, is that dry ports, having the word “dry” as a structural part of their name, are supposed to be viewed as different from inland intermodal terminals which have, in addition to standard dry port facilities, at least one inland waterway, by means of which goods can also be transferred also by water means: either by barges, tugs, or other navigational equipment; moreover, its handling equipment is at higher scale than that of dry ports.

There are still a lot of academic debates over dry ports definition and classification, as research field in container trade and inland logistics has been developing over recent years.

Assessing performance of dry ports

The underlying concept for assessing performance indicators to measure the process quality of inland terminals is a first approach towards a standardized process for collecting and evaluating data on the performance of dry ports. It is intended to show that inland terminals have to be considered complex systems that will need much more attention in the future. This will allow bearing in mind the big picture while not losing sight of operating details. There is one particular study (Gronalt, Posset and Benna, 2008) which focuses on a discrete event simulation which was developed in an earlier stage of our research. The simulation model is based on three standard processes (Gronalt, Benna, and Posset 2006). It takes consequently into account the delivery and pick-up process of train and truck, the storage of containers in the yard and the handling of empty containers. In this context the aim of the simulation model was to conduct experiments regarding causes and effects within the underlying process. The simulation model is used to quantify and evaluate performance indicators which are used as input for the evaluation of the dynamic cause and effects model by setting the following parameters:

- Throughput (ITU/Year)
- Rate of fast movers and non stackable ITU (%)
- Average storage time of fast movers (days)
- Average storage time of slow movers (days)

The better the operating efficiency of the dry port equipment and staff, the more customers the terminal can attract and the more customers will place handling orders. More handling orders result in an increase of the storage usage rate which also induces a greater order fulfill-rate. The higher the order fulfill rate, the higher the available capital of the terminal and the greater the resources budget. A greater resources budget allows the management for more staff training to increase equipment exploitation which again results in an increase of operating efficiency. An increase in the operating efficiency induces extra handling orders which generates more gains and further allow for more staff training and better equipment exploitation. As a result, an increase in the operating efficiency has a reinforcing impact on the customer's handling orders.

Performance indicators are assigned as a loop to emphasize the impact of an improvement or deterioration within the context of the system. Furthermore, it is possible to point out the corresponding causes to deduce necessary actions. In a study conducted in 2008, (Gronalt, Posset and Benna, 2008) expert interviews and field studies practitioners always pointed out that there is a need for a theoretical model to support the understanding of the underlying simulation model, but the results of simulation were still viewed as a black box for dry port operations. When thinking of actions and the expressiveness of performance it is important to formulate corresponding objectives to measure the impact or contribution of performance indicators. Still in the world economic crisis, the above scenario is expressed too optimistically. Despite this, we have at hand another two of the main tools for assessing a dry port performance: TRANS-TOOLS and ASYCUDA.

TRANS-TOOLS "TOOLS for Transport Forecasting and Scenario Testing" is a European transport network model that has been developed in collaborative projects funded by the European Commission Joint Research Centre's Institute for Prospective Technological Studies - IPTS and Directorate-General for Transport and Energy - DG TREN. It covers passengers and freight transportation, as well as intermodal transport. It combines advanced modeling techniques in transport generation and assignment, economic activity, trade, logistics, regional development and environmental impacts. It can be used both by public and private bodies, for prediction and forecast for traffic and evaluation on environmental impact. The main issue for the development of TRANS-TOOLS was the need to construct an IPR-free instrument, with open architecture in order to facilitate access by potential users and developers (EC JRC IPTS, 2008).

The implementation of the ASYCUDA - Automated System for Customs Data) software,

developed by UNCTAD, will be a future standard for the operation of dry ports. ASYCUDA is a computerized customs management system which covers most foreign trade procedures. The system handles manifests and customs declarations, accounting procedures, and warehousing manifests, as well as suspense procedures. It generates detailed information about foreign trade transactions which can be used for economic analysis and planning. The system project is directed at reforming the customs clearance process. It aims at speeding up customs clearance through the introduction of computerization and simplification of procedures and thus at minimizing administrative costs to the business community and the economies of countries. It also aims at increasing customs revenue, which is often the major contributor to national budgets in most countries, by ensuring that all goods are declared, that duty/tax calculations are correct and that duty/exemptions, preference regimes, etc. are correctly applied and managed. Furthermore, it aims at producing reliable and timely trade and fiscal statistics to assist in the economic planning process as a by-product of the customs clearance process. An important objective of the ASYCUDA projects is to implement the systems as efficiently as possible with a full transfer of know-how to national customs administrations at the lowest possible cost for countries and donors (UNCTAD, 2009).

The other macroeconomic indicator which will include dry ports performance will be the LPI – Logistic Performance Index. It is a joint venture of the World Bank, logistics providers, and academic partners. The LPI is a comprehensive index created to help countries identify the challenges and opportunities they face in trade logistics performance. The World Bank conducts the LPI survey every two years. The LPI uses standard statistical techniques to aggregate the data into a single indicator. This approach makes it possible to conduct meaningful comparisons across countries, regions, and income groups, as well as to undertake country-specific diagnostic work. Because these vital aspects of logistics performance can best be assessed by operators on the ground, the LPI relies on a structured online survey of logistics professionals from the companies responsible for moving goods around the world: multinational freight forwarders and the main express carriers. Freight forwarders and express carriers are in the privileged position to assess how countries perform. It helps by directly affecting the choice of shipping routes and gateways and influencing firms' decisions about production location, choice of suppliers, and selection of target markets (Arvis et al., 2010). Implementing dry ports and increasing their performance will increase LPI of the country, which will bring a higher rating in the world freight trade.

Integrating and combining the above mentioned indicators will provide a better picture regarding the performance of a dry port, and to what extent this will constitute part of the solution for the future of transportation, climate change, regional sustainability, security and safety.

Conclusion

Dry port implementation is not a straightforward solution for the seaport terminal decongestion or for providing easier seaport inland access; it can, nevertheless be part of the solution. The implementation and operation of freight containers through dry ports would bring a series of advantages: environmentally, CO₂ emissions would decrease, by splitting and shifting a part of freight market share of road to electrified railway networks and application of the "last mile" principle; from the traffic and infrastructure point of view, decongestion of trucks queued at seaport terminals gates would become possible; regarding security and safety of trade, customs and government control would improve and the risk of road accidents would be reduced. On the other hand, durable regional sustainability would evolve, new jobs would be created and costs would be reduced by value-added services. On a different level, competitiveness of importers and exporters would be increased, with or without economic growth, chaotic movements of cargo in

hinterland would be eliminated, and finally, the issue of empty containers would be solved by reallocation. Although it is obvious that the relocation of containers from road to electrified rail would result in lower CO2 emissions, a dry port is not merely the equivalent of rail implementation – it is a set of efficient services such as transshipment, storage, depot and containers' maintenance, customs clearance, tracing and tracking. Anyhow, the dry port performance depends on the quality and quantity of ways of land access such as railway and road.

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THEORETICAL AND METHODOLOGICAL ASPECTS OF THE PROFESSIONAL PERFORMANCES EVALUATION

Feraru Andreea
University of Bacau
Faculty of Economics

Ciuceacu Nicoleta
University of Bacau
Faculty of Economics

Evaluating performances is an operation that is periodically completed within organizations, analyzing the work balance of the employees in order to discuss with the employees the recorded progresses and the required measures to be taken in the future. Within the Romanian organizations the evaluation process of the human resources has encountered a series of particularities determined by the existing conditions in which it is completed, by the pursued targets and by the selected methods.

Keywords: human resources, professional performance evaluation, organisations, employee, methods and technique of performances evaluation

JEL classification codes: O 15, M 12

1. Human Resources Performances Evaluation Process

In a time where the technological progress has dramatically increased, the velocity with which the goods and services are produced and delivered has facilitated the communication between organisations, the most valuable factor for a more efficient function of a business remaining the human performance level.

The employees working under a performing management system know their priorities, their current activities, their goals, as well as how should they contribute to their team or their organisation performance.

According to Anton Rotaru and Adriana Prodan “the professional performances evaluation represent the process of establishing the way and the measurement in which the employee fulfils its duties and responsibilities that come with the job description, in comparison with the established standards and transmission of the results to the employees”⁶⁵⁷.

As a result, the performance evaluation has a central role and constitutes an important element or a fundamental component of the performance management system, furthermore the means through which the organisational objectives develop into individual ones. From this point of view, the performance evaluation holds a significant number of the performance management system characteristics.

Evaluating performances is the fundamental activity of the human resources management developed in order to determine the degree in which the employees of an organisation efficiently fulfil the assigned tasks.

Evaluating performances is an efficient management process, in which the manager constantly performs a surveillance of the employees’ performance and offers a feedback.

⁶⁵⁷ Rotaru A., Prodan A., *Managementul Resurselor Umane*, Editura Sedcom Libris, Iași, 1998.

Non-formal assessment appears when a leader chooses to. The daily work relation between a leader/manager and his/her subordinates offers the opportunity to make assessments on the performances. These assessments are transmitted through non-formal means of communication or when examining some aspects of the work, within some operative debates or meetings.

Formal/systematic assessment is performed when the contact between the managers and subordinate is formalised and it has already been established a system of reference the employees' performance observations and assessments of their direct leaders/managers.

The responsibilities of evaluating performances belong to managers as well to the personnel department:

Managers:

bring up to date the way in which the performances are evaluated;

draw up formal reports concerning the performance evaluation;

foresee/analyse the evaluations/assessments with the employees.

Personnel department staff:

plan, maintain and bring up to date the formal system of performances evaluation;

establish on time the report of the assessments of the employees performances;

instruct and train the specialists who are in charge with evaluating performances.

Within Romanian organisations, the main objectives are achieved through employees' performance evaluation:

to insure the agreement between the demands from the job description and the employee's qualities (professional, abilities, attitudes);

to stimulate the employees in order to increase the individual professional performance;

to choose the persons for which the results of the professional activity evaluation motivate an adjustment of the job position into a higher one and/or an adjustment of the salary according to the appropriate applicable normative legislation.

At the same time, the human resources performances evaluation provides:

detection of the areas in which professional training actions of the employees are required;

detection of the situations in which a reorientation of the employee is necessary, according to his/her capacity, abilities, attitude and behaviour in comparison with the job demands;

detection of the required elements in order to select the staff to accomplish new, urgent or important projects/documents/programmes;

presentation to each employee the way in which his/her activity was appreciated.

Professional performance evaluation is applied to all organisation employees, except the top manager in proportion with the requests from the job description, with the requests for the specific job position, as well as with the professional evaluation criteria according to the *Personnel Professional Performances Evaluation* operational procedure and established by the leader of the organisation.

It is important that the evaluation to be performed regularly, systematically (usually half-yearly or yearly) for good results. Such a systematically evaluation does not leave out some possible non-formal assessments when are considered required, for example at some organisation or employees' events.

Professional performance evaluation of the staff take place at a given time, which is fixed by the top manager of each organisation and it may take place as it follows:

- usually once a year and has as its main goal to establish the general rank that characterises the activity of an employee;

- every time it is required – when by this action some useful information may be gathered in order to take a decision.

During the year, at each adjustment of the job position or the salary of an employee a professional performance evaluation of that employee is performed, according to the same procedure.

Staff professional performance evaluation consists in the analysis of the performance criteria, according to the form *Professional Activity Reference* (if this particular form exists within the organisation), respectively *Professional Activity Chart*, that leads to the estimation of the employee activity results, the detection of the positive and negative qualities and to establish a plan to improve the future results.

Personnel professional performance evaluation is performed in conformity with the stipulations of the *Collective Work Contract* and with the *Personnel Professional Performance Evaluation* procedure, when referring to those organisations that have implemented a good quality management system.

The participation of the employees is mandatory in the evaluation of their professional activity. It has to be mentioned the fact that the assessment of the performances evaluation, of the human resources in an organisation may be realised in different ways, such as:

- the superiors may assess their subordinates;
- the subordinates may assess their superiors;
- the employees of the same rank evaluate one another;
- self-evaluation;
- external sources of evaluation.

The evaluation of the employees by their superiors is manifested by different assessments that the superior makes. This type of evaluation is based on the presumption that the manager is the most qualified to realistically, objectively and correctly evaluate the performances of each employee, and the “unity of command” principle underlines this approach. Within an evaluation system, the superiors’ assessments have to be objective and based on the present performances. To achieve this goal, the manager has to keep a strict record of what the employees did or did not performed, a record of individual performances, so not to forget certain achievements of the employees during the time. The assessment is an important part of the personal file of the employee. Managers and employees have different assessment elements when dealing with the system of evaluating performances. The manager appreciates the system according to the way in which it helps to establish and communicate the performances to the employees. The employees appreciate the system according to:

- the salaries and rewards are based on the evaluation;
- the evaluation are based on the present performances;
- the performance standards are consequently applied;
- it is assured the double communication between the manager and the subordinate.

The evaluation of the superiors by the subordinates is a frequent applied concept in some organisations from all over the world and newer in Romania. It is considered that there are two advantages of this type of evaluation. The first one is that, in case in which the relations superior-subordinate are critical, the subordinate’s evaluation may be useful to identify competent superiors. The second advantage is that a system like this determines the superiors to be responsible towards their subordinates. Nevertheless, this advantage might become a disadvantage when the superior – knowing that his subordinates evaluate him/her – tries to be “pleasant” and conciliating.

A major disadvantage is the negative reaction of many superiors to be evaluated by their subordinates. The fear of the subordinates of retaliation from their superiors may lead to unrealistic evaluation. The principles of the relation superior-subordinate may deteriorate or distorted by this type of evaluation. The problems and disadvantages connected with the evaluation of the superiors by the subordinate may be eluded by moderately use of this system in some special situations.

Self-evaluation may be used in some situations. In fact, self-evaluation is an instrument of self development that determines every employee to identify its strong points and weaknesses and to establish certain tasks to improve its proficiency and work results. Self assessment produces a strong feedback and may be a way of increasing every employee trust in its ability to fulfil a certain given assignment.

External Evaluation is completed by groups of specialists, experts from a certain field of activity. The external experts are requested in special cases when higher rank persons are to be evaluated or to determine the potential of a person before a possible promotion. This way of evaluation has the disadvantage that the external experts do not know all the specific aspects of the organisation and furthermore is expensive and time consuming.

An external, clear and useful source is considered the group of the clients, suppliers and consumers of the organisation products and services, which on different ways may supply information that enlighten the way in which the employees fulfil their duties and may influence the organisational performances.

2. Methods and techniques of evaluating performances

The necessity of evaluating the personnel or evaluating the performances in work regardless of the field of work, finally lead to the necessity to develop various methods and techniques of personnel assessment or systems of performances evaluation.

The diversity of the evaluating methods, techniques and procedures is relatively vast, and the dynamics of the development has encountered an ascendant evolution. The personnel assessment quality or performance evaluation became higher and higher, due to the fact, as the literature in the field stipulates, that the quality of the information on performance greatly depends on the quality of the evaluating methods or systems.

The most well-known methods that may be used in performances evaluation are:

The Essay is a written report or a description on the quality and quantity of the work, assessments on the ability of team work, on ways of improvement the work tasks are emitted, some general recommendations for the field of activity are given. The method is useful for the individual feedback and for the development, but it doesn't allow the comparative evaluation of several employees. Being a free form of evaluation, the evaluator describes the performances of an employee, the essay does not require a complex printed form or a complete professional training for the evaluator.

Comparison/in pairs is a more systematic method, that consists in comparing the employees, two by two, until the best one is chosen. The method uses only one criteria of assessment and it is useful for a group evaluation, but it deficient in case of individual evaluations that is compulsory for development.

Forced distribution requires a comparison of every employee with the other ones, taking into consideration several assessment criteria, "forcing" the results to define into a curve; the given hypothesis is that the great majority of the subjects provide mediocre results and few provide weak or excellent results, the curve of the results has in the end the shape of Gauss bell curve. The advantage of the method is that one may be able to make an efficient assessment of the employee groups, as well shaped entities.

The checklist method helps to establish the assessment criteria, to which is attached an importance coefficient, encoded through percentage, the sum being 100%, and ordering the subjects, on a numeric scale, according to the obtained percentage. The ordinal level scale is Likert scale alike (from 1 to 5), assimilating grades such as "unsatisfactory" (score 1), "satisfactory" (scale 2), till "good" (scale 4) and "very well" (scale 5). The method is easy to use and offers a close connection between the job description analysis and the performance evaluation, that may be numerical expressed.

Critical Events start from identification of the behaviours that lead to weak or exceptional results, generated by the work environment; it constitutes an important feedback from the employer point of view, but it is a time consuming method.

Graphical scale method is, probably, the most exploited method, more rapid than the essays or critical events, the results may be quantified by quantity, more assessment criteria are taken into consideration, a standardisation of the scales is performed, that allows afterwards comparing a greater number of subjects. The scales distinguishes by three characteristics: (1.)- qualifier that express an affirmative response from the evaluator (“fully agree”, “agree“, “neutral”, “disagree”, “absolutely disagree”); (2.)- degree of clarity of the interpretation of the answer by the evaluator; (3.)- the way of define the level of performance, from the evaluator point of view (unsatisfactory, satisfactory, well, very well). The only amendment to the efficiency of this evaluating method consists in the lack of clarity that appears sometimes at the scale reference.

Evaluation Centres are a specialised system of evaluation that contains an organised way of completion. The system evaluates a person for 3-5 days, using a complex of methods, in an institutionalised enviroment. The evaluation tests, alone or in groups is monitored by a specialist that completes the assessment with the observation results. The final characterisation is accompanied by recommendations that are useful in solving the problem.

Despite the inconveniences in evaluating the employee performances, the implementation of a human resource performance evaluation programme must be a priority. The managers should be greatly and constantly concerned to apply the most effective and judicious methods of assessment, taking into consideration their motivational character.

3. **Conclusions**

Top managers and middle managers form Romanian organisations are confronting with situations in which they have to evaluate to employee performances, a process that assesses the contribution of each employee, regardless its rank at a certain time. In other words, these managers should underline at the same time the negative aspects of the employee performance, and on the other hand to provide support through counselling to the employee, establishing which are the possible ways of improvement. Performances evaluation may lead to discover the weak points but at the same time the potential and the professional training requests.

The assessment process may be used by organisation and by the employees. The organisation may have an evaluation on the quality of its employees and their capacity to obtain the desired performances. However, sometimes, the performance evaluation may produce some tensions, especially if it is not performed objectively. As for the employee, he/she may get to know the way in which the evaluation performed by his/her superior corresponds to his/her self evaluation and if there is a correlation between the results of the work, the performances and the salary.

To improve to professional performances and abilities in the majority of Romanian organisations it is absolutely mandatory an efficient foresight of the future evolution of the work environment, the human resources activities, the motivation of the employees and the continuous professional development of the employees.

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INTERACTIVE AND GRAPHICAL MANAGEMENT SYSTEM AT THE MARAMUREȘ COUNTY COUNCIL

Gavrilescu Liviu
North University of Baia Mare

Berlingher Vasile
Western University „Vasile Goldis” of Arad

Macelaru Mara
North University of Baia Mare

The Maramures County Council (Romania) implements a computerized graphic system for assisted public management. A performing public administration is a key issue for the present local and regional development. Having an interactive graphic interface based on the county geographical map, the SIGMA2 system act as a scoreboard for the management of the County Council, as well as an integrator of different software modules that consolidate local administration data. Among its results are the automatization of different financial operations and the provision of informational support for managerial analyses and decision making.

Keywords: assisted management, scoreboard, computer system, county council, Maramureș

Introduction

The concept „Interactive and Graphical Management System at the Maramureș County Council” (SIGMA2) aims to assist the management in public administration in the analysis and decision-making regarding resource management, expenditure, and relations with partners and citizens. SIGMA2 has in center an interactive interface based on graphical representation of the district composed of elements of interest (roads, settlements, investment objectives, elements of road safety, etc.). Connections are based on Web services (XML) functional in Intranet and Internet.

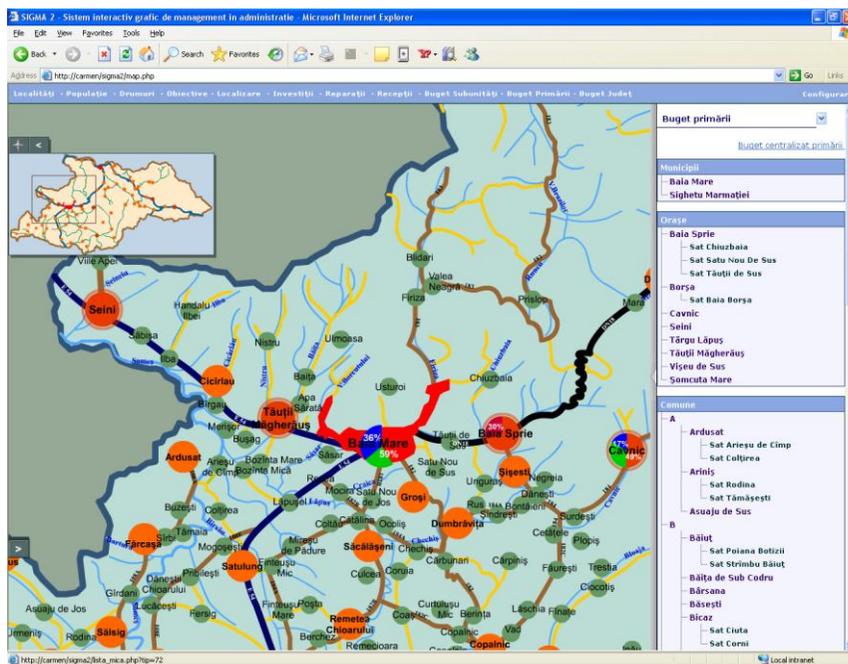


Fig. 1 The main window of the SIGMA system

The system is designed in a flexible and scalable architecture and structures a solid framework for computerization of activities of management and tracking specific to County Councils. SIGMA2 is also a scoreboard for the Maramures County Council management and an integration solution for specialized software modules and of consolidation at the county level of data managed by local authorities.

Research Methods

1. The specialized modules on which SIGMA2 is based are:

1.1. eCUB Complete integrated accounting system for budgetary units

1.2. INVEST records of investment and maintenance and rehabilitation works that involves public funds.

1.3. SPASGEN tracking and management of social benefits (complementary and single-parent family allowance, minimum guaranteed income, local transport, canteen).

2. SIGMA2 - central panel

2.1. Login

Access to system facilities is allowed only after the authentication based on user-password.

Granting of access rights is done by a system administrator. It has provided a module that allows management:

a. Users

b. User groups

c. users belonging to groups

d. relations between groups (inheritance rights)

e. rights of interaction with data: view, add / change, delete

Menu options vary depending on the rights granted to the user.

2.2. Map

It is the core element of the system and is composed of interactive graphical objects that facilitate access to information.

The system allows navigation on the map using the active areas at the edge of the window or arrows on the keyboard, i.e. increasing - decreasing scale (zoom) by buttons on the toolbar of the map or the + / - on the keyboard. Positioning visible area of the map can be tracked / specified on the miniature representation of the map.

Hiding / showing the map is done with the gray vertical bar marked with an arrow.

Active elements of the map are:

a. road - allow selecting a road (European, national, county) for which further information will be provided:

▫ locations list, ordered by location on the road (at km.);

▫ road investments - work positioning, cost and security;

▫ road signs, indicators - positioning, type;

▫ objectives of economic, social and cultural interest;

b. locality - used for displaying its data:

▫ budget, budget execution (income and expenditure);

▫ population;

▫ objectives of economic, social and cultural interest;

c. other objectives - completely configurable at system implementation or after.

Road structure and spatial position of the localities are fixed based on county map digitizing, other graphics (objectives, institutions, road signs and works) may be positioned dynamically from SIGMA.

2.3. Main Menu

Is displayed at the top of the window and allows entry into areas of system configuration, consultation - detailed data update, visualization of advanced statistics.

Access to menu options is limited by the rights granted to the user, depending on the competences of the user's group. Connections to restricted functional areas will not be shown to simplify the interface.

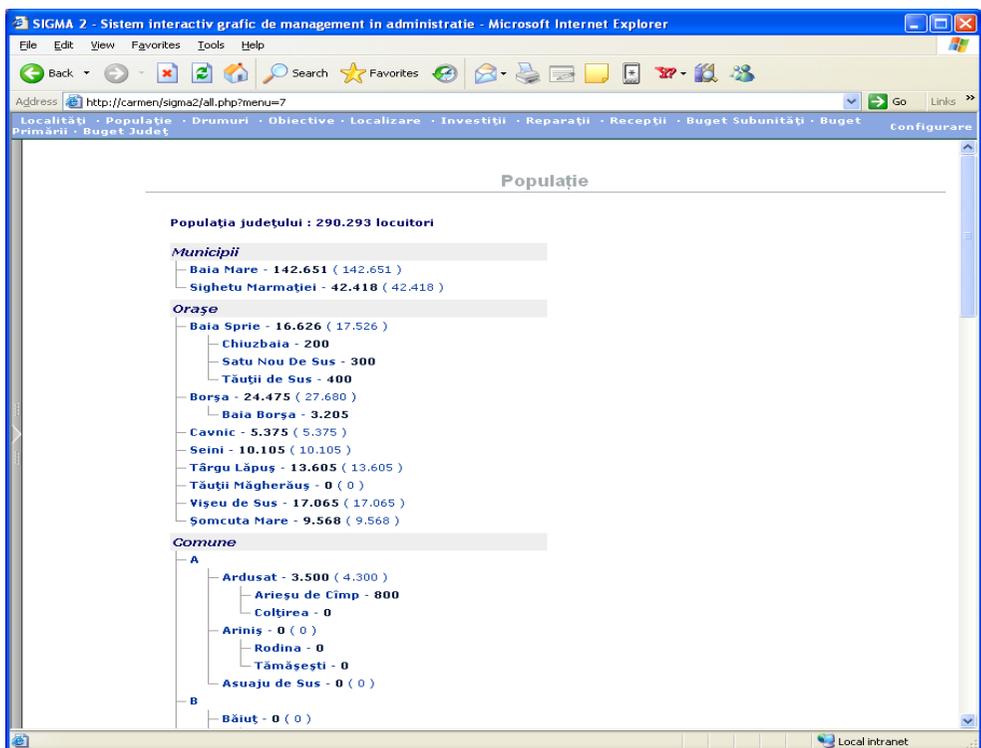


Fig. 2 Main Menu

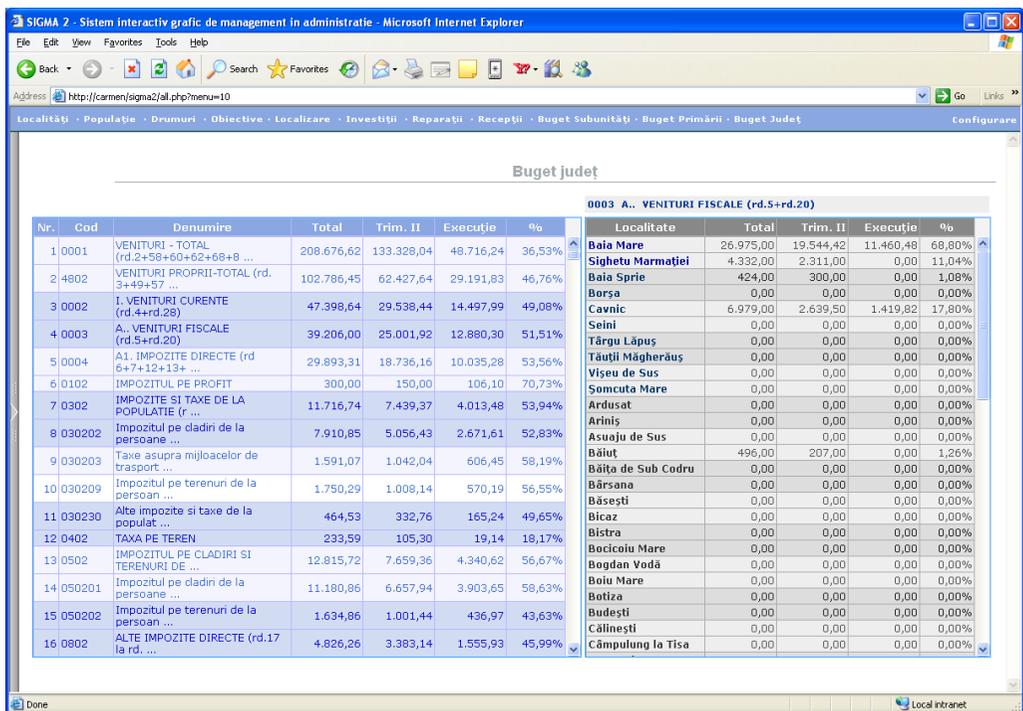


Fig. 3 Budgets

2.4. Implementation of requirements of systems, hardware and software applications or modules, specific to un-computerized departments

For the results of implementation of integrated computer system to be conclusive, it is necessary that all activities in a county council to register the relevant data electronically.

The current project will cover areas:

- Budget Management
- Financial and accounting management
- Management of inventory items and fixed assets
- Inventory and supply management
- Investment Management
- Financial analysis
- Human resources (integration of existing solutions)
- Building permits (integration of existing solutions)

The system architecture is shown in the following figure.

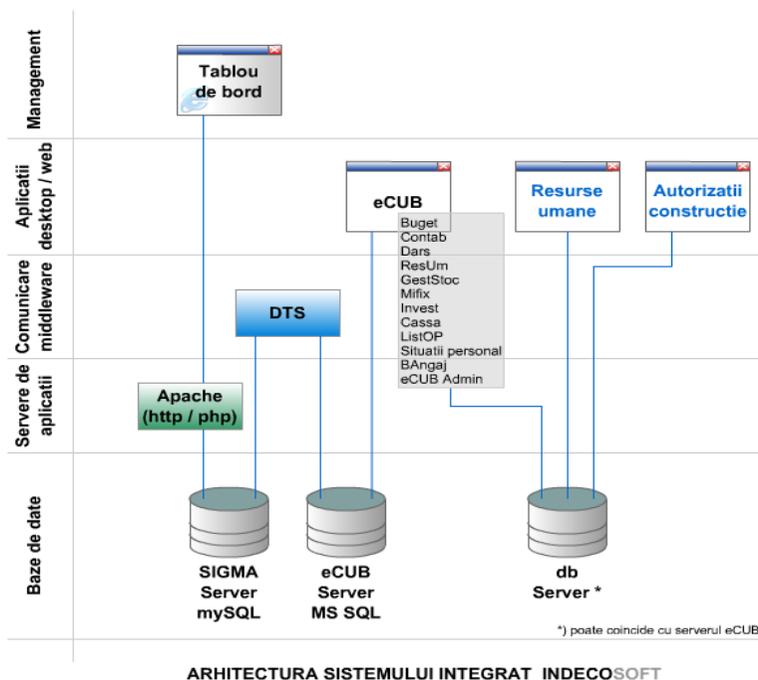


Fig. 4 System Architecture

a. Coherentization of IT components in covered areas

– Standardization and unity maintaining of common data, by bringing together similar databases, respectively identical replication

- Creation of data maintenance and management tools
- Delineation of responsibilities to these data
- Establishing standards for use and handling of common information

b. Implementation of high-level capabilities

- Implementation, configuration and launching of the manager scoreboard
- Installing access components for councilors
- Implementation of solutions for publishing information on the Internet, with open access or secured (authenticated) by category of information
- Installation of integrated computer system management and monitoring components

c. Awareness of the need and usefulness of the system and user empowerment

- Training of system controllers and administrator

- Assessing the impact of implementation, opportunities of value continuing and increase

The project is expected to be implemented over 2 months since launch. The solution is adaptable and scalable and can be replicated at the county council subunits, with capabilities of information consolidation at the central level.

Estimated results of the project

The integrated computer system carries out the automatization of financial transactions and will provide informational support for analysis and decision making. Data management will thus be more effective, departments will be able to follow more easily and accurately specific situations and be able to provide synthetic and detailed reports more complex and in less time. Harmonizing the institution activities and use of the management software tools will make public administrations more efficient.

Result:	Method of verification / assessment:
County Council informatization by implementing software modules according to operating specifications and needs.	Database and applications servers are installed and configured according to the architecture. Client software modules are installed on all workstations according to the diagram, are functional and have passed the quality validation tests, communication between them goes well, response times are acceptable, it can work online and competitor.
Securing access to information.	Users can access the system solely based on user / password account type, the rights will be limited by the job competency. Interactions with the system will be monitored, with the possibility of obtaining reports of “who, when and with what data they interact” type.
Data security.	Backup mechanisms are tested and validated. The data can be restored based on backup files. Transactions are persistent.
Decision support.	The scoreboard-type financial analysis module provides online, in a clear manner, valid and actual information that can be support to decisions.

Conclusions

Success of an organization depends on its people. Increasing emphasis given to the training side of organization management comes from the perception of the strong conditioning between quality human resources available, the stock of knowledge, skills and experience on the one hand, and obtained efficiency on the other hand.

All this is not possible without a strong economic informational system - a complex of people, machines, programs and practical work, a gear that collect data, transform them into information they store, process and transmit selectively to managers at all levels.

Informational system must assume a part of the managers’ work, namely data and information processing, results analysis, developing variants of problems solving, and providing permanent connections between the manager system and the managed system. Investments are very large, but by introducing automatic data processing (ADP) the rate of generation of documents increases and information reaches in good time to the managers that requested it. Information obtained on time helps managers to adopt and implement the right decisions, and the profit (the result of effort) contributes to the growth and development of the organization.

Effects of its introduction and use may be: technical, embodied in reducing the workload and time of data processing, freeing personal from routine work, etc., or may be economic, caused directly by the difference between operating costs of old system and the new system, expressing increased productivity in data collecting, processing and transmission or, indirectly, from the overall results of the business given by the increased productivity in management and execution processes.

In conclusion, by introducing the computer system in the public administration, the corruption is greatly reduced by eliminating the taxpayer's physical contact with civil servants, documents are tamperproof, and processing accuracy can not be put in doubt.

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MODERN INSTRUMENTS FOR MEASURING ORGANIZATIONAL PERFORMANCE

Grigore Ana-Maria

Academia de Studii Economice București, Facultatea de Management

Badea Florica

Academia de Studii Economice București, Facultatea de Management

Radu Cătălina

Academia de Studii Economice București, Facultatea de Management

Any significant management action can be assessed both in terms of success of immediate goals and as effect of the organization ability to embrace change.

Market competition intensifies with the development of Romanian society and its needs. Companies that offer different products and services need to impose certain advantages and to increase their performances.

The paper will present modern tools for measuring and evaluating organizational performance, namely: Balanced Scorecard, Deming model and Baldrige model. We also present an example for Balance Scorecard, of an organizations belonging to the cosmetics industry.

Key words: management, performance, balance scorecard, performance measurement

JEL Code: M10, L25, L66

1. The concept of performance

Performance can be defined as “*a state of competitiveness of the organization, reached through a level of efficiency and productivity which ensures a sustainable market presence*”⁶⁵⁸. In our opinion performance needs both effectiveness and productivity simultaneous. Hence we conclude that a performing organization is efficient, competitive and productive.

P. Druker considered that to be effective means “to do planned things well”; by efficiency he meant “the extent to which objectives were achieved”.

T. Katarbinski defined effectiveness as precision in achieving targets. He suggested that efficiency is the action by which an organization achieves its goals in terms of minimal cost.

Both management specialists come to reinforce the above statements on the concept of performance.

The purpose of the paper is to find indicators and instruments that reflect as closely as possible the subtleties of how an organization is functioning. We started with the following questions. What indicators reflect best organizational performance? Profit level? Different rates of efficiency? Achieve planned results? The answer must take into account the multiplicity and diversity of factors that influence both individual and organizational behaviors.

Performance measurement represents results quantification of activities undertaken within an organization over a period of time. For performance measurement we started from a series of questions: Is there a link between objectives, performance measurements and organization results? Are performance metrics relevant? To answer these questions we identified a series of modern management methods for measuring and assessing organizational performance.

⁶⁵⁸ M. Boulescu, M. Ghiță, V. Mareș, “Auditul performanței”, ed. Tribuna Economică, București, pg. 13, 2002.

2. The Balance Scorecard

In the early '90s two experts from the Harvard Business School introduced a new performance measurement tool they called The Balanced Scorecard⁶⁵⁹. The two experts Robert Kaplan and David Norton have started identifying the weaknesses of previous management approaches and through their approach of the balance scorecard provide a clear prescription of what companies should measure in order to balance the financial perspective.

The balance scorecard is a measuring instrument that offers to the organization the opportunity to clarify its vision and strategies and translate them into action. This provides feedback on both internal business processes and on external achievements in order to continuously improve strategic performance and business results.

The balance scorecard is a concept that allows performance evaluation and assessment by focusing on presentation of the results. This instrument is characterized by flexibility. Results areas should be specified depending on the interests involved:

1. Shareholders or financiers (financial results)
2. Clients (external results)
3. Staff (internal results)
4. Managers (results of improved processes)
5. Results of learning and innovation

Results in each area must be observed as a multitude of objectives, performance indicators and standards involving the relevant key-factors and authorities. Balance scorecard suggests that managers look at the organization from four perspectives: learning and growth perspective, business process perspective, customer perspective and financial perspective.

It is recommended to use this management method in all managerial situations. The balance scorecard can be used:

- When the managers want to track the degree of objectives achievement and the level of results to ensure improvement in the degree of substantiation of managerial decisions.
- When one area or another are checked, monitored by top management due to continuing poor results recorded in a previous period of time.
- When the time budget for managers, especially those from top management is busy, when they are assaulted by numerous information, some with a low relevance to the objectives.

3. The Deming model

In the traditional industrial activity “quality control” and “zero defects” were keywords. In order to defend the client from receiving poor quality products numerous efforts were undertaken to try to control the products at the end of the production line.

The problem with this approach - as Deming said, is that the true causes of defects will never be identified and there will always be inefficiencies due to the rejection of defects.

What Deming says refers to changes occurring at each step in the production process and causes of variation must be identified and fixed. If this is possible, then there is a way to reduce defects and improve product quality indefinitely. In order to establish this process, Deming also stresses that all business processes should be part of a feedback system with chains. The feedback should be examined to determine the causes of change, which is what presents significant problems (See figure below):

⁶⁵⁹ D. T. Corodeanu, “Management comportamentul și performanța întreprinzătorului român”, ed. Tehnopress, Iași, p. 248-250, 2008

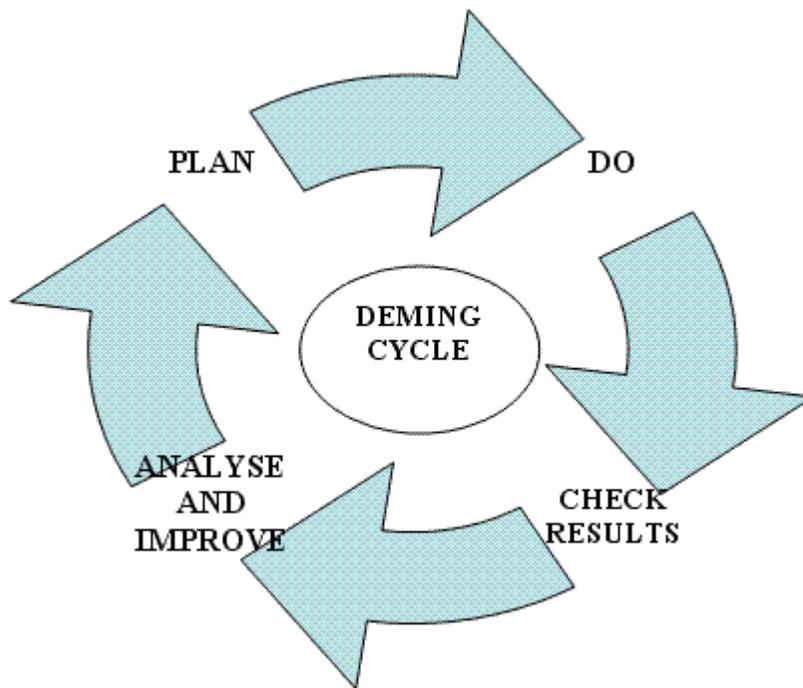


Figure 1: The DEMING cycle⁶⁶⁰

4. The BALDRIGE model

The Baldrige method (1997) reiterates the concept built on facts-based management: **modern businesses depend on performance measurement and analysis**. The purpose of measurements is to obtain information that allows managers to know the company and to take responsible long-term decisions.

Measurement standards must derive from business strategy and provide critical data and information about key processes, productivity and results. There are many types of data and information necessary for performance measurement and improvement, including: consumer performance, performance products and services, operations, marketing, competitive comparison, suppliers, employees' performance related and financial cost.

Of major importance in performance improvement is the creation and use of performance measurement standards or indicators. Performance measurement standards or indicators are measurable characteristics of products, services, processes and operations that the company uses to track and improve performance. These measurement standards and indicators should be selected to represent the best performance factors.

Among the most important benchmarks for measuring performance, the Baldrige model (2005) identified: income from sale of products and service delivery, customer-based results, financial and market results, the evaluation results of human resources, organizational effectiveness results, social responsibility and organizational results.

5. Example of Balance Scorecard at L'Oreal

5.1 The cosmetic market

Cosmetics are important consumer products, with a key role in everyone's life: beside traditional cosmetics that include makeup and fragrance products, these include also personal hygiene products such as dental care products, shampoos and soaps.

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Source: http://www.valuebasedmanagement.net/methods_demingcycle.html

Current cosmetic market is oriented towards innovation, by including new color palettes, treatments directed to certain types of skin and unique formulas that focuses on different needs. Most cosmetics have a life expectancy of less than five years and 25% of producers reformulate its products each year. They must constantly improve their products to maintain its position on the highly competitive market. The consumer expects a more diverse range of options and greater effectiveness.

The current cosmetics market is dominated by several multinational corporations: L'Oreal, Colgate Palmolive, Beiersdorf, Kao Corporation and Avon Products.

5.2 Proposal for improving the activity at L'Oreal Company

Many companies need a model for measuring and evaluating performances that truly pulls together all parts of the organization. The balance scorecard model offers an optimum image on the key activities in the business. Keeping the points above in mind we developed an example of balance scorecard which can be used in the cosmetics companies. The model identifies the key success factors for financial, customers, internal processes and knowledge and learning activities. Also for each strategic objective we identified the performance indicators, targets and improvement actions.

Table 1: Balance Scorecard at L'Oreal⁶⁶¹

BALANCE SCORECARD				
<i>FINANCIAL</i>				
Key success factors	Strategic Objectives	Performance Indicators	Targets	Improvement actions
Good financial results and increasing profitability	Maximizing shareholder value	Increase sales	5% in 3 years	– Penetrating young markets. - Increasing prices for the best quality products.
	Higher profits	Profit on equity consistently	Increase by 15% in 3 years	- Wider range of products. - Intensification of promotional campaigns.
<i>CUSTOMERS</i>				
High global market share	Greater market share	Market share	3% in 3 years	- Developing marketing programs focused on objectives - Communicate with customers using electronic instruments.
	Global market presence	Number of potential customers approached	5% increase in 5 years	-Developing a plan for penetrating untapped markets. egotiating a strategic partnership with other local firms.

⁶⁶¹ Adapted after the Balance Scorecard from Easy Jet: H. K. RAMPERSAD, “*Total Performance Scorecard*”, ed. Didactică și Pedagogică, București, p. 111-113, 145, 315-322, 2005

	Deeper knowledge of the global market for personal care products.	Revenue potential	10% increase in 5 years	Creating a database that includes characteristics of potential customers.
High quality products	Increased degree of loyalty on products purchased	The number of complaints from customers	Decrease by 10% per year	- Providing additional bonuses to employees who are customer oriented.
		Degree of customer loyalty towards brand	1.2.1 Increase by 5% per year	Design of procedures to resolve customer complaints Measuring the degree of customer loyalty.
Image	Improved awareness of audience target	Awareness of brand	At least 50% in 4 years	- Benchmarking in terms of customer loyalty.
INTERNAL PROCESSES				
Team spirit and motivating work environment	Managers act as mentors	Performance	At least 70% in 3 years	-Formulating a development plan for managers. - Provide guidance for training teams.
		Degree of satisfaction with the feedback	At least 70% in 3 years	- Study the employee satisfaction.
Successful introduction of new products (innovative)	New products developed	Survey score of employee satisfaction	Increase by 5% per year	- Offering products that meet customer needs.
		Percentage of sales from new products and services.	Increase 5% per year	- Develop a formula for extending the range of products for men.
		Time required to launch a new product on the market	Reduction by 10% in 3 years	- Better organization of research and development department. - Determining the criteria for developing new products
KNOWLEDGE AND LEARNING				
Competitive advantage based on	Improved managerial skills	Sales per month	Increase by 10% in 3 years	- Matching skills with the performance evaluation system.

knowledge, abilities and skills of employees		Percentage of managers trained in management skills essential.	80% in 3 years	- Learn effective leadership.
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6. Conclusions

Successful organizations depend critically on the ability to differentiate themselves from the competition through continuous and consistent concern in increasing prosperity of the organization. In this context change adaptation and progress have a vital role in creating a high degree of competitiveness of organizations.

This paper tried to offer a few examples of modern performance measurement and evaluating methods like the balance scorecard, the Deming and Baldrige models. Also we presented a simplified balance scorecard example used at L'Oreal.

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DAS COACHING FÜR DIE KARRIERE

Fleşeriu Adam

Universitatea Creştină „Dimitrie Cantemir” Bucureşti, Facultatea de Ştiinţe Economice Cluj-Napoca, Str. Teodor Mihali, nr. 50 Cluj-Napoca, e-mail: adamfleşeriu@yahoo.com, telefon: 0741132196

Fleşeriu Cristina

Universitatea Babeş - Bolyai, Facultatea de Ştiinţe Economice şi Gestiunea Afacerilor, Str. Teodor Mihali, Nr.58-60 Cluj-Napoca, email: cristinafleşeriu@yahoo.com, telefon: 0742075115

Coaching means change and transformation. This is the people`s ability to change their behavior, to rediscover and to create a new identity and new plans for the future. The coaching is divided, at this moment, in three categories: business coaching, executive coaching and live skills coaching. If we are talking about career coaching, we can say that this one is present in all its stages: if the person is choosing the first job, if the person is changing the workplace during the career and if the person is retiring.

Stichwörter: Coaching, Karriere, Job, Beruf, Anstellung, Ruhestand

Die JEL Kode des Artikels: M12, M50

1. Einführung in das Coaching

1.1. Was bedeutet Coaching?

Eine neue Strömung macht sich bemerkbar im Beruf, als auch in das persönliche Leben der Menschen. Diese Strömung nennt sich Coaching (Ratschläge für Erfolg und Erfüllung im Leben). Das Begriff Coaching ist für uns bekannt und ist verbunden, ins besondere, mit Sport. Aber was bedeutet, eigentlich, Coaching nach dem Coachingwörterbuch⁶⁶² und nach der Literatur?

Das Coaching ist einen Dialog zwischen zwei Partners – Leiter und Vorgesetzten, zwischen Trainer und Kunde – eine Besprechung, die sich in ein produktives Umfeld entwickelt und wo die Personen positive Ergebnisse erhalten.

Das Coaching bedeutet Lernen, denn der Leiter versorgt Informationen, stellt Fragen, hört und reflektiert. Die Vorgesetzten beginnen das eigene Verhalten zu verändern und sich zu korrigieren, um immer mehr produktiver zu werden. Das Coaching zeigt, dass es wichtiger ist die richtige Fragen zu stellen als die richtige Antworten zu geben.

Coaching ist auch Veränderung und Umwandlung. Das bedeutet die Fähigkeit der Menschen sich das Verhalten zu verändern, neue Erfolgsansätze zu finden, sich neu zu entdecken und neue Identitäten und Pläne für die Zukunft zu schaffen.

Also, das Coaching ist eine Synthese der verschiedenen Prinzipien, Methoden, Theorien und Erfolgstechniken die aus der Psychologie, Management, persönliche Entwicklung und Leistungssport übernommen wurden. Der Hauptzweck des Coachings ist die Entwicklung und die Vollendung des Menschen, auf verschiedenen Ebenen: beruflich, finanziell, emotional, geistig, u.s.w. Das kann nur passieren, durch eine klare Festlegung der konkreten Ziele und der richtigen Lösungen.

Wir können auch sagen, dass das Coaching die Kunst ist, Türen zu öffnen; ist eine Reise ohne Ende durch unserem Geist und unsere Seele.

⁶⁶² P. Angel, P. Amar, E. Devienne, J. Tence, Dicţionar de coaching. Concepte, practice, instrumente, perspective, Editura Polirrom, Iaşi, 2008, p. 85-89.

1.2. Die kurze Geschichte des Coachings

Am Anfang des dritten Milleniums, befindet sich das Disziplin Coaching nur in einer Eintrittsphase, obwohl wir darüber schon seit der Antike sprechen können.

Die Merkmale des Coachings, wie: die Hierarchie der Werte, die Unterstützung, das Fördern und die Realisierung der neuen Pläne für die Zukunft, sind Dinge mitdem wir uns täglich, in unseren Diskussionen und Aktivitäten, begegnen. Viele Basisprinzipien wurden aus Sport- und Ausbildungspsychologie übernommen. Das bedeutet, dass die Gesetze des Coachings nichts Neues sind.

Die generelle Ziele⁶⁶³ des Coachings beinhalten:

- die Werbestärkung und die Erweiterung von dem, was in jedem gut ist;
- die persönliche Konzentrierung des Individuums über die Zukunft und über die Wachstumssituation;
- die Beseitigung aller Hindernisse die sich gegen Veränderungen hinsetzen;
- die Feststellung eines Gleichgewichtes zwischen das berufliche und das private Leben, u.s.w.

Die Methoden⁶⁶⁴ des Coachings wurden nach der Prinzipien des Lernens gegründet und wurden so formuliert:

- die Personen die eine positive Vorstellung über sich haben können einfacher und besser neue Kenntnisse aneignen. Sie werden Unterstützung, Ermutigung, ein Klima voller Vertrauen, Respekt und ehrliches Feedback erhalten;
- die Stärken jedes einzelnen von ihnen werden sich entwickeln und verbessern, anhand der Erfahrungen, Erfolge und Misserfolge die sie hatten;
- alle Hindernisse, die die Veränderungen blockieren, werden durch die Auswertung und die Klassifizierung der speziellen Notwendigkeiten jedes Individuums eliminiert;
- das Individuum hat die Möglichkeit im Praktikum alles anzuwenden, was es diskutiert und gelernt hat; die Fähigkeiten und Fertigkeiten die neu sind oder andere die verbessert wurden.

1.3. Die Coachingsarten

Das Coaching kann heute, in drei grosse Kategorien verteilt werden: das Business Coaching (business coaching), das Coaching für die Führungskraft (executive coaching) und das Coaching der Lebenskompetenzen (life skills coaching). Dank der Art indem das Coaching angelegt wird, ist schwierig eine strikte Trennung zwischen diesen Kategorien zu machen.

Das **Business Coaching** kann in allen Geschäftsbereichen eingesetzt werden und bietet eine Orientierungshilfe für die Entwicklung, das Fortschritt und die Förderung des Geschäftes an; aber ist auch eine Förderung für die Angestellten, die Führungskraft und auch für den Patron. Wir zählen ein paar Aktionsbereiche, für das Business Coaching, auf⁶⁶⁵: die Meisterschaft der Kommunikation um von den Leuten mitdem man arbeitet die beste Leistung zu bekommen; die Einplanung der Zeit; die Erhaltung eines Gleichgewichtes zwischen Arbeit und Privatleben; die Verbesserung der Human Ressourcen; die Lösung der Konflikte; die Beseitigung der Hindernissen die im Weg der Effizienzsteigerung stehen; die Entwicklung von Strategien und Geschäftsplänen; die Erhöhung der Produktivität; die Erhöhung des Marktanteiles; die Entwicklung der Beziehungen zu den Kunden, u.s.w.

Das Coaching für die Führungskraft wird von dem Personen oder Teams der grossen Unternehmen benutzt und hat vier wichtige Rollen: die Entwicklung der Fähigkeiten, die Verbesserung der Leistung, die Vorbereitung für eine neue Karriere und/oder die Agenda des Managers. Wir zählen ein paar Aktionsbereiche für das Coaching für die Führungskraft auf⁶⁶⁶: die Entwicklung der Fähigkeiten für Leadership; die Verbesserung der zwischenmenschlichen und

⁶⁶³ P. Zeus, S. Skiffington, Coaching în organizații. Ghid complet, Editura Codecs, București, 2008, p. 6-7.

⁶⁶⁴ P. Zeus, S. Skiffington, Coaching în organizații. Ghid complet, Editura Codecs, București, 2008, p. 266-267.

⁶⁶⁵ P. Zeus, S. Skiffington, Coaching în organizații. Ghid complet, Editura Codecs, București, 2008, p. 54-61.

⁶⁶⁶ P. Zeus, S. Skiffington, Coaching în organizații. Ghid complet, Editura Codecs, București, 2008, p. 92-103.

kommunikativen Fähigkeiten; die Erhöhung der Effizienz der Mitglieder eines Teams; die zunehmende Selbstzufriedenheit und die Entdeckung neuer Karrierechancen; die Vorbereitung um Super-Profis zu werden; die Gründung der Top-Teams; die Vorbereitung der Pläne im strategisches Management; die Führung um die Probleme zu lösen, u.s.w.

Das Coaching der Lebenskompetenzen hat eine individuelle Beziehung zwischen Leiter und Vorgesetzten - zwischen Coach und Individuum - erschaffen. Diese Beziehung führt zu einer Hierarchisierung der Werte, zur Festlegung von neuen Zielen und Aktionsplänen, zu neue Lebenserfahrungen; um die Träume und die Ambitionen zu erfüllen. Die Führung in diesem Fall hat eine unendliche Anzahl von Anwendungen und kann jeden Aspekt des Lebens abdecken, wie: das Leben als Paar; die Rente; das Zölibat; die geistige Entwicklung; die Veränderungen die entständen nach dem Wechsel der Arbeit; „Fitness“; „Wellness“; die Karriere; die Übergangszeit; die Verbesserung der Lebensqualität, u.s.w.

Das Coaching ist, also, ein Gemisch aus anderen Disziplinen und man sollte es nicht mit der Psychotherapie, Ausbildung, Managementberatung oder mit Mentoring verwechseln.

2. Das Coaching für die Karriere

2.1. Die Veränderungen in der Karriere

Der Begriff Karriere hat mehrere Bedeutungen, aber bis jetzt existiert noch nicht eine Definition die allgemein akzeptiert ist. Der Begriff Karriere hat viele Definitionen, die sich im Literatur⁶⁶⁷ befinden:

- Karriere = Förderung (Aufstieg in einer Organisation oder beruflichen Hierarchie);
- Karriere = Beruf (einige Arten vom Beruf sind als Karriere gesehen (Manager, Militär u.s.w.) andere als Arbeitsstellen (Kellner, Verkäufer u.s.w.));
- Karriere = eine Reihenfolge vom Arbeitsstellen während des gesamten Lebens;
- Karriere = eine Nachfolge der Arbeitsdienst in aufsteigender Reihenfolge des Prestiges;
- Karriere = eine Zahl von Rollen im Leben, die mit Erfahrung zu tun haben;
- Karriere = eine Reihenfolge vom verschiedenen Erfahrungen, die zwischeneinander korreliert sind;
- Karriere = eigene Wahrnehmungen über die Reihenfolge der Einstellung und Verhalten, die im Zusammenhang mit dem beruflichen Erfahrungen und Tätigkeiten passierten;
- Karriere = das dynamische Rahmen wo eine Person sich das ganze Leben wahrnimmt, u.s.w.

Die Karriere kann lang oder kurz sein und eine Person kann mehrere Karrieren haben, entweder eine nach dem anderen oder gleichzeitig.

Das Konzept der Karriere basiert sich auf die individuelle Karriere und hängt auch von dem Arbeitsplatz ab.⁶⁶⁸ Das soll breit genug sein, um dort nicht nur die Berufserfahrung unzufassen, sondern auch die Lebensweise und die Lebensbedingungen. Die Personen möchten ständig ihre Leistungen in der Karriere entwickeln um die eigene persönliche Ziele zu realisieren.

Jetzt, sind die Karrieren viel kürzerer und nicht mehr so stabil. Die kurzfristige Anstellungen sind eine Regel, die Sicherheit für einen Arbeitsplatz ist gesunken und die meisten Personen erwarten das sie oft den Arbeitsplatz wechseln werden. Weil die Arbeitsplätze gesunken sind, existiert eine Einschränkung der Ebenen in einer Organisation, die Promovierungsmöglichkeiten sind sehr gering und sehr viele Angestellten bleiben für eine lange Weile auf dem alten Arbeitsplatz, bevor sie promoviert werden. Darum, hat das Individuum eine immer grössere Verantwortung für die Karriere und kann sich meistens nur auf eigene Stärken basieren. Und wir sollen nicht vergessen, das die Angestellten wissen, dass sie ihre Fähigkeiten und Kompetenzen zeigen müssen, um so dem Arbeitgeber nachzuweisen das sie unverzichtbar sind.

⁶⁶⁷J.M., Ivancevich, W.F. Glueck, Foundation of Personnel/ Human Resource Management, Business Publications Inc. Texas, 1986.

⁶⁶⁸ O. Nicolescu, I. Plumb, M. Pricop, I. Vasilescu, I. Verboncu (coord.) Abordări moderne în managementul și economia organizației. Vol. 2. Managementul pe domenii de activitate, Editura Economică, București, 2003, p. 456-467.

In diesem Rahem ist das Coaching ein sehr gutes Mittel um eine erfolgreiche Karriere zu sorgen.

2.2. Das Coaching für die Karriere

Das Coaching ist ein guter Freund, das dem Kunden hilft sich ihre Ziele und Erwartungen der eingenen Pläne zu definieren und zu erreichen. Einen Coach für die Karriere kann Beratung geben⁶⁶⁹. Er spricht über: die Analyse der Situation des Kunden und bewertet die Karrieremöglichkeiten dieser; die Hierarhisierung der persönlichen Werte und Wünsche; die Übertragung vom Informationen um eine Arbeitsstelle zu finden oder eine Karriere zu gründen; die Führung für die eigene Promovierung auf den Arbeitsmarkt; die Entfernung der Hindernisse und die Gründung einer erfolgreichen Karriere; die Überwindung der Ablehnungssituationen; die Benutzung der Schwächen und Stärken und die richtige Einstufung im Rahmen der Karriere; die Erhöhung der Produktivität und die Entwicklung der Arbeitsstelle; die Festlegung vom bestimmten Ziele und Pläne die benutzt werden um diese Ziele zu realisiern; eine kontinuierliche Unterstützung, Ermutigung u.s.w.

Da die Prinzipien um Erfolg im Leben zu haben ähnlich sind mit dem Prinzipien die wir zum Arbeitsplatz benutzen und weil das Coaching die konkrete Ergebnisse, in einem bestimmten Zeit erhalten möchte, benutzen die Kunden einen Coach um Ratschläge zu bekommen.

Wir können sagen, dass einen Coach den Kunden fast alle Ratschläge für jede Phase der beruflichen Entwicklung geben kann, wie zum Beispiel, für⁶⁷⁰: die Einstufung, Neueinstufung im Arbeit und/ oder Amfang einer Karriere; die Unzufriedenheiten der Karriere; der Wunsch um die Karriere zu wechseln; die Bereitung für eine neue Karriere; die Akzeptanz der Veränderungen in der Karriere als Folge der Restrukturierungen im Unternehmen; die Neuerfindung der Arbeitsstelle; die Promovierung; die Verbesserung des Images; die Verbesserung der Management-Karriere; die Überwindung der Situation, nach dem Verlust eines Arbeitsplatzes, Ende der Laufbahn und/ oder Eintritt in den Ruhestand, u.s.w.

2.3. Das Coaching für verschiedene Karrierephasen

2.3.1. Erste Berufswahl

Am Anfang, wenn eine Person die Karriere wehlt, sie sucht einen Platz, eine Stelle die der Person die finanzielle Bedürfnisse, aber auch die professionelle und persönliche Wünsche erfüllt.

Das Coaching für die Karriere hilft das Individuum, am Anfang sich die eigene persönliche Wünsche zu identifizieren, es kann feststellen welche die Fähigkeiten sind, die eine Person hat und hilft dieser bei der Suche nach ihren eigenen Wertvorstellungen und Einstellungen, um das Ziel im Leben zu finden. Das Individuum kann so, die Fähigkeiten und die Stärken identifizieren, um diese zu benutzen wenn es nötig ist.

Die Ratschläge, um den ersten Arbeitsplatz zu finden werden von einem Coach durchgeführt und haben folgende Richtungen⁶⁷¹:

- die Forschung der Strukur der Persönlichkeit des Individuums, auf einer Seite und auf der anderen es wird, für diese Person, der beste Arbeitsplatz gesucht. Wenn die Arbeitsstelle nicht mit dem Person passt, dann muss das Individuum sich anders benehmen als es in Wirklichkeit ist und alle Arbeitsaufgaben wird er im Stress und ohne Zufriedenheit realisieren. Durch eine Analyse, das Individuum kann sich alle Interessen und Fähigkeiten, als auch das persönliche Stil entdecken.

- die Arbeitstelle soll dem Individuum ein Leben im Gleichgewicht zur Verfügung stellen.

Der Coach hilft die Person, sich alle Fähigkeiten zu bestimmen und zu lernen wie diese man benutzen kann, sich das eigene Image zu verbessern und was für eine Einstellung in einem Interview man benutzen soll, u.s.w.

⁶⁶⁹ P. Zeus, S. Skiffington, Coaching în organizații. Ghid complet, Editura Codecs, București, 2008, p. 344.

⁶⁷⁰ P. Zeus, S. Skiffington, Coaching în organizații. Ghid complet, Editura Codecs, București, 2008, p. 343-344.

⁶⁷¹ P. Zeus, S. Skiffington, Coaching în organizații. Ghid complet, Editura Codecs, București, 2008, p. 351.

2.3.2. Das Coaching für die Veränderung in der Karriere

In der Literatur ist geschrieben dass die Menschen vier oder fünf Weschselungen in der Karriere haben. Die Spezialisten glauben dass die Veränderung der Karriere eine standardisierte Charakteristika des Individuums ist, sich zu entwickeln und einen Fortschritt zu machen und nicht eine falsche Wahl der Karriere.

Die Ratschläge, um den Arbeitsplatz zu wechseln um eine neue Karriere zu beginnen, werden von einem Coach durchgeführt und haben folgende Richtungen⁶⁷²:

- die Kraft und die Courage zu haben um etwas zu ändern und die Risiken die nach dieser Wechselung zu übernehmen. Sind wenige Personen die die Kraft haben zu riskieren um etwas neues zu machen, andere glauben dass es zu spät dafür ist , oder denken dass sie niergendwo eine Zufriedenheit finden werden. Alle brauchen Hilfe und der Coach berated diese Personen sich die Grenzen zu überwinden um neue Herausforderungen zu akzeptieren.
- die Veränderung der Aktivität eines Individuums mit einer anderen. Der Coach führt dieses um neue Industriebereiche oder andere Unternehmen zu suchen, um eine Hilfsgruppe zu gründen, oder Kontakte zu sammeln, u.s.w.

2.3.3. Das Coaching und der Verlust der Arbeitsstelle

Der Verlust der Arbeitsstelle verursacht Traumas, weil nicht alle Personen auf so etwas vorbereitet sind und haben auch nicht die Fähigkeit so etwas zu überwinden. Sehr viele verlieren das Vertrauen und der Selbstwertgefühl. Die Rolle des Coaches für die Karriere, in diesem Fall, ist die folgende⁶⁷³:

- er hilft das Individuum das Gefühl von Trauer, Wut oder Scham zurückzuhalten und sogar zu unterdrücken. Der Coach hilft der Person, über die Gefühle und die Strategien die er benutzen kann, um aus dieser Situation rauszukommen, offen zu sprechen.
- die Besprechung basiert sich auf die heutige und zukünftige Erwartungen und Bestrebungen des Individuums, Bestrebungen die diese Situation beeinflusst haben;
- alle Fähigkeiten werden studiert und hierarhisiert um klar zu stellen welches das Erfolg bis zu diesem Zeitpunkt war;
- gibt dem Individuum Ratschläge für eine neue Entwicklung in der Karriere, als Ergebniss der Kenntnisse über die neue Trends auf dem Arbeitsmarkt;
- presäntiert dem Individuum die Ressourcen die dieses braucht um verschiedene Karrieremöglichkeiten zu untersuchen;
- entscheidet die Ziele und die Aktionspläne;
- hilft dem Individuum so das dieses eine neue Arbeitsstelle finden kann, u.s.w.

2.3.4. Das Coaching bei Renteneintritt

Der Zeitpunkt indem die Personen in der Rente kommen, kann ein echtes Drama sein, denn die meisten bemerken dass sie die Gemeinde verlassen müssen und sie werden sich das Lebensstil total verändern. Nur die Idee, in der Rente zu gehen wird vom Anfang an ausgeschlossen. Die Veränderung führt zu mehrere emotionelle Anpassungen und diese Veränderungen müssen frohe Erfahrungen sein, die neue Herausforderungen, neue Chancen und neue Ausdruckswege eröffnen.

Der Coach wird mit der Personen, die vor der Renteneintritt sich befinden, in manche spezifische Zonen arbeiten, und zwar⁶⁷⁴:

- die Programmierung vom positiven Veränderungen;
- die finanzielle Situation;
- die Situation in der Familie;

⁶⁷² P. Zeus, S. Skiffington, Coaching în organizații. Ghid complet, Editura Codecs, București, 2008, p. 352-353.

⁶⁷³ P. Zeus, S. Skiffington, Coaching în organizații. Ghid complet, Editura Codecs, București, 2008, p. 353-354.

⁶⁷⁴ P. Zeus, S. Skiffington, Coaching în organizații. Ghid complet, Editura Codecs, București, 2008, p. 355-356.

- die Zeiteinplanung.

3. Schlussfolgerungen

Das Coaching hilft uns zu verstehen, zu definieren und zu einer grundlegenden und allgemeinen Bedürfnis zu appellieren. Es ist die Rede über die eigene Aktualisierung – die höchste Stufe der Maslow-Pyramide, die Pyramide der Bedürfnisse/ der Anforderungen/ der menschlichen Prioritäten. Also, wir haben die Möglichkeit unsere Rolle im Leben zu definieren und unser Schicksal zu erfüllen durch die Ermittlung und Verwirklichung der Ziele.

Das Coaching ermöglicht uns, anhand der internen Ressourcen jeder Person und der verschiedenen Aspekte die existieren, ein Gleichgewicht im Leben zu erreichen und gibt uns die Möglichkeit und die Fähigkeit in jedem Augenblick unseres Daseins Freude zu füllen.

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CORPORATE SOCIAL RESPONSIBILITY DURING THE ECONOMIC CRISIS. THE CASE OF THE ROMANIAN COMPANIES

Iamandi Irina-Eugenia

The Bucharest Academy of Economic Studies

The Faculty of International Business and Economics

Constantin Laura-Gabriela

The Bucharest Academy of Economic Studies

The Faculty of International Business and Economics

Joldeş Cosmin-Silviu-Raul

The Bucharest Academy of Economic Studies

The Faculty of International Business and Economics

The aim of the present paper is to identify and comment on the existing relationship between corporate social responsibility (CSR) and the current economic crisis, by focusing on the experience of the Romanian companies. After briefly defining the concept of CSR, the article presents the above mentioned relationship from a triple perspective: the lack of ethics as a cause of the economic crisis, the threat of CSR in periods of crisis and the opportunity of CSR in periods of crisis, considering that the last perspective could be maximized if companies are going to approach CSR from a strategic point of view. Finally, the second part of the paper presents what Romanian companies really do, but, more important, what they should do in order to increase their effectiveness in terms of CSR implementation when social budgets seem to remain constant or even decrease.

Keywords: Corporate Social Responsibility, Economic Crisis, Stakeholders, Risk Management.

JEL Codes: M14, G32, G33.

Introduction

Before the crisis that has begun in 2007, CSR was considered just a luxury and a set of voluntary assumed initiatives implemented by successful companies in good times for ethical, altruistic or branding purposes, but definitely not a part of a corporate core strategy, and companies would have reduced or even abandoned their commitments to CSR in times of economic difficulty. Nowadays, the evidence of the last three years suggests that commitments to CSR are neither being reduced nor abandoned during the crisis, except in those cases of total bankruptcy, and a well institutionalized, communicated and reported strategy of CSR is granting the responsible company “a license to operate” in the new world economy emerging after the crisis.

The global economic crisis and the collapse of trust in the capital markets are strengthening CSR, while the rules of the game are changing by considering sustainability and responsibility the main new pillars of the game. According to KPMG (“KPMG International Survey of Corporate Social Responsibility Reporting 2008”), the proportion of the world’s 250 largest companies issuing annual reports on CSR increased from only 50% in 2005 to 80% in 2008, the main drivers for implementing CSR strategies being risk management, investors’ pressure for long-term profitability and ethical considerations⁶⁷⁵.

1. Current State of Corporate Social Responsibility

The most accepted definition of Corporate Social Responsibility (CSR) is the one of the European Multi-Stakeholder Forum on CSR (2004) considering it “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction

⁶⁷⁵ Møller, K., 2009.

with their stakeholders on a voluntary basis”. Two aspects are relevant in this definition and they actually represent the essence of the notion: first, the fact that CSR is about simultaneously satisfying economic, social and environmental needs of the company and the community it is acting in; second, the fact that these obligations are voluntarily assumed and they are not imposed by any type of rules or regulations⁶⁷⁶.

2. Relationship between Corporate Social Responsibility and Economic Crisis

Often it takes a crisis to precipitate attention to CSR. The present global crisis emphasizes stronger than ever the idea of *corporate responsibility*, a new commitment to responsibility being demanded of companies in order to create economic and social value. As a result of the combination of the economic crisis with what has been called “an entrepreneurial crisis of maturity”, CSR has risen to prominence in the last decade and, even though CSR is a new controversial concept, everybody in the academic and business spheres agree that it is a fundamental strategy for achieving the sustainable development in the globalized world⁶⁷⁷.

The results of the GlobeScan Salon: “CSR in the Economic Crisis” – that took place in London, on February 2009 – emphasize the fact that companies are now facing enhanced expectations, pressures and opportunities regarding their social and environmental behaviour, even if they are confronting with the worst economic crisis in 80 years. The presented data (based on compiled results from 32 highly developed or large developing countries) showed that expectations of CSR are on the rise again and have reached a new high point since tracking started in 2001; at the same time, perceived CSR performance continues to fall and have reached a new low point, with a lowest one in the banking sector, which registered the sharpest decline. The new pressures imposed by the crisis on CSR commitments include the reduce time available for short-term decisions, the cost reduction and a more cautious approach to CSR in companies. Finally, companies not fully committed to CSR face growing risks, whereas those with CSR at the core of their business model could gain ground and new business opportunities⁶⁷⁸.

The relationship between CSR and the economic crisis could be analyzed on three levels:

The lack of ethics of the financial decision-makers as one of the causes of the economic crisis:

A scientific paper on the analyzed topic⁶⁷⁹ presents a set of arguments for reducing the magnitude of the economic crisis, perhaps not systematically but definitely in some of the organizations that have been most affected by the crisis, by appealing to and implementing generalized practices of CSR within financial institutions. The author considers that it would have been necessary to apply a CSR with ethical background – a voluntarily-assumed code of ethics – in order for the financial decision-makers to cope with self-generated duties.

The threat of CSR in periods of crisis: The negative potential of CSR is particularly represented by the high cost of its implementation, considering the fact that putting into practice responsible policies and strategies is a long-term process. More than that, the overuse of corporate sponsorship, based on CSR only with marketing purposes, can change the customers’ initial positive perception because customer sensitivity is much more likely to break out during crisis.

The opportunity of CSR in periods of crisis: CSR could also be considered an opportunity that increases the corporate core values on the long run, especially because organizations must redefine and coordinate their essential business objectives in order to implement responsible practices. Some of the main advantages that CSR could bring during crisis periods are: innovation; comfortable atmosphere; adequate treatment to stakeholders and better engagement with them; reinforcement of business strategy; strengthening of market position; consumers’ loyalty; guarantee and confidence for investors; deep internal reflection. Generally speaking, successful CSR policies might contribute to the sustainability of companies in times of global

⁶⁷⁶ European Multistakeholder Forum on CSR, 2004, p. 3.

⁶⁷⁷ Fernández-Feijóo Souto, B., 2009, p. 38.

⁶⁷⁸ http://www.globescan.com/news_archives/salon_lon-0109/.

⁶⁷⁹ Argandoña, A., 2009, p. 2.

economic crisis, by rehabilitating their corporate image on the market and by positively involving all the interested stakeholders, especially for the sectors that have caused the economic recession, like the financial and banking one, for example.

CSR in crisis periods can be converted from being a threat to an opportunity⁶⁸⁰: CSR, as a management tool, can be helpful in identifying ways to overcome the crisis and meet the social and ecological challenges of the future⁶⁸¹.

3. What Romanian Companies Do

Usually when an economic or financial crisis appears, the normal reaction is to cut costs or, at least, to try doing this in all the business sectors. This is why many companies acting on national or international level are firstly cutting the costs that are not aggressively impacting their core business and CSR appears to be an attractive area from this point of view, especially when companies intensively rely their responsible initiatives on non-strategic philanthropic forms of CSR that are most at risk in times of economic crisis.

CSR in Romania is rather a PR fashion and it is frequently strictly associated with multinational companies, lacking strategic vision, long-term commitment, coherence and unity. The main areas of corporate social involvement in Romania are: environmental protection, social problems, civic behaviour, human rights, health, education, research, arts and culture, sports. The most important forms of corporate social involvement in Romania are represented by donations and charity, sponsorships, philanthropic and volunteering activities, CSR being usually considered just a tool to react to certain situations or a PR instrument. CSR in Romania is not correlated with the core business activities of the companies and it is not fully integrated into business practices.

Projects that are limited to sponsorships or donations – as it is the case with the majority of CSR initiatives in Romania – and have no direct connection with a company's core business have little to do with true CSR, and during a recession they are usually the first activities to fall victim to budget cuts. This type of social engagement is, more than anything else, a cost item whose benefit to the company is difficult, if not impossible, to measure and its value to society is also limited, since the corporate resources for philanthropic purposes are not sufficient to achieve a comprehensive solution to social problems⁶⁸².

Romanian Donors' Forum (RDF), a NGO promoting philanthropy and CSR in order to contribute to the sustainable development of civil society in Romania, yearly celebrates Top Romanian Corporate Awards, emphasizing the first 10 companies in terms of their social involvement. First year when such a research took place was 2006 (quantifying the social involvement of the most responsible Romanian companies in 2005) and the last one, for the time being, was 2009 (quantifying the social involvement of the most responsible Romanian companies in 2008). The yearly analysis of Top 10 Romanian most philanthropic companies shows a sharply increase of CSR involvement (it was financially quantified the corporate social involvement through cash and services donations, in-kind contributions, sponsorships and own developed social projects): 2,963,928 EUR in 2006; 7,035,586 EUR in 2007; 7,565,100 EUR in 2008; and 16,215,000 EUR in 2009. The 4th edition of Top Romanian Corporate Awards (2009) prized organizations from five main categories: Top 10 big companies, Top 10 medium and small companies, Top 10 corporate foundations, Top 10 financing foundations and Top 10 philanthropic individuals; the social involvement of these 50 winners of RDF awards was about 31 million EUR.

In the field of CSR, a paradoxical situation appears in Romania: although NGOs and different types of social beneficiaries or stakeholders are complaining about the CSR decrease because of the economic crisis and the logical economic thinking is supporting their assumptions, the yearly researches conducted by Romanian Donors' Forum (since 2006) demonstrate all the contrary,

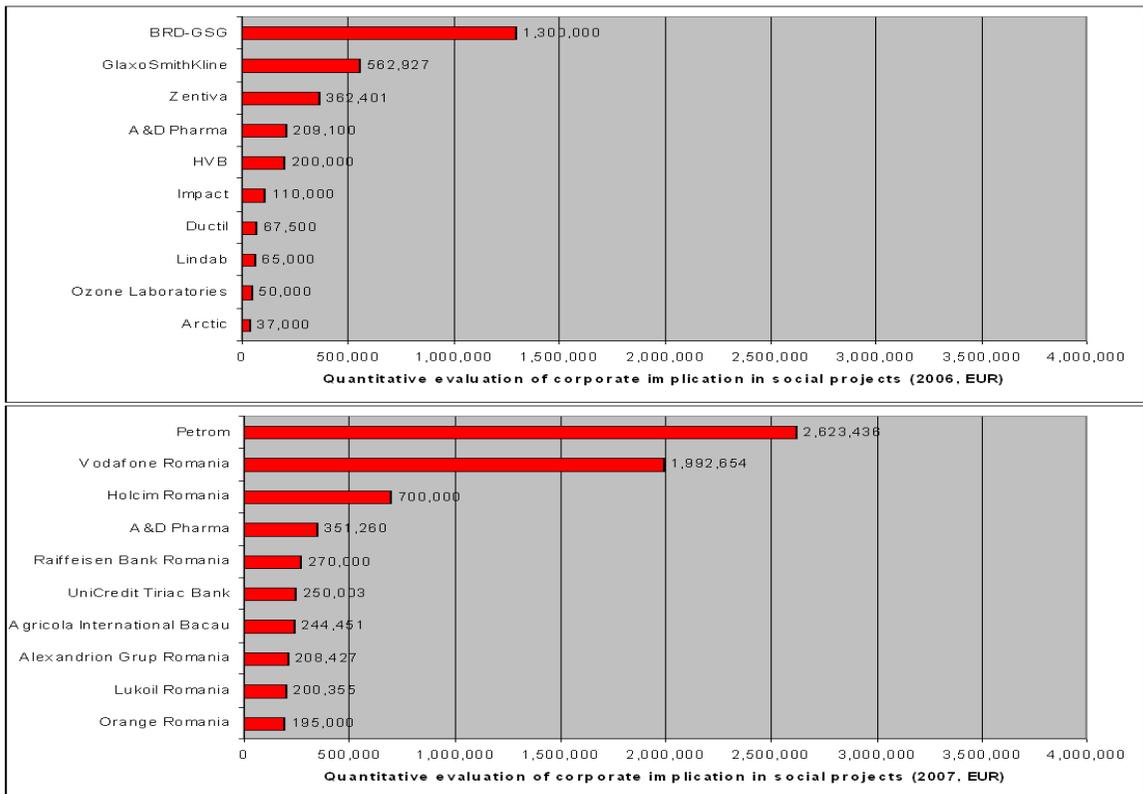
⁶⁸⁰ Fernández-Feijóo Souto, B., 2009, pp. 36-47.

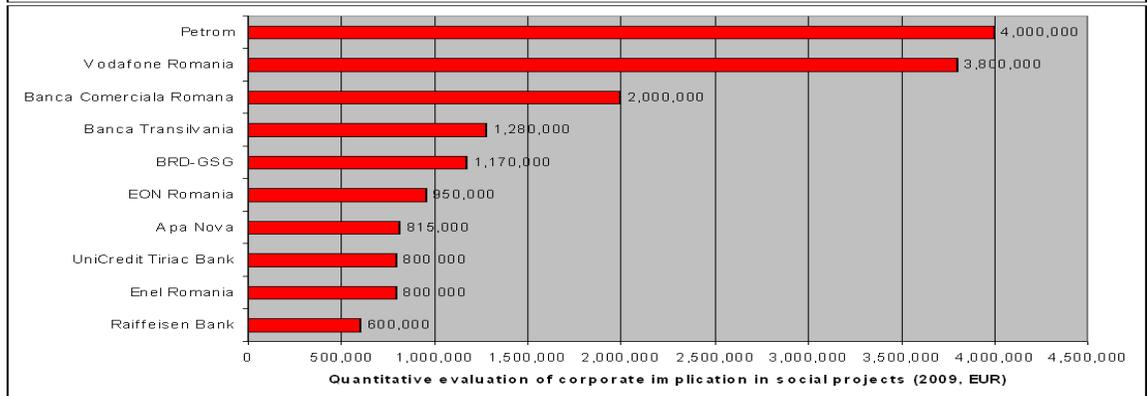
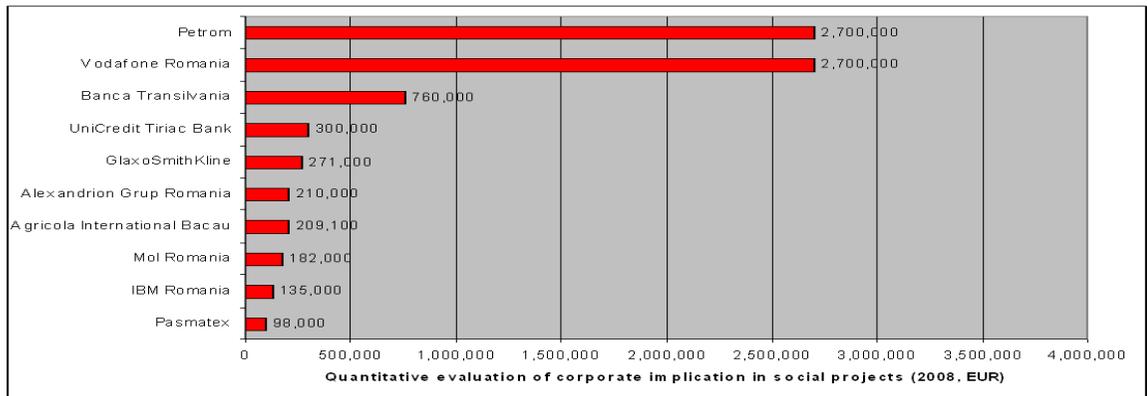
⁶⁸¹ Peters, A., 2009, p. 5.

⁶⁸² Idem, p. 8.

showing an increase interest of Romanian companies from one year to another in supporting social causes (see *Figure 1: Top 10 Romanian Corporate Awards (2006, 2007, 2008 and 2009)*). The explanation for this paradox consists in the following three arguments: first, the beneficiaries of CSR initiatives usually take into account only the cash donations that they receive from the responsible companies, meanwhile companies financially quantify all their types of social involvement; second, the economic and financial crisis made companies more accountable than ever for their actions and more conscious about the importance of strategic social involvement, that should be highly correlated with their core business activities (cash donations are basic CSR forms and do not represent strategic social involvement); third, companies are more eager to transparently communicate their social involvement also for pragmatic reasons. Although some companies – especially the SMEs – were obliged to diminish their CSR budgets (strictly considering here the cash donations), this does not mean that their social implication decreased, because usually cost reductions are accompanied by increased employees’ volunteering. The CSR representatives of the most responsible Romanian companies (Petrom, BRD-GSG, Vodafone, Orange etc.) announced that their CSR budgets for 2009 were the same as the ones for 2008, but the economic crisis put a pressure on them in order to restructure the jobs, improve the efficiency of their operations or prioritize the investments.

Figure 1: Top 10 Romanian Corporate Awards (2006, 2007, 2008 and 2009)





Data source: <http://www.forumuldonatorilor.ro/proiecte/top-corporate/44>, <http://www.donorsforum.ro/fdr.php?b=TOP%202006&lg=ro>, <http://www.donorsforum.ro/fdr.php?b=Top%202007&lg=ro>, <http://www.donorsforum.ro/fdr.php?b=TOP%202008&lg=ro>, <http://www.forumuldonatorilor.ro/proiecte/TOP-Donatori-editia-a-4-a/126>.

4. What Romanian Companies Should Do

In order to maintain the corporate commitment to improve CSR performance for consolidating the financial performance and not cutting costs with CSR, a company should respect at least the following five main action lines: a) to sharply align CSR efforts with core business objectives for supporting the company's cost-savings efforts; b) to increase research and development spending, including in new CSR initiatives; c) to measure the CSR benefits; d) to build partnerships across important business units and functions; e) to strengthen the implementation of CSR in all the departments of the company⁶⁸³.

A study conducted last year by Braun Partners consultancy firm in order to identify the current state and the main problems associated to CSR in Hungary, Poland, Bulgaria and Romania emphasized the strong need of the Romanian companies to consolidate their responsibility regarding the human resources, to integrate the fundamental principles of CSR in their business strategy, to strengthen systematic projects with civil society and to transparently communicate the corporate initiatives in the field to all interested stakeholders. Especially in times of economic crisis, the human resources – their capabilities and behaviors – are becoming an extremely important corporate asset. More than that, integrating CSR in the business strategies and the HR policies of the Romanian companies could improve the “rumple” reputation of the firms, particularly in the financial sector (considered to be the most responsible one for the crisis).

When companies carry out well considered, strategic activities that are in keeping with their core business rather than simply distributing random donations, this produces far greater benefits for both the company and society at large. This type of engagement promotes sustainable stakeholder management, leads to greater confidence and helps to integrate the company into the surrounding

⁶⁸³ <http://mpiweb.eu/cms/mpiweb/community/commblog.aspx?viewblog=1786&groupblog=4>.

society. As a responsible corporate citizen, a company could test new partnerships, engage in serious dialogue with stakeholders, gain insight into their interests and acquire new expertise⁶⁸⁴. Stop sponsorship and investing in CSR programs can have a boomerang effect, both in corporate image as well as in sales, especially now that companies are facing the largest deficit of trust. Waiving these programs practically shatters the positive results achieved in the past and the corporate effort of being “a responsible citizen” would become much less credible for the public. Although CSR is usually associated with big or international companies, SMEs in Romania should also play a role by pursuing specific socially responsible approaches, engaging in social dialogue and contributing to community development at local level. Moreover, at international level, socially responsible investments as a specific component of CSR are confirming their potential of increasing financial returns by incorporating environmental, social and governance (ESG) issues into the decision-making process⁶⁸⁵.

5. Conclusion

Assuming CSR activities proves to be a necessary, but not sufficient, endeavor in systemic risks situations, when the main disequilibrium affects the macroeconomic environment. In this context, the Romanian companies have understood the necessity – both in deontological and pragmatic terms – to maintain and consolidate their implication in social projects, especially in times of economic crisis. The fundamental change that the crisis brought in terms of CSR implication, excepting the thorough awareness considering the potential of socially responsible actions, was represented by the shift from philanthropic activities and simple cash donations to more strategically coordinated CSR actions, related with the core corporate business activities. This trend is the one that should be emphasized and developed in the future, in order for both the companies and the society to gain significant advantages.

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ISSUES OF HUMAN RESOURCES, MEMBERS OF PROJECT TEAMS IN THE NGOS: A CASE STUDY

Lungu Carmen Claudia

„Alexandru Ioan Cuza” University of Iasi

Faculty of Economics and Business Administration

Romanian non-governmental organizations (NGOs) have the specialists and the capacity necessary to attract funds from European Union for european integration aim. For this purpose they create and implement different kind of projects (social, cultural, etc.). To create such project it is only needed one or two specialists in writing a project, but to successfully implement one, it is needed a hole special united team, motivated and committed to the purpose. In making this succesfull team, the project team management confrunt with a lot of challenges. This paper illustrate, from a human resources percepective, some of the most common issues that a project team manager has to deal with. Using the case study method, this thesis suggests the challeges that the manager has in building the team, creating a united team, motivating the members and solving potential conflicts.

Keywords: human resources, project teams, NGO, voluntary work.

Cod JEL lucrare: L31, M12

1.Introduction

In the past decade increasingly European funds were allocated for Romania's integration in European Union, funds that were either pre or post accession. The purpose of these funds is to reduce the gap between the Romanian economy and other European Union's members. Romanian non-governmental organizations (NGOs) have an important role in this process because they have the experts and knowledge for attracting the necessary funds for development and European integration.

In Romania, NGOs have emerged as a result of the desire to mitigate social problems of society, once economic prosperity began to enlarge.⁶⁸⁶ Currently, non-governmental organizations create projects for supporting society and the economy default, not only in social matters. Specificity of these organizations is given by their way in structuring the activities - project teams - which involve different personnel management issues.

This paper refers to the challenges and implications that arise in human resources management, members of project teams. The issues presented below should be taken into consideration by project team managers given the fact that members can easily become unmotivated. If the team members are unmotivated, than the work quality will become poor, the project's objectives will not be reached (both qualitative and quantitative goals) and the European values will not be transmitted, making de European integration more difficult. Consequently, funds provided to reduce disparities between Romania and other European Union members will no longer be efficient (further efforts, projects and additional money are needed) and effective (not doing what is required).

This thesis offers an approach of human resources management challenges that an NGO is facing in our days. Even if these organizations meet a lot of other problems like financial, marketing, management, the personnel problems seems to be more complex and determinant in facing the

⁶⁸⁶ Ioan Strainescu, Ben-oni Ardelean, 2007, *Managementul ONG*, Ed. Didactica si Pedagogica, Bucuresti, p.3.

other challenges. Peter Drucker claimed that there is no other area in which more differences between businesses and NGOs are, than in managing people and relationships between them.⁶⁸⁷

2. NGO's role in Romanian economy

In the emergence of NGOs they offered only social services, but in present, there is a much wider range of services that the community benefits. These services were classified according to International Classification of Nonprofit Activities in twelve categories: culture and recreation, education and research, health, social services, environment, development of housing, law advocacy and politics, philanthropic intermediaries and voluntarism promotion, international, religion, business and professional associations, unions, not elsewhere classified. NGO's actions are support activities for the economy (besides those of the state) and their necessity appeared together with economic prosperity. The actions of these organizations rely mainly on voluntary work and come often to supplement services provided by local public authorities. This relationship is inclined to create a positive image of the public institutions and to facilitate the access of the community to public services. Without substituting public sector, NGOs mobilize funds that would be inaccessible, offer a quality service and solve additional semi-free community social problems.

In Romania, NGOs have a facilitator role in helping for European integration and often promote European values and determine their clients – in contrast with public sector - to become active. These organizations also create links between users and public authorities using a referral system and sometimes even offer support for benefit the supplementary services.

Jose Luis Monzon Campos (1992) identified a growing need of NGOs in business practices, as there are a lot of problems (both new and old) that capitalist companies, public enterprises and public sector generally can not solve. NGOs integrate "(...) both social and economic function and they are capable of creating wealth in an efficient manner, and then distribute them fairly."⁶⁸⁸

3. Teams features of a non-governmental organization

David Mason claims that there are fourteen NGO's characteristics that differentiate the non-governmental sector from other types of organization. Of these, those that have direct relationship on staff and team member are illustrated below:

- the main tool used in staff motivation is voluntarism produced by persuasion;
- money are just an instrument for NGOs, not the aim;
- NGOs tend to accumulate more targets, therefore volunteers and employees are always exposed to newer needs;
- NGOs tend to have a great social feature, which influence the management style (for example: the staff has a great need for affiliation - McClelland motivational theory);
- NGOs are more complex, in a characteristic way than other types of organizations;
- performance standards tend to be replaced by the ethical standards.⁶⁸⁹

The literature review on teams and teamwork offers a wider range on classify them, taking in consideration criteria like: the purpose of building the team, the amount of control over the objectives that team has, the team composition, the size. Romanian NGO's teams are project teams, a common type that also exists in profit organizations. Project teams are the key to success of an NGO functioning and therefore highlights the need of human resources management skills for those that manage these type of teams. Even though the NGO still need a strategic vision on

⁶⁸⁷ Peter Druker, 2001, *Managing the Non-profit Organization*, Ed. Butterworth-Heinemann, Oxford, p.143.

⁶⁸⁸ Jose Luis Monzon Campos, 1992, *The "Social Economy"*, Third Sector in a Evolving System, pp.22-23, in Ion Boboc, 2004, *Managementul organizatiilor non-guvernamentale*, Ed. Didactica si Pedagogica, R.A., Bucuresti, p. 49.

⁶⁸⁹ David E. Mason, 1984, *Voluntary Nonprofit Enterprise Management*, Ed. Plenum Press, New York, pp. 67-165.

human resource management at the top of the management hierarchy. The project team manager's actions have been often linked to those that human resource management does and often the accent was on leadership skills.

According to Larson C.E. and LaFasto F. M.J. team's classification, depending on the broad objectives, the teams are: problem solving, creative and tactical. NGO's teams can be both creative type designed teams and tactical. The creative type involves skills such as persistence, independent thinking, self-determination and their process emphasis exploring possibilities and alternatives for successfully project implementation.⁶⁹⁰ Another team classification is offered by Hackman J. R. and take in consideration the amount of authority of the team. According to this criteria the teams are: manager-led teams, self-managed teams, self-directed teams, self-governed teams.⁶⁹¹ The NGOs ordinary develop manager-led teams and sometimes, when the team cumulated some experience in working together, they develop self-managed teams.

4. Research method

This paper uses the case study research method in order to illustrate the most common challenges faced by Romanian NGOs. It was used a single case study applied on a subsidiary organization of a national NGO, named Romanian Association Against AIDS, ARAS Iasi. Choosing this NGO was due to their extensive experience of fifteen years in local activities and also due to the fact that it was among the first NGOs appeared in Iasi. ARAS Iasi was, until the year 2000, the only local NGO who worked in HIV/AIDS domain.

The case study proposed in this thesis is mainly descriptive and less explanatory and answers most often to the question: "how?". The information described below resulted form two semi-structured interview guidelines with two project team managers of the organization. For illustrating the volunteers motivations it was used a number of thirty "entrance questionnaires" of the volunteer department taken at the last two recruiting sessions. The research's results asserted that the situation in NGOs is more complex then in profit companies and that people require a lot more attention.

5. Human resources issues in project teams from ARAS Iasi NGO

5.1. Brief description of the NGO

ARAS Iasi is an NGO with fifteen years experience in educating the general public on health issues and in providing primary social assistance to vulnerable groups. Because young people are the main target group of the association, its members are dynamic, flexible and innovative people willing to promote the values of the European Union for the benefit of integration. According to the classification made in the year 2000 by teachers Frumkin and Andre-Clark from Harvard University, ARAS Iasi is a charitable organization having a strong commitment to values and a weak commitment to performance.⁶⁹²

The association has seven employees, specialists in various fields - psychology, social work, health care, economy, public relations - and twenty volunteers involved in information, education, counseling and advocacy projects. Given that Iasi is a university city and that most volunteers are students (80%), ARAS Iasi held many seasonal activities that make management work very difficult (retention and motivational issues). Most of activities are held on the streets, in direct contact with beneficiaries, but there are also activities held at the office, like counseling and writing reports and evaluations.

⁶⁹⁰ Carl E. Larson, Frank M. J. LaFasto, 1989, *TeamWork. What Must Go Right/What Can Go Wrong*, Ed. Sage Publications, Inc, California, p. 43.

⁶⁹¹ J.R. Hackman 1987, *The Design of Work Teams*, in Leigh L. Thompson, 2004, *Making the Team: a Guide for Managers*, second edition, Ed. Pearson Prentice Hall, New Jersey, p. 18.

⁶⁹² Peter Frumkin, Alice Andre-Clark, 2000, *When Missions, Markets and Politics Collide: Values and Strategy in the Nonprofit Human Services*, in Ion Boboc, 2004, *Managementul organizatiilor non-guvernamentale*, Ed. Didactica si Pedagogica, R.A., Bucuresti, p. 47.

Most actions taken by the association are engaged in projects, but there are also some support type activities like: accounting, human resource management, counseling and referral. The director is the one who also meets human resources responsibilities, at the strategic level, while the project team manager meets them at the team and individual level. If the director has to have predictive and planning abilities, the project team manager has to have interpersonal, analytical and leadership skills for meeting all the teamwork challenges.

5.2. Challenges in building and developing functional project teams

Each project team has several development stages to get to high performance. The common stages of a team are: forming, storming, norming, performing, adjourning. The success of the project team depends most on the team manager abilities to make all this stages easy to pass and understandable for each member of the team.

The forming stage is the most important, complex and critical in success of the team. First, the project team must have the required knowledge, skills and abilities necessary to the project. For that to be accomplish it is necessary a good selection of its member. The features that have to be taken in consideration in this stage are the purpose, the type, the composition and the size of the team. In ARAS Iasi teams are only project teams, creative and cross-functional with implementing the project's objectives purpose. At the beginning, teams are **manager-led** because it has to execute tasks as they are being defined by the project manager. After the first stage, of knowing the activities to be undertaken and after accumulating enough knowledge and experience of work, the project team becomes self-managed and has the authority to choose the methods that can achieve the goals.

Cross-functional teams have proven over time the most important advantage of summing talents. Association's projects aims are offering health education and social support. That is why the members of teams are social assistant, psychologist and medical assistant who were able to provide integrated and quality services (primary care, testing, counseling, referral) to a number of 130 beneficiaries from 980 had in the year of 2009.

Cross-functional teams have also a great disadvantage: due to professional differences it can occurs disputes regarding problem solving or referral to the local public institutions. For example, the most common conflict is that counseling is offered by all team members and has nuances, depending on profession. The contradictions in which type of counseling is more appropriate and who will carry out the counseling session can often arise among team members.

Since the association's principal value is voluntary work, but the projects also ask for employees, ARAS Iasi is dealing also with **composition team** issues. Most of the time, ARAS Iasi works with a minimum number of employees and rest of it are volunteers. Project team composition within the European-funded projects is:

- team developed mostly of employees: when there is a budget line project for staff;
- team developed mostly of volunteers: when there is not a budget line project for staff.

In the first case, responsibilities are first divided - depending on the importance, safety and security in doing the task - between the employees and afterwards to the volunteers. Importance of the tasks is based on the type of influence they have on the key indicators of the project (directly or indirectly influences), the complexity of the task (counseling, education, information, referral), the content of the task (member's competence). Considering the fact that beneficiaries of these types of projects originate from vulnerable groups, volunteers are more involved in office and advocacy actions, because these presume less risk. Even though, volunteers are trained before and they have the chance to give up anytime if they do not feel attracted enough in doing what they were asked to do.

In the second case, in which the teams are made up mostly of volunteers, employees are often project manager, but they also can be implementers. If there is a volunteer with at least one year experience, he can be project manager. Employees from these type of project have the volunteer status, because besides the activities required by the job description they also do extra activities.

These extra-activity, often represent a tool for measuring employee commitment towards the organization and to the work.

This type of involvement, both volunteers and employees has its own benefits, but also arise some issue that ARAS Iasi has to deal with, mostly in *storming, norming and performing team stages*. Some of them were relieved bellow:

- volunteers: making them responsible in meeting the task on time, even if their actions are voluntary work, training them for being prepared to represent the association, clearly defining roles;

- employees: clearly defining assessment system (that its applied only on paid activities and that there will be no remuneration involved for volunteer work), offering recognition and permanent encouragement for volunteer work, dealing with inclination for exclusion and discrimination of the employee who does not involves in voluntary work.

Other problems in the project team may come up when there is a new project that involves employees recruitment and volunteers are not graduates of specialization required by the project. Although volunteers demonstrates involvement, commitment, competence and have great results, they cannot occupy positions in this project, because there are certain requirements - eligibility criteria - of the financing authority. In such moments team manager has to deal with disappointed, frustrated, unmotivated volunteers.

The manager will have to appeal to external recruitment, but considering the fact that the interview does not always provide sufficient information about a candidate, there is the possibility that he will not fit in organizational culture and have different values from those promoted by the association. This stimulates the emergence of conflicts and involves a much longer period of insertion of the new member. If this culture modeling of the new member is not obvious its cause frustration among team member and the manager has to take a decision on the weak "chain joint".

Another challenge that had to be held in the *forming and performing stage* of project teams in ARAS Iasi was hiring people with a part-time working program. This implied a different management, based on good communication among team members (informing the part-time member about what happened during his absence), a rigorous labor organization and more understanding people inside the team. If the communication system does not work properly - the informal one is very important here - there is the risk that part-time employee to feel excluded from the team, or at least uninformed.

5.3. Human resources motivations, members of project teams

ARAS Iasi is a charity organization whose aim is to help the society to prosper by offering the necessary support in education and health issues. This is the reason why it expects from organization's members to have humanitarian values and commitment to this purpose. These issues involve intrinsically motivated and self-determined project teams (staff and volunteers), people that can solve all sorts of problems that can occur in achieving objectives.

Motivational methods for employees differ from those used for volunteers. The team managers claim that employees from ARAS Iasi are primarily motivated by professional development in a less rigorous environment, which allows some beginner mistakes. They are also motivated by challenges and by the work itself, often waiting to be offered more responsibility and special recognition. That is the reason why motivational process focuses more on *intrinsic motivation* (the financial reward is also not too flexible), on trying to keep them motivated, rather than actually motivate them extrinsic. An important strength of the recognition system is staff development through participation in all kinds of trainings (mostly provided for free by other NGOs) both on the project and personal interest.

Regarding volunteer's motivation, according to data centralization of "entrance questionnaire", appeared that they are motivated: first, by a desire to do something useful in their spare time; second, to be part of a group; third, for personal development. ARAS Iasi has defined a clear path

for volunteer promotions and has also a recognition system which includes: designation volunteer of the month, offering a degree in the festivities, offering medals for activities that they engaged, nomination on different festivities: Volunteer Portrait or Volunteer Gala, offering the possibility to apply to wide variety of trainings and youth exchanges.

ARAS Iasi offers a carefully attention to all the needs of its members, because it believes that high degree of motivation leads to strong commitment towards the organization and its objectives, and by default to qualitative results. Although the NGO's turnover is high, this is due to seasonality activities and also to financially unstable environment (people look eventually for financial security, because needs also change).

6. Conclusions

Romanian NGOs become an important participant in decreasing the gaps existing between Romania and European Union. Therefore, they have to deal with a large amount of new expectations from the outside of organization and by default with new challenges. The project team management seems to be the most complex issue to deal with. Even if the project team members in NGO's have a common purpose and special motivations that differ from people in profit sector, they are also professionals coming from different areas, with different personalities and different vision in purpose achieving.

This paper illustrate, from a human resources perspective, the most common challenges that a project team manger from a non-governmental organization can meet in building a functional team for implementing the European-financed projects. The team management has to deal a large amount of issues so as to prevent potential conflicts. The forming stage represents the most complex work that team leader has to perform because involves an evaluation system, recruiting skills, training and coaching, managing the part-time and full-time job as part of the same project. Developing the team is also very important in achieving project's objectives, in motivating and creating committed team members.

Because of humanitarian values and intrinsic motivation, the members from a NGO tend to implicate personal in solving the tasks, they become committed to their work and to the organization. That is the reason why team managers have to be very close to the organization's members, to their needs, to their expectation and to respect their values, to recognize and appreciate their efforts.

7. Research limits and further research.

The research proposed has method limit. It was used a single case study based on two semi-structured interview guidelines and thirty volunteer's "entrance questionnaires". Another limitation could be the interview guidelines, that may have been subjective interpreted.

For further research it will be taken in consideration the team's member opinion, in dealing with human resources issues and then compare it with manager's opinion. Further researches could also take in consideration the team management style which may be a cause for challenges that appear during storming, norming or performing team stages.

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THE QUALITY OF THE TOURISM SERVICES UNDER THE SIGN OF SUSTAINABILITY

Mazilu Mirela

*Universitatea din Craiova, Centrul Universitar Drobeta Turnu Severin
Facultatea de Economie și Administrarea Afacerilor*

Marinescu Roxana Cristina

*Universitatea din Craiova, Centrul Universitar Drobeta Turnu Severin
Facultatea de Economie și Administrarea Afacerilor*

Sperdea Natalița

*Universitatea din Craiova, Centrul Universitar Drobeta Turnu Severin
Facultatea de Economie și Administrarea Afacerilor*

The intensive development of tourism represents a unique challenge in history. That is why we have to be prepared that in the 21st century we should cope with the "avalanche" represented by the quality of life, especially related to the food quantity and quality needs and the greater need of people to recover rapidly and pleasantly through holidays and tourist travels. A first step in this sense, which we assume, is the superior educational effort to train real professionals with certain competences for solving the complexity of these realities that we live. The society becomes more and more aware of all these realities.

The activity of the international organisations shows that their efforts for the development of food and tourism are more and more appreciated by the population. Urgent actions based on the mature thinking and quality scientific interpretations are necessary, in order to stop, on the one hand, the food decline in certain areas of the world, and on the other part, for the proportional and harmonious development of food and tourism on more expanded areas, and to reconcile man with nature, to focus on agriculture and on the ecological and biologic food and eco-tourism, to leave future generations an environment at least as favourable as the one we inherited. All these wishes mean important changes in the economy and of everyday life, request large investments and sacrifices, a new mentality. It is not easy to fulfil these tasks, but we must think about what would happen if we did not solve these problems. In a short while we would block the normal evolution of the contemporary human society.

Keywords: tourism services, quality, sustainable

JEL classification: M50, Q01, Q56, L83

The establishment of the potential markets, the marketing strategy and the radical change of the training manner for the personnel in tourism represent the main areas where Romania needs to act in order to reevaluate the tourist potential in the next 20 years.

We all believe that it is the moment that the main tourism operators in Romania⁶⁹³, the local tourism agencies, the consultancy companies in the field had the last word regarding the development and the promotion of tourism in Romania, that they accepted the change, even if the change produces enthusiasm when we are its authors and it seems threatening when we are its subjects...

⁶⁹³ Mazilu Mirela Elena, *The Actors involved in sustainable tourism of a destination*, published in Proceedings of The 2nd International Tourism Conference: "Sustainable mountain tourism-local responses for global changes", Drobeta Turnu Severin, Sept. 26-27, 2009, Universitaria Publishing House, Craiova, pg. 215-221;

The transparent access to the funding offered by the European Union will facilitate the development of tourism and of infrastructure in the tourist potential areas of Romania. Of course this depends to a great extent on Romania's capacity to "create viable projects" for tourism, and here the human resources have an important role.

The impact on tourism is not relevant on a short term. There is no guarantee of the fact that the foreign tourists will be more interested in Romania upon its entry in EU, but only a chance which must be reevaluated through an aggressive promotion on the member states market, doubled by the offer of quality services. We must take into account the improper infrastructure in many regions of the country, the poor quality of the tourist services and the existing prejudices towards our country in the West.

On long and medium term, if Romania knew how to take advantage of the opportunities offered by the quality of EU member, it could become one of the veritable tourist destinations not only exclusively for the old member states, but also for all the member states or not from the Central and Eastern Europe. It would be ideal to transform professionally and especially with the tourist potential, exceptional even, the recognition at the highest forums from the European and world tourism field, the Illusion into a sustainable reality!

This article tries to offer a pertinent analysis after 3 years since the adhesion to the European Union, of Romanian tourism following the 2 diagnosis informational axes: advantages + disadvantages offered by the adhesion and the impact on the quality of services in tourism, themselves dependent on the quality of the human resources who perform it:

Advantages:

- Europe, the first destination of the world: over 60% from the world tourism;
- the desire of the European people to discover the aesthetic borders;
- "the opening of the gates" for the spa tourism of the EU countries;
- a huge market of consumers, including tourists;
- the rapid development of the low-cost flight market and their arrival in Romania;
- the cancellation of the customs check-ups - ease of the traffic flow;
- the pressure for the Romanian authorities to hurry the development of the road, railway, naval infrastructures, funded with European public money;
- the competition, including for the tour-operators, the hotel managers and the Romanian restaurateurs will develop.

Disadvantages:

- the material basis - approx. 50% from the hotels and restaurants - is not ready for the competition with the neighbouring countries;
- infrastructure: especially the road one, behind the one of the countries which adhered;
- closing the access for retired persons and the persons with health problems, to the medical services through MMSSF in the Spa resorts;
- the high taxes on the work force - small wages, the migration of the qualified and skilled work force to other markets;
- the incapacity of the institutions which train the work force - vocational and for adults - to provide an optimal number of personnel with qualifications (more diplomas than skills) - in comparison with the demand of the internal market for the basic jobs, supervisors and top-management;
- non-concluding some commercial conduct codes between the hotels and the tourism agencies - barrier in the correct function of the internal tourist market.

The quality of the services in the hospitality industry

Who generates/closes the quality of services in a unit?

- the owners of the business;
- the management;
- the employed personnel;

- the utility providers: chosen or imposed (the monopolies);
- the business partners;
- the central and local state authorities;
- the Parliament, the Government and the governmental agencies through laws (with a positive or a negative effect on the tourism sector);
- the local councils through decisions on the development plans, the taxes and the fees, the investments in the infrastructure, utilities etc.;
- the forces of the tourist market (internal and external);
- the clients - the guests.

The quality of the human resources, the key to the success of the tourist services

The training, the recruiting and the employment of the specialised human resources

- the vocational system;
- the professional training system of the adults;
- the apprenticeship at the work place;
- the evaluation of the acquired skills using other methods than the formal ones;
- the lack of practical abilities of the ones from the university educational system;
- the lack of transferable credits systems, for the access to a carrier;
- the economic operators' lack of interest to ensure the access to a productive practical course for the students;
- the families' lack of interest to financially support the access to a carrier of the young people who turn to the industry of hospitality;
- the lack of national marketing policies for the tourism carriers (similar campaigns to those for the military carriers);
- the expenses with the professional training etc. of the human resources considered, unfortunately, expenses not investments - from the employees part: approx. 1% from the total of investments;
- the human resources are not perceived as "assets", but as employees, thus it is very difficult or impossible to apply the principle "HR Assets Management".

The competitive advantages⁶⁹⁴ of the hospitality industry in Romania

- the Relatively positive attractiveness of the basic jobs;
- the still cheap work force - a trap for the employers;
- tourism and the hospitality industry: are not gathered by the EU under one company, they function based on the subsidiary principle;
- Romania - still unknown to the European public, who travels, so this becomes a target for the coming years;
- very many natural products: vegetables, fruit, dairy products etc., which can, by their revaluation, in hotels and restaurants, ensure the quality of the Romanian tourist product
- the Romanians have a preference for the services, having as proof their success in the employment in the hospitality industry from EU countries, especially Italy, Spain, Great Britain, Germany;
- the ones who come back home and work in the same sector - over 75% - will bring added value to the quality of the services provided, based on the exigencies for quality of the citizens of the countries where they have worked for a short while;

⁶⁹⁴ Melinda Căndea, Felicia Aurelia Stăncioiu, Mirela Mazilu, Roxana Cristina Marinescu, The Competitiveness of the Tourist destination on the future Tourism Market, published in WSEAS Transactions On Business And Economics, VOL.6, Issue 7, August 2009, pg. 374-384, www.wseas.us/e-library/transactions/economics/2009/29-592.pdf

- the tourist potential, the improvement of the infrastructure, the coming of the great tour-operators and of the international chains will push forward the development and the competition; hence they will generate the acute need for quality of the performances and of the hospitality services.⁶⁹⁵

Conclusions

According to the data published by the Statistics Office of the EU, the financial crisis propagation has obviously affected tourism in the EU. According to the statistics, last year, the number of night spent in the EU hotels was of 1.578 billions, recording a decrease of 0.5% compared to the previous year. The same figures knew an increase of 3.4% in 2007 compared to the previous year and respectively an increase of 2.9% in 2006. If we make an analysis of the different periods, we can notice the obvious influence of the financial crisis on tourism. Compared to the similar period of 2007, between January and April 2008, the number of nights spent in the EU hotels recorded an increase of 1.6%. This figure dropped 0.5% between May and August, and between September and December, when the crisis worsened, this number decrease drastically with 3.2%.

- The crisis transferred to the private sector, thus tourism suffered a lot. This was felt in the degree of occupation of the accommodation units in the country, which decreased significantly with 20% (in hotels).

- The world economic crisis has a powerful effect on Romania, which does not have a developed market economy, but an economy based on the consumption and loans. What we can expect from the tourist point of view, nobody can answer. The rich persons suffer less; unfortunately, there is the wide majority of the population, affected by the economic crisis effects, which will suffer its costs: unemployment - due to the bankruptcies from the private sector, the investors leaving to other countries etc.

- All these make Romania very vulnerable from a financial point of view, because Romania's economy of 19 years has functioned according to a model of the so-called market economy, which has had as basis the privatization of all the state companies, from all the domains of activity: industrial, extractive, communications, agriculture, tourism etc. After 1989, for the development of industry and the private sector, the attraction of foreign and Romanian investors, the development of infrastructure and of agriculture and tourism had to be done through the granting of fiscal facilities and bank loans with low interests, with a grace period of 5 years. If these facilities had been granted, Romania's economy would have developed these 19 years, which passed and we would not have had to borrow from IMF.

Thus, although the predictions say that the number of tourists will drop this year, the operators must try to make a profit offering service packages at attractive prices. The predictions for this year estimate that the number of tourist who visits Romania will drop with approximately 10%. According to the organizations from the Romanian tourism, the world crisis will be guilty of keeping the foreign tourist far from Romania. Only that even before the launching of the financial problems, our country was avoided by the foreigners who preferred to go to Bulgaria, Hungary, Croatia or Montenegro.

The promotion only within the tourism fairs with slogans of the type "Romania - always surprising", made with a budget of only five million Euros, equivalent with the one from 1980, did not have any results. The race for enriching of the hotel managers from the seaside who offered terrible services for Ibiza type prices is no longer a solution. Romania has more attitude and human value. We do not have to want to transform our country into another France or another improved Germany.

⁶⁹⁵ Mazilu Mirela Elena, Roxana Marinescu, *The Competitiveness of the Romanian Tourism - a ghost or sustainable reality?*, in *Annals of Faculty of Economics*, vol.4, Issue 1, Oradea, 2009, pg. 367-372.

Tourism will be affected by the global economic crisis the following years, because all the prices will rise, and the people will pay more attention when they will spend their money. "Tourism will be affected by the world financial and economic crisis these next few years, which first started in the United States of America. This, because everything will be more expensive and people will have to take care how they spend their money. Financial and economic reductions will take place and, certainly, there will be a reduction of tourism. Also, the climate changes and the price of the oil barrel are other factors that will affect the world tourism" (Eduardo Fayos Sola - regional representative for Europe of the World Organisation of Tourism, seminar for the World Day of Tourism, in Poiana Brasov 2008).

From the date we have so far, we can draw the conclusion that the holiday market will record stagnation.

After the worsening of the world economic crisis, the Romanian internal tourism seems to be more interesting so far for the Romanian tourists, but the holiday products for external destinations are launched on the market only at this moment, so that it is too early to express an opinion. It is certain that, at least for the first half of 2009, the tourism for events will be seriously affected, because the majority of the corporations have drastically reduced the travel budgets. These aspects were noticed as early as October, November and December 2008.

2009 represented for Bucharest first year of decline after the spectacular increases recorded in all the fields. 2008 had a decrease of 8% compared to 2007, accelerated during the last trimester and noticed along 2009. This fact was noticed first in the main cities, especially Bucharest, because the travel expenses were the first ones to be reduced from the companies' budgets, and Bucharest was 65% based on the external business tourism and, thus, here the first signs of crisis were felt.

The external business tourism decrease from two points of view, firstly as traffic within the degree of occupation and secondly as duration of stay, which reduced. After the first trimester of 2009, the hotel owners panicked and started the war of prices, which, together with the reduction of the average rate of occupation, meant the entrance into a spiral difficult to stop and control. This war of prices dominated much of 2009 the hotel market in Romania, on all the segments, fact that led to a decrease of the overall turnover of 25%.

In this case we cannot speak about profit, but of survival, respectively to keep all the properties functioning at a certain standard of services and quality. Anyway, the effects of this crisis in our country will be seen during the following years in the decrease of the quality of services to the clients and of the deterioration of the properties, because the majority of the operators have reduced the maintenance expenses, the personnel training and even the personnel, and all these will be noticed on a medium term. Until the end of the year the minimum level of the reduction is expected to be felt from all the points of view of the hospitality market, because, according to the estimations of Trend Hospitality, the trend this fall is decreasing, so that a very difficult first trimester of 2010 is predictable, and only as early as the second trimester the stabilisation is expected to start. The increases in 2010 are not estimated higher than 9% compared to 2009, on this segment.

"The market in 2010 shows signs of revival - at least internationally - but in Romania the state institutions and the economy have to settle first, and then we can hope that the hotel occupation recovers. In a captive market, considered expensive, Romania has the chance to come back through quality service at an optimal price. It depends, I repeat, on the political stability which will generate the economic revival and the healthy travel of the hotel services consumers on all the segments: business, events, leisure, seaside and mountain holidays, circuits etc. The revival, for those who survive, will be felt around September 2010", concludes Mihai Rajnita, general secretary of FIHR.

What brings 2010? The inflation and the interest rate will remain within relatively low values. The investments in hotel structures will stagnate. The major risk will come from the labour

market and will determine a lower number of tourists, because of the growth of the number of unemployed people (the unemployed rate in EU was of 9.5% in July, increased at 10.2% at the end of the year and will remain around 10% in 2010).

The European industry of hospitality will have an evolution of "W" type, in other words the graphics of the main indicators will look like the letter mentioned, with ups and downs which mark 2010 as a period of instability, in which the winners' advantages will be the flexibility and the reaction speed.

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THE CULTURE OF ROMANIAN ORGANIZATION: THE DIAGNOSIS OF THE REMANING MENTALITIES

Pandelică Ionuț
AGORA University of Oradea

Pandelică Amalia
University of Pitesti
Faculty of Economics

Jianu Eugenia

After 20 years of transition, the culture of Romanian companies is still dominated by some remaining block culture mentalities proper to Eastern and Central European countries. Although, from a technical point of view the transition may be regarded as an ended process, it is certain that there is still a communist inheritance strongly integrated in this culture in series of remaining mentalities. Such mentalities are to be found in the culture of Romanian companies framed into a vicious circle of inertia representing significant change resisting structures. Thus, this paper displays the results of a pilot study meant to establish the diagnosis of the dominant values of Romanian companies' culture. The results reveal the fact that although some reminiscences of the communist period are still integrated in the culture of Romanian companies some of those mentalities have been overcome.

Key words: organizational culture, block culture, remaining mentalities

JEL Code: M12, M14

Introduction

Within the transition toward a competitive market, the capacity of Romanian firms to initiate internal changes and to cope with the external ones that is their adaptation capacity is conditioned mainly by some old mentalities of block culture characteristic to Eastern and Central European countries. Block culture represent that cultural fund common to all Central and Eastern European countries, acquired in over 40 years of command economy regime. It practically synthesizes the entire range of cultural remains of a 40-year experience, being a drawback to effective change, an impediment to the reforming process. This occurred, as Sztompka (1994) stated, as a result of old socialist regimes intention to forcefully modernize the society but still preserving traditional elements. The existence of such a culture, with all specific features, was highlighted by the empirical results of some researches made on different capitalized and evolutive components of transition societies (Bakacsi and Takacs, 1997; Karacsonyi, 2006; Taarniczky, 2006).

In the 80s, most communist countries began their reforms. In Romania, the situation was a little different considering that 1989 was the year when Ceausescu was removed and the communist regime ended. The uniqueness of the Romanian case could be more evident if we mention also: (1) the aggressive anti-abortion policy stated by Ceausescu in 1965 and operated until 1989, (2) the rationing of some basic goods, (3) the higher level of communicative isolation of people in Romania as compared to other communist countries (Romania being the only one without a capitalist neighbor). Since 1990, Romania involved into a series of deep reforms of economic systems, institutions, economic processes, individual fundamental attitudes and concepts. According to Scarlat and Scarlat (2007), Romania experienced three major distinctive levels in her way towards a free market economy: (1). 1990-1997: this level represented the period in which the socialist model was abandoned and free market economy principles were adopted. This period was characterized by high transition social costs such as: a dramatical lowering of living standard, a high unemployment rate due to the fact that many state enterprises were closed; high

inflation and a low exchange rate for the national currency; (2) 1998-2001: represented the period when liberalization and privatization reforms were accelerated and policies for economic increase were adopted. This stage was dominated by a series of structural reforms and austerity policies; (3). 2002-2005: In the above-mentioned authors' opinion, this stage marks the end of the transition period in Romania. According to EU Country Report, the transition period for a country ends when the economic system of the respective country reaches the level of a functional market economy. Thus, in 2003, the European Commission, stated in the report: "Romania may be rated as a functional market economy considering the progress made and the continuation of these progresses." At the same time, this period was marked by the reformation efforts in order to accomplish the requirements for integration in EU. On 1st January 2007, Romania became full member of the EU.

Although from a technical point of view, transition in Romania may be considered accomplished, it is certain that Romania must also overcome the communist inheritance and some remains of mentality that are still deeply integrated in her culture. Thus, in spite of all reforming progresses in the last 20 years, the remains of the communist past have not disappeared completely, yet. They are to be found in the culture of Romanian companies being strong resistance structures against change that frame them into a vicious circle of inertia and affect their competitiveness and performances. For example, the fear for the superior or the spur to hide mistakes is still common realities in Romanian companies. That is why, the efforts of Romanian managers to change the organizational culture should be a priority. Romanian companies should break the vicious circle of inertia and involve into a genuine process of change for increasing competitiveness and performances. Although, low performances should represent a major force in considering the change steps as Hill and Hull (2004) point out, in fact it rarely happens that such performances represent a reason for unleashing the process. The authors above mentioned, empirically proved that usually the organization needs external events in order to break the vicious circle of inertia. Taking into account that nowadays Romanian companies are a part of the global hyper-competition and considering the unprecedented dynamics of changes that alter the business environment, the need for a change becomes an essential condition of survival for companies. But organizational change should not represent a mere effect of restructuring and reforming. This change cannot be effective and efficient as long as it remains clustered to some strictly structural factors such as: changing property, technology or organizational structure. A change that disconsiders the organizational culture may be formal and very often blocked and obstructed by a series of factors that belong to the way and manner of structuring and understanding the formal and informal relations within the organization. Behavior and attitude patterns developed during a certain period within an organization are not only difficult to change, because of their inertia, but practically represent the most important and difficult to change structures.

In the context above described, the main question of our research was: At what extent the culture of Romanian companies is still dominated by some remaining communist economy mentalities and how many of them have been overcome?"

Research Methodology

The diagnosis analysis focused on three major directions: (1) the assessment of perceptions about fundamental values of market economy vs. remaining block culture mentalities; (2) the assessment of perceptions regarding key values of organizational culture; (3) the assessment of perceptions over the organization itself. The questionnaire was subdivided into three groups of questions according to the directions of diagnosis analysis settled, containing 21 close questions with 3 multiple choice questions.

In order to constitute the sample, 15 Romanian companies were selected according to the size (number of employees). Only 11 companies contacted – out of the 15 initially selected - accepted the poll; thus the answering rate was of 73,3%. The 11 companies were grouped according to

their size as follows: (1) one big company with over 250 employees, (2) seven middle-sized companies having between 50 and 249 employees; (3) three small companies having a number of employees between 10 and 49. These cover fields of activity ranging from processing industries (6), constructions (3), trade (1), and services (1). The turnover had a significant variability which represented an important asset for representativeness. A particular case is the fact that all companies had a profit or were even in 2008. The general profit rate (gross profit/ turnover) varied between 0 and + 9,7 with a consolidated value of 3,8%.

The 11 companies constituted the basis of the employees' sample, 881 were subordinates and 124 managers (top management and middle management) out of 1005 enquired persons. Out of 881 subordinates 14,67% ranged from 20 to 25 years old, 68,48% ranged from 26 to 45 years old and 16,85% ranged from 46 to 65. Out of 124 managers, 3,23% were aged between 20 and 25, 80,64% between 26 to 40 and 16,13% between 41 to 65. The sample structure according to age displays the structure of active population in Romania on age groups as well as the three generation-structure of active population taking as referential the year 1990: **the young generation** that was born in either the last years of the communist regime or in the first years after the fall of the communism. This generation has an innovative thinking, is very open to change yet has a low commitment to the organization; **the middle generation** encompasses the individuals that experienced both before-and-after-communism periods and are called "the children of transition", "fighters", or "survivors". "The survivors" prove a high degree of commitment to the organization and are open to change; **the old generation** is professionally trained during communism. Although the representatives of this group prove a high degree of commitment to the organization they are reluctant to changes.

The analysis and interpretation of the results

There are differences between managers' and subordinates' opinions regarding the manner in which the management took their vote. The employees that took part in voting the management were 55,4% subordinates and 38,7% managers; this confirms the inertia regarding the specificity of system changing in Romania. Its feature is that the employees vote for the management similar to the 1990s procedure which had negative results on the performances of Romanian enterprises through changing target function from maximizing economic efficiency to job protection and salary increase. One can notice that employees' vote for the managers is perceived as a way of controlling the future personnel. But this perception is unrealistic and it proves a serious change resistance source. At the same time, for both the subordinates and some managers it is not very clear the status of the owner who has the right to decide about the enterprises whose main shareholder is.

A high percentage of employees (71,1%) and of managers (58,1%) expressed in favor of protectionism stating that Romanian companies should be protected by the state against foreign competition in spite the fact that they think their own company can cope with this competition (50% subordinates, 74,2% managers). This apparent paradox may be explained by the remaining mentality according to which the state should interfere with companies' activities but also by the lack of information about the basics of free competition. On the other hand, the options of the enquired employees demonstrate the resistance to liberalization of trade which is a feature of the ex-communist countries.

At a social level there is an option for fair economic efficiency and competence criteria disfavoring the social egalitarianism. Regarding the salary differentiation, the results of the research showed that the enquired employees are willing to accept salary differences no matter how big according to individual performances, which implies that they reject the principled egalitarianism. From this point of view the research reveals that there are no remaining mentalities about equal salaries. After 20 years of egalitarianism, the idea of differentiation according to competences won.

The issue of job protection so sharp a few years ago, has now split. We can state that there is a de-radicalization of counter-reforming tendency, in which economic efficiency is sacrificed no matter how, for the job safety as it happened during the 1990s. When enquired if inefficient jobs should be saved only to prevent idling, only a minority (9,7% managers and 23,4% subordinates) answered “yes” in a categorical manner. After 20 years of transition, the remains of this mentality seem to vanish.

As to the delimitation between political and economic aspects, the enquired employees give a bigger importance to relationships that the management of the enterprise has with political environment (59,8% employees and 67,2% managers). This demonstrates that there is no clear delimitation between political and economic environment.

The quasi-unanimous opinion is that the success of a company depends on the way of managing it. . About the management of the organization, the preference is for a strong hand (63% subordinates and 83,9% managers). The option for a strong hand disfavoring employees’ active implication in decision-making process seems to be a consequence of employees’ lack of trust in democratic-participative mechanisms. The cause of this lack of trust lies on the idea that democratic institutionalized mechanisms work rather chaotically. Thus, this type of strong hand management seems to be the guarantee for a strategic coherence according to enquired subjects. Ready to act in group and to receive orders to execute, the subordinates but some managers, too, find it difficult to have initiative or creativity being thus, inhibited. This is in accordance with Romanian “culture perception that power means distance.

With a view to criteria that should be used for salary differentiation there are different opinions of subordinates and managers. Managers state that the main criteria that should count are: the outcomes of the work (100%), competence and qualification (93,6%), position within the organization pyramid (51,6%). The subordinates state the following criteria for salary differentiation: competence and qualification (78,8%), outcomes of the work (76,1%) and number of work hours (60,3%). We have to notice that seniority, in general and length in service within the organization are the less important criteria for salary differentiation. This shows the choice for modern values compared to traditional values such as seniority. As to the criteria for choosing a job, the most important are those connected to work satisfaction and rewarding salary (in a reverse order for employees). We can notice that work safety is on the 3rd place for the subordinates and on the 4th for managers. This leads to the idea that job mobility concept won against the “I get hired and retired on the same job” concept. We can notice that the visibility of the company is not an important criterion in choosing a certain job.

Regarding the desirable attitude and behavior patterns of managers, according to the enquired subjects, the main qualities of a good manager should be competence and professionalism (86,4% subordinates and 96,8% managers). For both subordinates and managers the first three options comprise manager’s interest to solve employees’ problems (62,2% and 51,6% managers). The subordinates have also included employees’ motivation in the first three options while the managers rated it on the 4th position their 3rd option being decision-making. Thus, a rather modern value-focused orientation relying on competence and efficiency criteria is also noticed in appreciating the qualities a manager should have. As to the manner in which instructions must be followed there is a significant difference of perception between managers and subordinates. Managers are inclined to a formal task execution (54,8%) while the subordinates are inclined to an informal approach (68,7%) focusing more on a correct understanding of the decision. This demonstrates that orders-are-not-discussed-but-executed mentalities are overcome.

When asked “if your company didn’t have a retail market share or registered big losses” the enquired subjects rejected the idea of shutting down the company suggesting the reorganization of the activity. Should the company register big losses, the enquired subjects suggested first of all, to change the managers (51,61%) and after that reorganization of the activity (41, 94%). Only 3% of the enquired subjects think that the company should be closed in the first situation and 6,45% in the second situation.

The perception of the enquired subjects about the general situation of the company they work for is mostly favorable (63% subordinates and 77,4% managers) in accordance with reality as the companies included in the sample are profitable.

The answers of the subjects to the three questions concerning the organizational environment are convergent. Thus, managers and subordinates equally think that they have co-operation relations with the management of the company, conflict occurrence is reduced and team environment is pleasant or acceptable. Both managers and subordinates, with minimum disparities, mainly appreciate professionalism, correctitude and organizational capacity of their superiors.

According to the results, the level of communication within the company is differently perceived by managers and subordinates. Managers state that they are informed on a great extent, about the strategy of the company (87%) and the current problems of the company (93%). On the other hand, only 51,6% of the subordinates are informed about the strategy and 40,2% about the current problems. This difference in communication on the two levels is typical for all companies of the sample. This reveals a low communication degree inside the organization. From here we can see a median position of the companies enquired about the organizational culture dimension provided by the strict control vs. weak control.

Conclusions

The “communist legacy” is an expression used frequently after 1989 by Romanian governments when explaining their failure in improving the economic and social situation of the nation. Beyond the expression, there is an empirical reality with important consequences upon the transition period. After 20 years of transition, the culture of Romanian companies is still dominated by some remaining mentalities of block culture featuring the Central and Eastern European transition economies. These mentalities generate inertia and affect competitiveness and performance of Romanian companies considering that organizational culture represent the foundation to build a business strategy on. The adjustment of organizational culture to corporate strategy is an essential condition to achieve the competitive advantage. Although Romanian economy works according to market economy principles, values and mechanisms, our research emphasizes that at present, considering the employees’ values and attitudes, we can identify, on the one hand, modern values strongly associated with reforms and changes and on the other hand, values pertaining to a slowing-down reforming process mentality.

The conclusions of the study confirm what a well-known Romanian economic analyst, Silviu Brucan, stated in 1990, namely that Romania needed 20 years in order to learn market economy values. If in 1990 his affirmations seemed very pessimistic, after 20 years of transition we can say that they were realistic maybe even a little optimistic.

We believe that investing in the development of human resources is the most important direction for Romanian companies to act in order to overcome the remaining communist mentalities during the change of organizational culture. This is to be done by changing the mentality according to which the labor force is a cost with that according to which the labor force is an investment. Such investments should focus on the development of managerial education and the training of an efficient and productive labor force.

The limits of the research and future research directions

The limits of the research derive, first of all, from the fact that the dimensions of the sample of companies were too small in order to consider the results of the research relevant for all population of Romanian companies. Therefore, we intend to extend this research to a bigger number of companies. We would also like to repeat the research (longitudinal research) in order to supervise the evolution of remaining mentalities identified during time.

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HOW TO TRANSFORM SMALL AND MEDIUM ENTERPRISES (SMEs) INTO LEARNING ORGANIZATIONS

Popescu Dan

Academy of Economic Studies Bucharest, Faculty of Management

Chivu Iulia

Academy of Economic Studies Bucharest, Faculty of Management

Ciocârlan-Chitucea Alina

Academy of Economic Studies Bucharest, Faculty of Management

Popescu Daniela Oana

Academy of Economic Studies Bucharest, Faculty of Management

Small and medium sized enterprises (SMEs) are the most dynamic and vital factor of progress in the contemporary society, main generator of economic performance and substance in any country, employment opportunity provider for most of population, major contributor to the national budget, and engine to improve the living standard of the population. SMEs represent 99% from all enterprises, drawing up the main human resource agglomeration. In Romania and other countries from The European Union, SMEs play an essential role in economic life, having special features that make adaptation process to the knowledge-based economy easier. In a knowledge-based economy context, SMEs should act as learning entities, by developing the most important resources they own: the human resources.

Keywords: learning organization, knowledge-based economy, small and medium enterprises, Romania

The article's JEL code: M3, M31, L81

SMEs features and regional distribution

Small and medium sized enterprises (SMEs) represent the most numerous and important category of enterprises, with multiple economic, technical and social functions. SMEs are the most dynamic and vital factor of progress in the contemporary society, main generator of economic performance and substance in any country, major contributor to the national budget, and engine to improve the living standard of the population. SMEs represent 99% from all enterprises, drawing up the main human resource agglomeration. SMEs generate the most of Gross Domestic Product (GDP) in every country - usually 55%-95%, provide employment for most of population, and generate a major part of the technical innovation applicable in the economy⁶⁹⁶.

The higher flexibility of SMEs, the permanent contact of the entrepreneur with the organization, the capacity of producing goods and services to satisfy different needs and demands, the organizational environment favourable to change and innovation represent the elements that explain higher performance of the SME sector⁶⁹⁷.

Unlike larger organizations, SMEs enjoy a number of advantages, such as small number of employees, which facilitate communication and propagation of change within the organization, a smaller proportion of total tangible assets, economic and relatively simple management, adaptability and flexibility to changing external environment, entrepreneurial spirit, faster growth, development potential, but more intense interpersonal relationships and greater cohesion.

⁶⁹⁶ <http://www.eurostat.com>, access date 15.04.2010

⁶⁹⁷ Chivu, I., Garcia-Sanchez, A., Lefter, V., Popescu, D., Ramos, *Human Resource Management in Small and Medium Sized Companies, Contemporary Tendencies*. Ed. Economics, 2001, Bucharest, p.76

These features allow easier adaptation of SMEs to change imposed by the knowledge based economy, in particular economic sectors based on art techniques and technologies, the permanent renewal is key to success. We consider that all the specific characteristics of SMEs define a profile of those who can harmonize with the specific knowledge based economy and organization. Concentration of enterprises differs according to the development regions, as typological economic evolution areas. The region Bucharest-Ilfov, with 144,018 companies, has the largest density, approximately 23.33% from the total number. The other extreme is the South-West region with 45,889 companies, meaning fewer than 8% (Table 1).

<i>No. crt.</i>	<i>Region</i>	<i>Number of enterprises</i>	<i>Weight</i>
1.	North-East	67,333	10.91
2.	South-East	71,585	11.59
3.	South	65,001	10.53
4.	South-West	45,889	7.43
5.	West	58,745	9.51
6.	North-West	88,315	14.30
7.	Centre	76,519	12.39
8.	Bucharest-Ilfov	144,018	23.33
Total	-	617,405	100.00

Table 1. Small and Medium Sized Enterprises distribution by regions⁶⁹⁸

The average level for a regional unit is 77,177 companies, with a 10% increase compared with the previous year. The Bucharest-Ilfov region is over the national average by 1.87 times, being 3.1 times higher than the South-West region. These differences highlight entrepreneurial environment specificities, having as a result differentiation between country areas.

Higher values correspond to Bucharest-Ilfov, West, North-West and Centre, which indicates a strong polarization of small and medium sized companies, while lower values correspond to North-East, South-East, and South-West.

Predominant among SMEs are the micro enterprises, with up to 10 employees, companies that represent over 90.66% of the total number, only 31.95 from the total number of employees (Table 2).

<i>SME Groups (by number of employees)</i>	<i>2001</i>		<i>2007</i>		<i>Dynamics of number of employees</i>
	<i>Number of employees in SMEs</i>	<i>Weight %</i>	<i>Number of employees in SMEs</i>	<i>Weight %</i>	
1-9	459,210	26.64	917,514	31.95	199.8
10-49	564,651	32.75	946,237	32.95	167.6
50-249	700,072	40.61	1,007,742	35.09	143.9
<i>Total</i>	1,723,933	100.00	2,871,493	100.00	166.6

Table 2. SMEs distribution by number of employees

The number of SMEs increased in 2007 compared to 2001 by approximately 40%. After 2001, the main category that increased was that of micro enterprises. In 2001, the number of employees in enterprises with over 250 employees was 1,240,211, representing 41.84% of the total labour force employed in the enterprise sector. Compared to the numerical dynamics of the SMEs (152.1% between 2001 and 2007), the dynamics of the employees' number (166.6%), demonstrates strengthening of the SME sector.

⁶⁹⁸ <http://www.cnesmc.ro/CARTA%20ALBA%202009.pdf>, access date 09.03.2010

Knowledge-based economy as favourable environment for SMEs

Knowledge has always been an important driver of competitive advantage, but changes in the economy have made it increasingly so. In order for knowledge to provide competitive advantage, it must be explicitly integrated into a firm's strategy. Knowledge development lies at the heart of organizational innovation and growth and can be achieved through learning activities. Human resources, main owners of knowledge, develop especially within organizations⁶⁹⁹.

Economic activity is increased in sectors that intensively use knowledge and technology and increase production and employment in high-tech sectors. Success in the knowledge based economy depends on the ability to innovate. Researchers⁷⁰⁰ have identified the following characteristic of the knowledge based economy: physical distances represent no longer an obstacle to economic development, communication, education, successful implementation of projects and integration into society, economic system is open the world.

Key change involving the transition to a new kind of economy is not only the concern of the scientific world. Leaders of developed countries in European Union policy areas identified transition options to the new type of economy, the knowledge based economy: building an information society to citizens, by extending the Internet, electronic commerce, telecommunications, building a dynamic business environment, stimulating, developing small and medium enterprises, supporting scientific research as a vector of competitiveness and the enhancement of human resources, investing in education and training, promoting social protection systems and incentives to work⁷⁰¹.

To create a competitive advantage, SMEs need to be able to learn faster than their competitors and also develop a customer responsive culture. Argyris (1999)⁷⁰² identified that in light of these pressures, modern organizations need to maintain knowledge about new products and processes, understand what is happening in the outside environment and produce creative using the knowledge and skills of all employed within the organization. This requires co-operation between individuals and groups, free and reliable communication, and a culture of trust.

Learning Organization main characteristics and importance

Organizations with the best chance to succeed and thrive in the future are learning organizations. There are some fundamental aspects that need to be reinforced inside the company, in order to become a learning organization. Main tools and techniques include: continuously seeking information, encourage creativity (brainstorming, associating ideas), management techniques that imply the development of skills like leadership and mentoring, using and develop the latest and best information and communication methods and means.

The concept of "learning organization" is a relatively new one⁷⁰³, that has been developed in the last three decades and that has been successfully implemented by an important number of companies. Of course, the "learning" concept is not a new one; quoting no one else but the creator of the Theory of Evolution himself, Charles Darwin who said: "It is not the strongest of the species who survive, nor the most intelligent; rather it is the most responsive to change.", we realize that this concept existed since the beginning of times: men progressed by learning.

⁶⁹⁹ Harris, L., Leopold, J., Scholes, K., Watson, *The strategic managing of human resources*, Ed. Prentice Hall, Englewood Cliffs, 2005, p.234

⁷⁰⁰ Prusak L., Matson E., *Knowledge Management and Organizational Learning*, Oxford University Press, New York, 2006, p.156

⁷⁰¹ Harrison, R., Kessels, J., *Human resource development in a knowledge economy: an organisational view*. Ed. Palgrave Macmillan, Hampshire, 1997, p.76

⁷⁰² Argyris C., *On Organizational Learning*, Blackwell Publishing, 1999, p.235

⁷⁰³ first developed by Argyris and Schon in their work, "Organizational learning", 1978

Even if this statement is based on an obvious argument, many organizations refuse to acknowledge certain facts and continue to repeat dysfunctional behaviors over and over again. Huber (1991)⁷⁰⁴ considers four constructs as integrally linked to organizational learning: knowledge acquisition, information distribution, information interpretation, and organizational memory. Senge⁷⁰⁵ defines the Learning Organization as "a group of people continually enhancing their capacity to create what they want to create."

The present reality and the fierce competition created the need of theorizing the concept of organizational learning in the entrepreneurial environment and the creation of the **learning organization model**.

Argyris and Schon talk about 2 learning models:

- the single loop learning: the organizations modify their actions starting from the comparison of the obtained results with the expected results;
- the double loop learning: the organizations analyze the politics, values and the suppositions that lead to these; if they are capable of modifying these politics and values, then we have a process of double loop learning.

Peter Senge, developed the term of organization learning, in 1990, in his work that quickly became a best seller: "*The fifth discipline: The Art and Practice of the Learning Organization*".

Senge defines two concepts that need to be accomplished in order for a company to be named a learning organization:

- the ability to shape the organization to be in accordance with the desired results;
- the ability of recognizing the moment in which the direction of the organization is different from the desired result and to follow the necessary steps to correct this imbalance.

The learning processes within a Learning Organization

The first process refers to external sources knowledge acquisition. The organization human resources come into contact, socially, with external sources, which facilitates the information and knowledge input. For instance, scientists engaged by a private organization to offer their professional knowledge, gained within academic environments and research centers, that eases employees access to outdoor sources. Similarly, one of the reasons for companies to form partnerships is to build social connections with the local market, with the political environment⁷⁰⁶.

Knowledge transforming from tacit to explicit form represents the second process. The advantage is using employees knowledge for all organization and reducing management dependence on a limited number of people owning tacit knowledge.

The third process regards a collective contribution of different social groups for creating new knowledge, as a result of different competencies. Knowledge conversion refers to exploring existing knowledge, meanwhile creating knowledge refers to exploring new knowledge.

Human resources development refers to the skilful provision and organization of learning experiences, primarily but not exclusively in the workplace, in order that business goals and organizational growth can be achieved. Changing to a new economic and social organization model, a knowledge model, implies employees, as part of the organization, higher adaptation capacity. Within organization, the learning process takes place at individual level, team level and organizational level. Continuous concern for training and professional improvement of human resources knowledge and capacities has favorable results for employee and organization.

Learning Organization contributions to SMEs performances are:

⁷⁰⁴ Huber, G., *On organizational learning: The contributing processes and literature*, *Organization Science*, 2(1), 1991, p.88-115

⁷⁰⁵ Senge, P., *The fifth discipline: The Art and Practice of the learning organization*, Ed. Random House, USA, 2006,

⁷⁰⁶ Lopez S., Pen J., Ords C., *Organizational learning as a determining factor in business performance*, *The Learning Organization*, Vol. 12, Nr. 3, 2005, p.6

-links individual performance with organizational performance. In terms of Planning and Strategy, SMEs from Romania are still in an incipient stage. Planning is used to a higher extent in 45.5% of the cases, but a career plan for employees exists in only 18% of the firms and there is a small declared linkage of the human resources recruiting strategy to organizational objectives⁷⁰⁷. The management of the firm is in these conditions mainly intuitive and does not apply the rules and rigors found in large companies. By their nature, SMEs nurture with their reduce dimensions and small number of employees the existence of a less rigid business work frame.

-develops collective as well as individual learning. This characteristic is also sustained by the fact that 75% of the entrepreneurs encourage the employee's involvement in other areas than those specified in their job description. A less favorable characteristic revealed by the study is that in SMEs the predominant way of working is still very individualist, the majority of the respondents (45%) neglecting the benefits of team work for the organization.

Over 35,63% of the microenterprises, 40,69% of small enterprises and 54,06% of medium enterprises allocated 1 to 5 training days for their employees (Table 3). SMEs which preferred training programmers for more than 6 days long, represent an important percentage, for all three enterprises dimensions types. All these data results indicate that significant importance is given to human resources development, although resources owned are more reduced than for larger organizations.

	Number of training days	Enterprises		
		Micro (0-9 employees)	Mici (10-49 employees)	Mijlocii (50-249 employees)
1.	Over 10 days	12,78%	12,57%	15,38%
2.	6-10 days	12,14%	24,54%	9,85%
3.	1-5 days	35,63%	40,69%	54,06%
4.	0 days	39,45%	22,20%	20,70%

Table 3: Medium training days number within SMEs evolution in 2009 compared with 2008⁷⁰⁸

Development may be a characteristic of the culture, values, processes and resources of the organization, not just specific of individuals. Initiated at the organizational level, development involves change, change in behavior, beliefs, attitudes. The role of management becomes as new values: the definition of processes, methods and techniques for managing development processes of the human factor, setting clear environmental impact of changes in internal and external, ensuring the availability of tangible resources (financial, material) and intangible (skills, facilities) in the development process, there is consistency between plan development and organizational strategy⁷⁰⁹.

Conclusions

Small and medium sized companies represent 99% from all enterprises, drawing up the main human resource agglomeration. In Romania and other countries from The European Union, small and medium sized companies play an essential role in economic life, having special features that

⁷⁰⁷ Chivu I., Artenie C., Popescu D., Ciocârlan-Chituca A., Popescu D. - *The Profile of the Romanian Entrepreneur and its Compatibility with the Characteristics of a Learning Organization, Review of International Comparative Management, Vol.10, nr.4/2009, p.13*

⁷⁰⁸ <http://www.cnesmc.ro/CARTA%20ALBA%202009.pdf>, access date 09.04.2010

⁷⁰⁹ Chivu I. (coord.) *The Learning Organization and Human Resources Development, Ed. A.S.E., Bucharest, 2009, p.35*

make adaptation process to the knowledge-based economy easier. The results of the study demonstrate that learning capacity and knowledge sharing within SMEs consists of maintaining levels of innovation and remaining competitive, being better prepared to respond to external pressures, improving corporate image by becoming more people orientated. At the organizational level, a successful human resources development programme will prepare the individual to undertake a higher level of work, to provide the possibility of performance change and consequently.

There is a competitive advantage for an organization whose workforce can learn quicker than the workforce of other competing SMEs. In these settings, human resources development represents the solution that focuses on the organizations competencies at the first stage, training, and then developing the employee, through education, to satisfy the organizations long-term needs and the individuals' career goals and employee value to their present and future employers.

Human resource development (HRD) has gained a permanent role within SMEs, agencies and nations, increasingly as not only an academic discipline, but as a central theme in development area. Being a combination of training and education, in a broad context of adequate human resource policies, HRD ensures the continual improvement and growth of both individual and organization.

Development people as part of an overall human resource strategy means the skilful provision and organization of learning experiences, primarily but not exclusively in the workplace, in order that business goals and organizational growth can be achieved.

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THE IMPACT OF ORGANIZATIONS' POTENTIAL OF COMPETITIVENESS ON THEIR CURRENT STRATEGIC AND TACTICAL MOVEMENTS

Radu Cătălina

Academy of Economic Studies, Faculty of Management, Bucharest

Grigore Ana Maria

Academy of Economic Studies, Faculty of Management, Bucharest

Badea Florica

Academy of Economic Studies, Faculty of Management, Bucharest

Organizations' competitiveness is an effect of their current strategic and tactical movements and also a cause, a driver of future performance. This paper aims to analyze competitiveness in dynamics, by taking into account the impact of organizations' potential of competitiveness on their current actions, which of course will lead to a higher or lower level of competitiveness in future.

Keywords: organizations, potential of competitiveness, sustained competitive advantage, strategy, management, dynamics

JEL classification: L14, L21, L25, M16

Introduction

Any organization should try to be competitive and, moreover, any organization's performance is directly related to the quality of its strategic and tactical movements. Therefore these movements deserve special attention. However, they are partly the result of the organization's current potential of competitiveness and we will explain our view in the following pages.

Literature review

Competitiveness – a dynamic concept

Competitiveness clearly implies dynamics, by being a time-dependent structure (if an organization is currently competitive, this does not mean it will also be competitive in the future).

We define competitiveness as *the capability to successfully compete, to provide products and services as or more effectively and efficiently than relevant competitors for a specific time frame* (Radu, 2009).

There are many theories and models that try to explain why some organizations perform better than others. These theories and models can be grouped in three categories: **the internal perspective**, which concentrates on resources and capabilities, **the external perspective**, which focuses on the structure of industries and **the dynamic perspective**, which bridges the internal and external perspectives and explain why competitive advantages do not typically last over long periods of time (Carpenter and Sanders, 2007). In order to have a good vision regarding a company's future, a careful analysis of the whole system a company is part of and the ability of the company to achieve future growth are clearly necessary (Woodhead and McCuish, 2003). It is clear that current competitive position and potential influence the future level through company's current responses (actions). However, an incorrect assessment of the current situation may lead to two errors: an under-response (in terms of relative competitive force) should result in deteriorating relative competitive position; the over-response is also a problem, as it can result in wasted resources with little gain in advantage (Oliva, Day and Macmillan, 1988).

A company's long term adaptation is actually produced by a series of strategic behaviors and organizational innovations. Therefore the organization's capability to develop effective strategic behaviors and organizational structure is critical for any company's growth (Kuwada, 1998). Strategic decision speed is very important; it matters for companies' growth (competitiveness as a result). Therefore, companies need to master fast decision-making (Baum and Wally, 2003).

The potential of competitiveness

In practice, when we analyze competitiveness dynamically, we refer less to specific strengths or weaknesses, and more to "a potential of competitiveness", a response capacity, and adaptation to various evolutions in the environment in which a company activates (Radu, Grigore and Cătăneț, 2009). The difficulty of dynamical analysis consists of the variable certainty of the predictions (regarding the environment), as well as the difficulty of obtaining relevant information, which many times happens to be confidential. However, the potential of competitiveness may be analyzed in dynamics, by using an extended Porter's model in dynamics (Radu, Grigore and Cătăneț, 2009), a dynamic analysis of the five competitive forces and of the macro-environment. The idea is to identify the organization's responses to the main evolution trends regarding competition, potential competitors, substitute products, customers, suppliers and general environment. In this way we obtain a response capacity of the company to the evolution of its environment, which we considered to be "the potential of competitiveness".

Evaluation of organizations' current strategic and tactical movements

It is not easy at all to evaluate organizations' current actions, strategic and tactical movements. Respondents to our questionnaire would not have answered to specific questions (or perhaps they would have answered, but not sincerely). However, we understood that the main points to be attained refer to cost, time and quality in an extended view (Radu, 2009) and these aspects could be pursued in our questionnaire. With respect to cost, we were particularly interested in analyzing the cost of actions seen as use of resources and tendencies towards outsourcing or not non-core activities. With respect to time, we followed to rapidity of organizations in adapting to various new conditions (flexibility). Last but not least, with respect to quality, we looked for organizations' focus on customer.

Conceptual framework

It is clear that any organization's potential of competitiveness will impact its future level of competitiveness. However, this influence is not a direct one. The main idea is actually one hypothesis we were interested to test: **The potential of competitiveness has a direct and positive influence on organization's current actions.**

Methodology

In order to test our hypothesis, we developed a questionnaire of 54 questions that was applied in two periods of time (June – September 2007 and June – September 2009), in order to see the causal relationships and the transformations over time. Almost half of the questions were actually translated and adapted after a standard questionnaire developed by European Foundation of Quality Management (EFQA) and used to assess business excellence.

223 questionnaires were distributed to managers of different Romanian organizations (7 of them non-profit organizations, the rest of them companies of different scales and from different fields of activity). Our final analysis was limited to 98 organizations.

Main findings

After processing the completed questionnaires we analyzed the average scores for each company regarding both the potential of competitiveness and their current strategic and tactical movements. Therefore we could analyze the distribution of results and also to perform a

regression analysis in order to test our hypothesis. The following figure shows the distribution of average scores for organizations' potential of competitiveness:

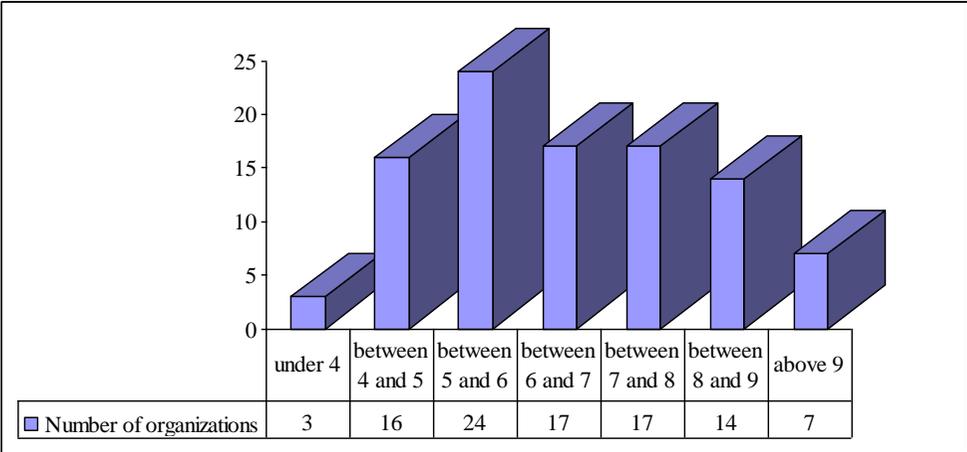


Figure 1. Distribution of average scores for potential of competitiveness

With respect to the average scores obtained for the potential of competitiveness, the distribution is quite uniform. Most of organizations have an average score between 5 and 6 (24 out of 98, which corresponds to 24.49%). The averages scores are between 4 and 5 for 16 organizations, between 6 and 7 for 17 organizations, between 7 and 8 again for 17 organizations, between 8 and 9 for 14 organizations. 3 organizations have very low scores (under 4), and 7 very good scores (above 9).

Figure 2 shows the distribution of average scores for organizations' current strategic and tactical movements:

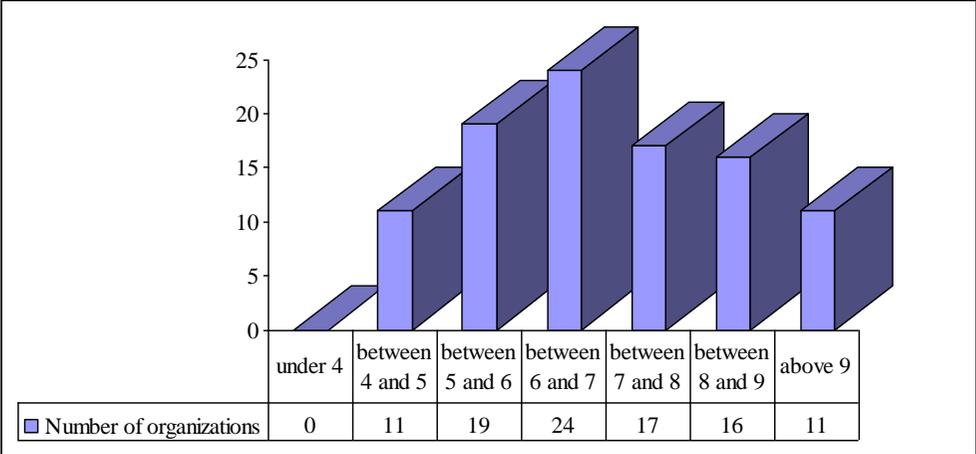


Figure 2. Distribution of average scores for current strategic and tactical movements

Most of organizations that participated in the questionnaire led to a distribution with the highest proportion of results between 6 and 7 (approximately one quarter – 24 out of 98 organizations, meaning 24.49%). The distribution is quite uniform, and there is no organization with a lower score than 4. We can also notice that the number of organizations with a score between 4 and 5 is the same with the one with scores above 9 (11 organizations).

Although distribution of average scores indicates some elements, for our analysis what happened with each organization in part is more important. In order to test this hypothesis we used the simple linear regression. The graph that shows the dependency relationship is the following:

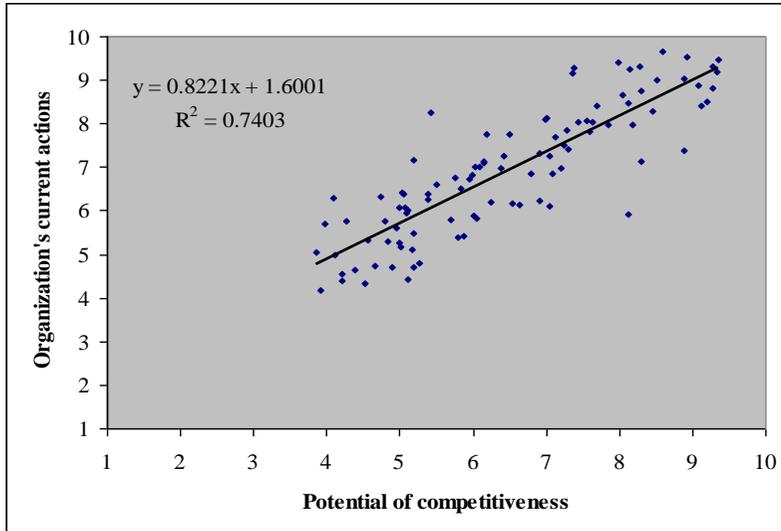


Figure 3. Regression line – “Potential of competitiveness – Organization’s current actions”

The coefficient of determination R^2 has a high value (0.7403). Linear relationship of dependence between the two variables is strong, as it can be seen from the figure, as there are quite few distant points (outliers). F test and p value show that the model is valid:

Table 1. Information regarding the regression line

Regression line:	$y = 0.8221 \cdot x + 1.6001$
Coefficient of determination (R^2):	0.7403
Standard error:	0.76
F test (Fisher):	273.7224
p-value:	$7.32 \cdot 10^{-30}$

Conclusion

We can validate our hypothesis. Indeed, the potential of competitiveness has a direct and positive influence on organization’s current actions.

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EVOLUTION TENDENCIES SPECIFIC TO THE FIELD OF QUALITY IN THE CONTEXT OF KNOWLEDGE BASED ECONOMY

Roșca Remus

Universitatea din Oradea, Facultatea de Științe Economice

In the actual rivalry environment characterised by the exacerbation of the competition, quality is getting the most important factor. Sequel every organization has to consider a priority the improvement of their products quality. Set going from these realities, we consider convenient and interesting to present the most important tendencies in the field of quality, which understanding depends on the turning to account of numerous improvement opportunities.

Keywords: quality, tendencies, competitiveness, knowledge economy.

Clasificare JEL:A00

1.Introduction

In the actual rivalry environment characterised by the exacerbation of the competition, quality is getting the most important factor. Sequel every organization has to consider a priority the improvement of their products quality. Quality improvement is an organised way for generating a positive change, an advantage for the company. Appropriate to the current matter is this quote from W. Churchill: “To improve means to change; to be perfect means to change often”.

Set going from these realities, we consider convenient and interesting to present the most important tendencies in the field of quality, which understanding depends on the turning to account of numerous improvement opportunities.

2.Evolution tendencies specific to the field of quality in the context of knowledge based economy

Further we would relate and study thoroughly these tendencies and their implications also.

2.1.Integration of customers in the process of obtaining quality and bringing forth the value that was intended

This could be done by setting down the client to the following roles:

Customers are providers of information. We have to consider the following categories of information: information of the needs and exigency of our customers about the desired quality of our products (it is a special duty of marketing to obtain these kind of information); feed-back information about the grade of satisfaction after sau during the use of the product; know-how – not infrequently customers are very well informed and have gathered evidence in a specific domain, acquireing distinctive abilities. To improve the role of provider of information of clients organizations use the following methods: marketing research, customers telephone, customers loyalty club, virtual chat rooms, box of complaints, drive test, etc.

-Designing customer, who sets the structure and configuration of the product desired, or sets some quality features only (like endowments of an automobile, the configuration of a PC, the structure of television programes). Herewith assumes an extreme demasification, since every customer represents in the main a market niche. It is clear the abandon of standardizing in favour of personalization.

-Maintenance assuring customer. In the future bearers will offer a wide series of facilities (infrastructure + ability by instruction) for their clients in order to assure themselves the maintenance of the acquired goods. In this way they could secure considerable cost savings and advanced customer satisfaction.

-Carrying out services customer: e-banking services, services of transport and mounting (see IKEA sistem), self-service in the field of commerce. In most of the cases these situations provide advantages not only for the organization but for their customer too.

-„Opinion leader” customer, is generating intangible value for a brand by its image on the market. Also, he can play the role of a consultant for the actual or potential customers, providing them information and survey.

-Manager customer. This could mean the set up of a team of customers involved in the management activities of the firm. For exemple, the team could be involved in the launching on the market of a new product. Customers would always understand better the needs of their peers (we refer here to the people with the same sistem of values and lifestyle), unlike a manager who does not use the respectiv products. An actual exemple of manager customers is of the students who sit on the Board of Faculty where they study. In this way they have an approved understanding of the necessities of students, and can find more suitable solutions. Such a measure could be taken for the improval of a company’s image.

The turning to account of the right customer presented above it is possible only when you can rely on a mutual and advantageous partnership between him and you company.

2.2.Promotion of a holistic view, integrator of the process of quality improvement and the value creation chain

Suggestiv in this respect is the quote from professor Ion Stanciu: „ Today, more and more companies does not put their interest into quality programes for reducing deficiencies only. This is the traditional broach of activities ment to improve quality. Now the emphasis is put in the constitution of programes of quality by integration and correction of all the processes associated with quality during the long chain of value creation for the customers. Acting this way we can stimulate the whole potential not only of the company, but of the bearer’s and distrubitor’s too, in order to rise the value of the products/services dedicated for the customers with beneficial effects for the sales and the profits. ” We can’t exclude the customer itself from this value creation chain for customers, fact brought up in the previous chapter.

2.3.Proximity in time and space between the bidder organization and client, due to the modern means of transport and communication, especial the internet

The implications of these in terms of quality management:

-*easy communication*: presentation of products, informing (site, newsletter), customer’s feed-back (e-mails, chat groups, telephone);

-*easy acces and provision of service* like e-banking, e-learning, e-commerce, with an 24 hours/day availability;

- *reducing the carryinn out a product ordered by a customer*;

- *significant reduce of costs* not only for the seller but for the customer too;

- *possibility of checking the condition of the product or service ordered by the customer*.
Exemple: an order from an e-shop, a package sent by an express courier;

- *growing transaparency of the market* following the presentation of the offers in the virtual space, which let customers make the best choise. This situation determine organizations to focus on the continuous improvement of quality, and on offering superior value for their customers.

The existence of virtual space have created the premises of a similarity between preindustrial age of crafts and our contemporary information society under the appearance of customer’s feed-back. If in the age of craftmanship the bearer met his customer face to face, now they can very easily connect using the virtual space.

2.4.Promotion of a holistic view in terms of the concept of quality by inclusion and recovery of intangible quality characteristics

Quality is not resuming only on product characteristics which fulfill the functions for which they were created; ie the quality of a product is not supposed to satisfy only the generic needs for which satisfaction it was projected (a car – the need of transport, a public food service – the need of food). In defining quality we have to keep in view the intangible quality characteristics too, the most important ones are:

- prompt delivery of the product, very important to keep in view de current business environment characterised by a remarkable dynamic;
- the set of services „joining” a product which it makes more accesible and interesting: payment methods, information methods, transport, installation, commissioning services, instructions, etc;
- the purchase experience of a customer determined by: the quality of relationship between the customer and bearer (professionalism, kindlyness, promptness, emotional intelligence) and the specific environment of space for sale;
- environmental friendly aspects of the product, are getting more and more important in the decision making of responsible customers;
- customer status achieved by the purchase of a good. We have to keep in view the prestige of a brand and the values this is promoting (exemple: exclusivity, prestige, safety, friendship, innovation, performance). These days, the decision of purchasing a product is also based on the wish of the customer to communicate his status to the others. Precisely why perhaps the greatest responsibility of marketing is the creation of a unique personality, unique even for the brand had in managing.

Relevant to the issues presented above is this quote from professor Ion Stanciu: „Quality is an emotional experience for the customers. They wish to feel good after purchasing a good, wisg to feel that have obtained the highest value. They intend to know their money were used to help and to be proud with associating themselves with a company obtaining a high quality image.”

2.5.Tranzition between the interest for quality standards type iso 9000 and the business models providing world class performance

Quality standards type ISO 9000 represent a ghide on which a company can base it's quality management and would be capable to generate the quality promised their customers constantly. One of the purposes of a company's authentication, according to these standards, is to rise the trust of employees and clients' in the capability of offering the promised quality consequently; ie it is possible that two rivals to be certified according to the same quality standard even if their products on the market has eloquent difference in their level of quality. The target in the case of standards is represented by the quality promised to the market and it's improvement in time.

Through the implementation of the business models which are providing world class performance (Sis sigma, Kaizen), companies follow to reach world ranking, and to excel. The target in the case of these business models is represented by the highest quality achieved at a global level, making an obsession from the continuous improvement of it. ISO standards can help a company to survive on the market, transforming to an elementary necessity, until world class performance providing business models assure succes only.

2.6.Integration of economic issues of quality in the sistem of financial – accounting indicators of a company

During a long period of time companies have slighted the importance of an objective and fix cost generating non-quality evaluation. This was due to issues like: the lack of understanding the scale of these costs (it is estimated that in some companies they can represent up to 20% of the incomes); inexistence of a unified approach, at the level of concept and practice, of the measuring sistem of the generated non-quality costs. Yet companies that apply value analysis for maximizing the rate between quality and costs in order to improve their competitiveness on the

market, understood the importance of the exact evaluation of these type of costs. Issues represent a premise for the initiation of improvement projects which will lead to the reduction of non-quality costs. Non-quality costs means not only costs generated by the internal non-conformities but the external shortcomings and lost opportunities also, due to a weak good-will of the company in terms of the quality offered (issue which is hard to quantify). In order to piloting a company managers need exact information about the costs and proportion of non-quality, being a relevant indicator of the companies overall performance. General Electric was the first american company which introduced a sistem of management based on costs of quality in 1946.

Only those companies would survive and would have succes on a highly concurential market who would consider these kind of tendencies.

2.7.Extension of concern for quality in all the spheres of socio-economical life of a society

Here we are talking about the central and local public administration, the activities of non-governamental organizations, educational institutions, health care sistem, cultural institutions, etc. Quality is not a unique concern of a profit based company anymore. This is the only way we can consider a significant improvement of a societies quality of life. Unfortunately, we have to admit that Romania has a lot more to do in this sense.

2.8.Quality becomes a priority for decision making factors at national level or at the level of supranational structures

A good exemple for this is the European Union, where a wide training campaign of „european quality culture” is taking place by: the achievement of a common infrastructure in quality management policy; the broadcast of a considerable amount of information of quality management policy in order to strenghten the unique european market; preparations of documents of the E. U. like the „European Quality Management Policy”, „The European Way Toward Excellence”, „European Programe of Quality Management Policy” – all of these provide measures for obtaining a strategic view of quality in all the member states. Understanding the importance of quality is evident in the next provision drawn from the „European Carta of Quality”: „In global economy, competition exists everywhere. To win, european products and services has to be the best if our continent requires to get a chance on the international market.” It is regrettable that decision making factors from the macroeconomic level in Romania poorley understood the importance of quality promotion in the means of growing national competitiveness on the global market.

Unfortunately many romanian companies did not understood the importance of quality like major factor in competitiveness, neither did understood the tendencies presented above. The role of quality in the actual global economy, characterised by a strenghtened competition is emphasized by Jech Welch: „Quality is the best guarantee for the loyalty of our customers, the best defence from foreign competition and the single way to a lasting growth and sustained gains.” All of these are demonstrating the fact that quality is a social responsibility. Consequently an individual, a company, the professional organizations, the employers’ organizations, civil society through partnerships and non-governamental organizations must get involved in obtaining quality due to the following advatages:

-Improving the competitiveness of economical organizations. „Quality has become a strategic element of global management for organizations, because it determines the competitiveness of products/services at a high national and international level”. This is due to the following implications of obtaining quality: increasing sales due to the superior grade of satisfacting the needs and exigencies of customers, customer loyalty, reducing of costs due to the improval of productivity (quality management aims the disposal of all the activities that are not adding value) and due the reduction of waste; recognition of the organization – the excellent quality obtained by an organization represents the most important marketing tool which could be used for it’s

promotion; development of a motivating environment – it has to be one of the best in terms of quality achieved, you have to set high quality as goal, which represents a challenge for the human resource of an organization; it stimulates the development and accumulation of knowledge in a company; it is a facilitator of change by connecting the company to the newest market tendencies (customer requirements, new technologies, etc.).

-Improving the competitiveness of national economy on the global market and is assuring macroeconomical balance. Relevant in terms of national importance of quality is the quote from A. Feingebaum: „High quality products are the key of economical health for contemporary nations”. The health of organizations, specially determined by their competitiveness, would have the following implications on their national economy: generating bugetary resources for the local budget; creation of new jobs with positive effects on reducing unemployment; increasing incomes of the population with positive effects on the standard of life; contribution to the growth of the gross domestic product; it has a dinamic effect on economy simulating it’s development and of other fields and organizations; it has a contribution in the foundation of a national brand; it is a source of national pride when a brand is getting well known internationally; it is facilitating the accumulation of know-how not only for the economy but for the society also; it has a strong training role in the promotion of quality cult and in dissemination of management practices.

-It ensures the health of the population and the environmental protection.

-The growth of overall satisfaction of people in their capacity of customers.

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PSYCHO-SOCIAL PERCEPTIONS AND MANAGERIAL PREFERENCES OF WOMEN ENTREPRENEURS IN WESTERN ROMANIA

Săveanu Tomina

University of Oradea – Reserach Center for Adult Education

Borza Adriana

University of Oradea – Center for Career Services

Our study aims at identifying correlations between preferences and psycho-social choices of entrepreneurs women, more precisely the effect of these characteristics on a given managerial strategy. Based on the data obtained through the administration of two types of questionnaires, we analyzed the relations (correlation) between social and psychological set of perceptions and managerial strategy. Social success and managerial performance are related with these perceptions and thus we can identify a significant conversion of mentalities determined by the governmental changes which took place in Eastern Europe after 1990. The data presented here are driven from the research conducted within the project "Entrepreneurship and equality of chances. A inter-regional model of entrepreneurship training for women in western Romania" (POSDRU/9/3.1/S/5.).

Keywords: social preferences, managerial style, business performance, self-actualization

JEL code: M00, M1, M21, O18

Women managers and the tradition of feminism in Romania

It is a generally accepted fact that, since antiquity, under social and cultural facets, the human performance evaluations are, in their most frequent expression, profoundly male centered. While during the mid 20th century, the feminist movements registered a significant growth this was not a reality in the Eastern Europe. After the Second World War, the collective imagery enhanced, due to the propogandistic effort of the communist regime, a model of "new feminism" which excluded any realism and significance.

The approaches of management starting from a certain typology of local mentalities, already has some tradition in the field literature. It is the object of thoroughly research based theories such as those of Geert Hofstede (Netherlands), Nancy Adler (SUA) or Gareth Morgan (Great Brittan)⁷¹⁰ which developed theories on the so-called cross-cultural management noting the strong determinants of the national cultures impact on the managerial performance of firms. Following these approaches, our study propose the analysis of elements which can constitute an objective base of what we here call gender management. If there are significant differences between approaches of management determined by the cultural area where the entrepreneurial activity is taking place, we have sufficient arguments to consider that, regarding the managerial preferences of women there can be observed series of specificities.

Consequently, in order to understand the managerial choices of women entrepreneurs from Romania, we must consider the psycho-social context and the particularities of the local culture where she is working, even more as, due to the globalization of markets one can note the standardization of organizational structures and processes. The way people expect a leader to act and the way he or she is communicating the decisions is grounded in a social normative structure incorporated in culture. A schematic analysis of our subjects answers provides the opportunity to develop some considerations regarding the basic attitudes of women entrepreneurs from the western Romania. Based upon the psycho-sociological investigations on organizational culture

⁷¹⁰ Geert Hofstede ,Nancy Adler and Gareth Morgan , in Bibu, Nicolae, A.(2003), *Management comparativ* Ediția III/a, Editura Mirton, Timișoara, pag.1

and the women's perceptions on managerial activity one could formulate a set of solutions oriented towards the improvement of regional entrepreneur activity conducted by women.

One of the four fundamental cultural dimensions which articulate a society refers to the individual perception of social roles. On the dimension "male-female" one can identify numerous variations from one to the other extreme: as the extremists are generally weakly represented in the modern society, we should admit that in Romania, perceptions on the role of women are still significantly different than those from the Western European ones. The state of dependency of women on the men's income (mostly in rural areas) supports the idea of gender inequality and contributes to role differences based on gender. Gender stereotypes are still consistent tracks for daily behavior not only in Romania. Not accidentally some authors declare that the "women paths as top managers is paved with glass specifically with shivers" 711. The concept of glass ceiling refers explicitly to the fact that women access to managerial positions is possible until a certain point and stop at an apparently invisible level.

Even if we consider the gender related to cultural stereotypes such as think manager-think male, or we state the fact that women managers lack specific role models, one can note that these situations lead to discrimination when a woman wants to access top managerial positions. All studies argued and proved statistically that these barriers exist and are strongly resistant to changes. These resistances were recently explained in the frame of social identity theories. In leadership and the lack of accession of women in managerial positions, gender stereotypes are explained in the following manner: the members of the boards of companies (forms mostly by men) define group identity on several dimensions chosen for their relevancy and their accessibility – gender being the most frequently used demographic dimension of group identity in general. The central assumption of social identity theory is that, through membership in diverse types of social groups and through processes of social comparison people aim at increasing their self esteem (Curșeu și Boroș 2006, Curșeu 2007)712. In this regard it is not random the fact that several studies confirm statistically that women managers which succeed in breaking the glass ceiling have better qualities and professional training than their male colleagues.

The collective predisposition towards a cliché social perception is not the problem of conservative societies. These predispositions derive from belonging to a certain group, depend on the social context, level of culture and the ideological choices of a person (Haslam 1999). European research on this field (Carla Millar, Nicolae Bibu, 1995) note the fact that in Romania at the level of entrepreneurial activities there is a strong tendency for accepting authority and a strong desire to reduce uncertainty regarding future associated with conformist attitudes as well as a high need for group membership.

More, regarding the perceptions of leadership abilities of women a national research713 relates the fact that 54% of respondents consider that men are more capable for leading than women, 46% that women are taught that leading is not the business of women, 68% that women are too busy with the household and lack the time for top managerial positions. Also, 39% of people consider that women do not access leadership positions because of their families, 43% declare that women have no enough self confidence, yet surprisingly the idea that men want women out of the competition has a strong support among the respondents (51%). As a conclusion, one can thus say that in Romania the main stereotype regarding women is that they should not be in leading position even if as a consequence of their lack of abilities, socio-political context or a matter of cultural tradition714.

⁷¹¹ Avram, Eugen, coord. & other, *Psihologie managerial-organizațională*, Ed. Polirom, Iași, 2008, p. 127

⁷¹² Avram, Eugen, coord. & other, *op. cit.*, Ed. Polirom, Iași, 2008, p. 129

⁷¹³ *Barometrul de gen*, conducted in 2000 at the request of Open Society Foundation. Sample of 1839 people with an accepted error of 2,3%

⁷¹⁴ Avram, Eugen, coord. & alții, *op. cit.*, Ed. Polirom, Iași, 2008, p. 136

Situational approach, social identity and managerial style

Based on studies regarding gender dependency of leadership styles it was proven that women managers are more oriented towards establishing and keeping interpersonal relations that towards the actual finalization of tasks and adopt more frequently transformational leadership models than men (Bass & Avolio 1992, 1994). If one accepts the idea that the main difference between leadership and management resides in the fact that the first is associated to the cognitive, imaginative and anticipative level, while the second with the action level⁷¹⁵, one must admit that in Romania leadership seems to obtain more interest. The perpetuation of certain habits and the persistence of expectations regarding leadership models are legacies of the former centralist system in Romania. The labor force raised from a strongly centralized economic system expects from its leaders vision and trust towards success.

Our research is conceptually articulated on the perspectives of a school of thought on management which emphasizes the importance of relations between leadership and workers for increasing productivity. The **School of human relations** (Elton Mayo 1930) argues that managers should look to their organization as an opened system which interacts to its environment and which is formed by several intertwined subsystems (technical, social and administrative). Any malfunctioning of one of the subsystems produces disturbances of the functions of other parts of the system. Consequently, managers have the responsibility of controlling inputs from external environment (rules, contracts) as well as that of identifying ways to influence the environment.

Given the observation data and the finding of our analysis, we can assess that it is hard to legitimate from functional approach of Douglas McGregor's (1970) idea to classify managers upon their perceptions of people and the behavior it generates. The goal of identifying a unique efficient managerial style (characteristic for 1970's research) is in vain because it was proven that not only the negative (theory X) or positive (theory Y) perception of peoples allows comparisons between managerial practices and firm performances, but one must consider situational approaches. The situational approach focused on the fact that there is no universally efficient management as it depends on the stated objective, type of tasks, and type of people involved as well as the temporal frame.

Data and methods

The data presented in this paper is derived from the project „Entrepreneurship and equality of chances. A inter-regional model of entrepreneurship training for women in western Romania” (POSDRU/9/3.1/S/5.), conducted by prof. univ. PhD. Anca Dodescu, which had as one of the participant groups women entrepreneurs from six counties at the western border of Romania. Questionnaires were applied to 153 women from the cities of Oradea, Timișoara, Arad, Baia Mare, Reșița and Satu Mare. One of the instruments gathered information regarding perceptions of women managers, from which we analyzed here two questions: one on the perceived chances of success and the factors contributing to success. Business performance was measured through: profit, income and number of employees. Questions regarding the psycho-motivational profile were applied in two sequences allowing comparisons between two moments: begging and end of the training.

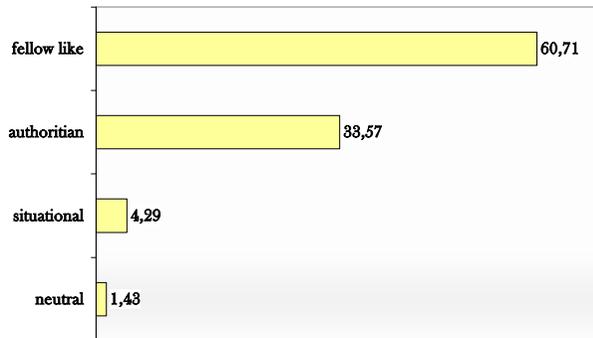
Interpretations of women preferences and managerial choices in western Romania

Regarding preferences of a managerial style our findings are consistent with the trend confirmed by the field literature. The re-test of this information reveals a decrease of authoritarian choices sustaining the statistically proven facts that women would choose a democratic style, oriented to employees more than men, which prefer a leadership model oriented towards tasks. (Bass and Avolio 1992, Druskat 1994, Eagly and Karau 2002). Women managers are more oriented to the

⁷¹⁵ Trifu, Alexandru, *Universul multidimensional al deciziei*, Ed. Economică, București, 2008, p. 51

socio-emotional facet of group dynamic unlike men which are more preoccupied by action and group coordination towards achievement of goals. Our results are consistent with the predictions of the theories of expectancy dependent on the perspective of the common identity role at the level of the Romanian society. This theory functions equally as a measure of the partial explanation of women discrimination in attaining top managerial positions.

For business success the manager should adopt a attitude towards the employees that is:



Graphic no. 1. Leader style preferences, CT.

The analysis of the relationship between leadership style and business success revealed a significant association between leadership style and number of employees, in the sense that women with a greater number of employees prefer a rather authoritarian management. Even if our data seems to contradict the classical studies on this topic, we consider that it is possible to be the particular situation of the women in our sample which on the experience of working with a more employees choose a authoritarian style. There are several limits of this finding: first our data do not provide a comparative dimension as it is exclusively female (in other words it is possible that men would have even stronger preferences for authoritarian styles). Secondly, in our study we had only one question regarding the preference for leadership style and we have no evidence about the actual practices on specific dimensions of leadership. Thirdly, our sample is formed mainly by women entrepreneurs owning small firms, interested in training and participating actively in training programs. Consequently we consider that it is recommended to test this result on larger samples of entrepreneurs (female and male), with complex indexes of managerial styles.

Regarding the context which promotes managerial performance, our respondents reported balanced and realistic preferences that considered the nowadays economical and socio-political context.

Support elements in initiating a bussiness :

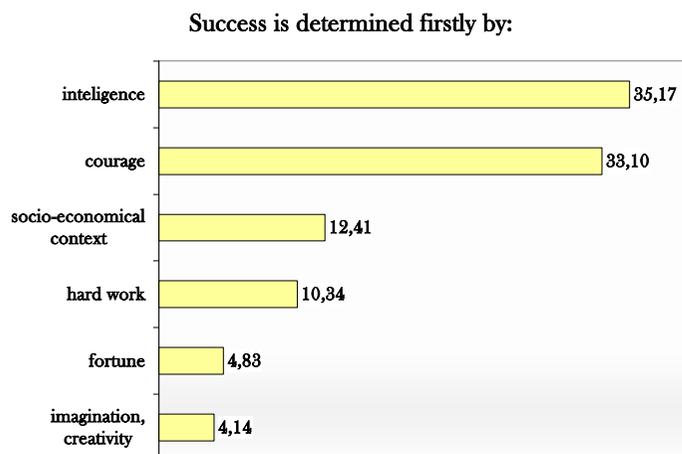


Graphic no. 2. Support needed for starting a business (total choices)

Money, family support and expertise in the field are, according to the re-test results, the most important ingredients of success. We recorded a decrease in the subjective need of professionalism and expertise in the field, which could be explained as a re-evaluation of their own needs as a consequence of the training received as it is considered sufficient to overcome the lacks at personal managerial culture.

It is though interesting to note that, at the end of the Entrepreneurial courses, the most important factors are those further from the control of the entrepreneur: both resources and emotional support are external factors. In the same line of thought at the end of the training more persons attribute success to fortune and chance than in the beginning of the courses.

Regarding the qualities considered characteristics of a successful manager we consider again relevant to note that most the factors are under personal control. Thus, the most important two qualities are self confidence, courage, optimism and professional training. This picture is completed by characteristics referring to tenacity, perseverance and hard-work. The financial potential is considered less important along with honesty and creativity.



Graphic no. 3. Factors of success, CT

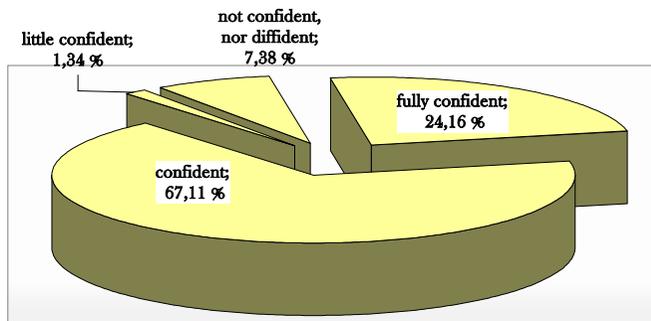
Conclusions

Overcoming gender stereotypes remains the preliminary condition of gender discrimination registered at the level of dominant public perception in Romania regarding managerial activity. The stereotype of women managers in our society must pass the judgment according to which for a woman to have success in business she should use means which have nothing to do with their competencies, professionalism and determination.⁷¹⁶

Our data lead us to the conclusion that women managers have a higher feeling of responsibility (from the analysis of selection questionnaires administered to 150 women we registered a significant frequency for true evaluations on items such as “we can not enjoy rest before we can fully deserve it” or “if in a shop I am given more change I always give back the difference”) and realism (strong disapproval with the sentence “I think I know how to solve most of the current international problems”). More, women managers prove in high degree empathy and choices for team work (counted as high approvals for sentences as “I participate with pleasure to commonly initiated actions”). One can appreciate that there are real reasons for optimism regarding the increase of the rate of success for women managers. Nevertheless we must consider the psycho attitudinal differences particular to the transformational managerial style as to highlight all qualities of women managers in a situational context.

⁷¹⁶ There are known studies which attest the persistence of ideas such as: a woman may be successful if she is beautiful, in the case of women it is very important their physical appearance, the way she dresses.

How confident are you that the resources available to you will ensure the achievement of your goals:



Graphic no. 4. Levels of trust in success

Women which participated in the project manifested trust in the available resources to achieving managerial objectives and obtained significant results and performances with their managerial plan. Upon graduating Entrepreneurial School 68 of them developed new services or products within their business, 60 of them raised their profit, 22 hired new personnel and 90 trained their personnel.

Given the stability of collective mentality we can estimate that change of content of social representation shared by the public regarding women managers will change in time not only by the legislative effect of the regulations that forbid gender discrimination, but mostly by concrete entrepreneurial actions through which women managers can perform in their career and may confirm from professional stand point.

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THE MANAGEMENT OF THE OPTIMAL CONDITIONS OF STORAGE - TRANSPORT - TRADING OF THE FOOD PRODUCTS

Sperdea Natalița Maria

*Universitatea din Craiova, Centrul Universitar Drobeta Turnu Severin
Facultatea de Economie și Administrarea Afacerilor*

Mazilu Mirela

*Universitatea din Craiova, Centrul Universitar Drobeta Turnu Severin
Facultatea de Economie și Administrarea Afacerilor*

Marinescu Roxana Cristina

*Universitatea din Craiova, Centrul Universitar Drobeta Turnu Severin
Facultatea de Economie și Administrarea Afacerilor*

A product cannot fulfil its role, its calling, unless it enters the final consumption, satisfying the need of the consumer who has bought it. But, the road from the producer to the consumer, in the contemporary conditions is not general, nor simple, nor short, nor cheap. The processes of globalisation, the internationalisation of the markets have lead to the intensification of the distribution of products, and, at the same time, to the amplification of the distances they travel. All these have determined the awarding of greater attention on the maintenance of the quality of the food products on the entire technical-economical circuit.

Keywords: storage, transport, trading, food products, quality

Cod JEL lucrare: M31- Marketing, Q18 - Agricultural Policy; Food Policy

1. Intrinsic factors that influence food quality

The quality of the food products is a dynamic feature, a status quo which is modified in time due to certain influence factors, modification which can be done in favour of the food products (as it is in the case of the vegetables) when the storage conditions are controlled and directed, or which can damage it when the optimal conditions of transportation, storage and trading are not met.

Regardless of the technical and economical process where the food products are found, these are found in a continuous process of storage. Due to this fact, this process must be kept all the time under control and we must intervene for the product to keep its quality features, in order for the processes and the modifications that can manifest in the food products to affect its quality.

The influence of the factors which act on the quality of the food products on the path of the technical and economical circuit can be noticed during the storage, their preservation in warehouses, the transportation of the food products, as well a during their trading.

One of the main factors that have a major influence on the quality of the food products is the chemical composition of the products. The chemical composition of the live organism, animal or vegetable, is complex, including numerous chemical compounds whose structure and proportion differs a lot according to the nature of the organism, the age, the food and the environment conditions. Nevertheless, the food products have certain common features, in the limit of each group, especially related to the chemical composition. Either they are native chemical substances (water, mineral salts, sugars, fats, proteins, vitamins, pigments etc.) or they are added chemical substances (tonic substances, aromatic substances, colour substances, emulsions, stabilisers, flavours etc.) or accidental substances (herbicide, insect powder, anti fungal substances, substances from the machines and the wrappings etc.), these influence and can negatively affect the quality of the food products while preserving, transporting and trading.

The quality of a product is appreciated through the level reached by all its properties, which represent, each in part, the multiple faces of the quality. One of the ways that lead to the

knowledge of the quality of a product consists in the identification of the properties which, finally, lead to the satisfaction of the need for which they have been produced. The structure of the food products, the relations that form between the different components of the system-merchandise, the interactions products - environment and products - human being, must be known in detail in order to find the way to follow to maintain the level to which the product preserves its optimal quality.

2. Environmental factors that influence food storage

The preservation, the transportation and the trading of the food products depend on the series of influence factors, internal as well as external, process during which there can appear physical changes, chemical changes or biochemical changes with more or less intense implications on their quality. These factors must find themselves in a certain balance for the preservation of the quality of the food products intact.

The maintenance of the temperature at a certain level during the storage influences the quality as well as the storage duration of the food products, for each type of product an optimal regime of temperature being necessary.

The humidity is another factor which influences the quality of the products while preserving and storing them. The relatively high humidity of the air from the storage facilities has as a result the development of the micro-organisms, the humidity of the products etc. In the case previously presented, of the horticultural products, when the humidity is too low or the temperature is too high, the water losses from the stored products are high and, thus, the vegetables and the fruit fade. Hence, the relative humidity of the air is maintained to a certain level in order to record the lowest total losses. The optimal limits of the relative humidity vary, generally, for the products stored between 55 - 95%. For the relatively high humidity (95-100%), moulds can develop on the storage walls, on the wrappings, on the products.

The air circulation also is important during the preservation and the storage of the food products, through the means of the ventilation the temperature and the humidity of the warehouse being able to adjust.

During the preservation, the products come into direct or indirect contact with the atmospheric air. Interactions with repercussions on the quality of the products can take place between the products components and the air components. The atmospheric air is a mixture of gases and liquid or solid particles, its components being: fix, variable and random. For a series of products the preservation within a controllable atmosphere is imposed, that is an adjustable atmosphere especially regarding the proportion of oxygen and carbon dioxide.

The air components can have, in certain conditions, positive effects. Thus, the ozone helps to disinfect and refresh the air in the storage, the carbon dioxide, in a certain proportion, reduces the development of the micro-organisms, and the sulphide dioxide fight mould.

The food products constitute good environments for the development of the biological agents, especially of the micro-organisms and the insects. In favourable conditions of temperature and humidity, the micro-organism develops rapidly, producing enzymatic complexes which attack the products. Among the degradations provoked by the biological agents, the most important are the ones that lead to the reduction or even to the total loss of the mechanical resistance of the products. The presence of the fungi affects the aesthetic of the products through a disagreeable aspect and through a specific smell, unpleasant, developed by moulds. Other biological factors would be the xylophages insects and the rodents, which constitute a danger for the integrity of the wrapping, the products and their hygiene.

Along with these factors we must take into account the hygiene of the storage facilities, the existence of the foreign smells in the warehouses and the principle of vicinity of the products, for the features of the products, especially the organoleptical one, not to have to suffer.

The means of transportation constitutes also an environment which can maintain or not the quality of the food products; certain measures being necessary in order to protect the food from

the potential sources of contamination, in order to protect the food from deterioration, this becoming non-fit for consumption, as well as to ensure an environment which cannot favour the development of the pathogen micro-organisms or the alteration and the production of the toxins in the food.

While transporting the products there can appear risks caused by the hygiene status and the technical status of the transport means, by the physical and the hygiene status of the transport wrapping; by the improper unfolding of the loading - unloading operations; by the hygiene of the personnel involved in the transportation activity; and the micro-climate conditions specific for the transported products etc.

The transport constitutes one of the most important stages of the food products distribution. Due to their specific and their perisability in their great majority, the condition in which the transport is executed contributes to a great extent to the maintenance of the quality features. The problems that appear in this stage refer especially to the choice of means of transportation proper to each type of product, to maintaining a constant temperature all the duration of the transport, the manner of arranging the products in that transport, the choice of the routes from the starting point to the destination point.

Taking into account the considerable size of the European Union space, the means of transport as well as the routes that those transport companies shall travel must be carefully chosen, so that to maintain between normal limits the quality features of the food products. The critical roads should be calculated between the shipment locality and the destination one, choosing the optimal variant. Any delays or distractions from the set route can affect the transported products.

In the decision regarding the transport of the food products one shall take into account the differences of temperature among the different countries and locations, according to these and according to the specific conditions of transport, storage and preservation of each product, choosing the best way to transport it.

The food products, due to their chemical composition, present a favourable environment for the development of the micro-organisms, being an excellent source of energy and development of the metabolic activity. Within the same product, there can exist more types and species of micro-organisms, but also the ones which have the optimal food, humidity, pH, oxide-reduction potential conditions shall develop. Until a certain point, there prevails a certain micro-flora, but through the modification of the environment conditions, under the influence of some micro-organisms, there starts to develop another micro-flora, which until then has been latent. For the food products, a huge interest belongs to the bacteria, moulds and the yeasts.

The humidity of the food products is a huge important factor; because for 12% under the water content, no micro-organism can attack the food products (see water in the food products).

The temperature is an external factor which contributes in a certain measure to the diversity and the variability of the micro-organisms.

The light is an external factor which can influence the activity of the micro-organisms to a great extent. If the orange and yellow radiations from the electro-magnetic spectrum are indifferent, the yellow and green radiations are active, while the ultraviolet radiations are destructive.

The level of the food products pH influences the activity of the different types of micro-organisms, taking into account the fact that the majority of the bacteria develop at a pH of 6.5 ... 7.5. The more the value of the pH exceeds these limits, the slower the development becomes, and for the limits of the pH <4 or pH>8, it stagnates. The yeasts and the moulds do not have the same behaviour; they prefer the more acid environments, some of them being able to develop in a very low level of the pH, around 2.

Among other external factors with influence on the micro-organisms activity we enumerate: the electricity, the pressure, the osmotic pressure, the superficial tension, the ionisation radiations etc. The main micro-biological processes which can take place in the food products are: the fermentation, the rottenness and the moulding.

Within the fermentation process, many chemical compounds appear. The ones found in the greatest quantity are the main compounds, the accumulated in smaller quantities are called secondary compounds. The fermentation is called after the main product - alcoholic (ethyl alcohol), acetic (acetic acid), lactic (lactic acid) etc.

Generally, the micro-organisms need air, heat, humidity and food to exist and multiply. So, there are the following possibilities to control their evolution: the humidity change (dehydration); the thermo processing and the elimination of the air (cans conditioning); the reduction of the temperature (refrigeration and freezing); the transformation of the food into the product improper for the development of the micro-biologic life (salting, smoking, pickling, adding sugar).

Fortunately, researchers pay a special attention to the correct direction of the manufacturing processes and preservation processes which aim the reduction to a maximum of the danger of falling ill because of the pathogenic micro-flora.

As a consequence of these factors, within the food products there can take place different changes while their preservation such as: modifications due to the temperature, modifications due to the humidity, chemical changes, biochemical changes, enzymes and micro-biological changes. Thus, the preservation in optimal conditions of the products in the storage facilities means the control and the direction of the size of the atmospheric parameters - temperature, humidity, composition and the speed of the air circulation, according to the standardised stipulations.

We mention that through the storage facility we understand the means of transport (mobile storage facility) and the warehouses (fix storage facilities). The operations occasioned by the control and the direction of the size of the atmospheric parameters differ according to the type of the warehouse where the products are kept, taking into account the particular features the respective products have. These operations, connected to creation of the optimal preservation regime of the products, aim at: the control and the direction of the temperature, the humidity of the air in the warehouse, the circulation speed of the air, as well as the content of the storage facility air.

3. The distribution and the trading

The distribution and the trading constitute an important stage of the technical-economic circuit of the food products, stage in which there can appear all sorts of economic and social problems. Due to the nature of these products, any distraction from the conditions of trading and any non-concordance with the technical norms stipulated for the food products can lead to the deterioration in quality of the products, becoming improper for human consumption. As a consequence, to prevent the problems that can appear along the distribution and trading path, and to maintain the quality of these products, the distribution channels of the products, the trading forms, the manner of wrapping, the manner and the conditions of transportation, the preservation and the storage facilities must be chosen carefully, all these on the background of the hygienic and sanitary conditions strictly regulated.

Due to the specific of the manufacturing process specific for the evolution of the request and the manner of organisation of the rural environment, the agricultural products are traded very differently, this fact leaving its mark on the structure of the distribution channels. The difficulties of the agricultural products trading refer mainly to the following aspects:

- the agricultural production is located very unevenly and dispersed in space and time. The products are almost all very perishable and the majority of the products appear on the market at the same time. Moreover, while the individual request is non-flexible, the industrial request is speculative, waiting for the overproduction, to obtain a reduction of the price which allows the profitable supply;

- the purchase process of the products is long and especially very expensive as a consequence of the dispersion and the dividing of the agricultural exploitations. The preservation of the agricultural products of perishable nature needs large interventions regarding the storage and the transportation, as well as the technical endowments.

Under these conditions, in distributing the fresh food products, all types of circuits must be used. Thus:

- a) the direct channels and the shortest one appear frequently in the trading of the agricultural products, because the majority of these agricultural producers sell their products directly to the final consumers, either at the residence of the producer or in the agricultural market places;
- b) the short channels are quite well used, because a part of the retail traders have the possibility of supplying directly from the agricultural exploitations and the slaughter houses, the animal farms etc. with a series of products, which they later on offer the consumers through the means of the different forms of sale;
- c) the distribution channels of medium length are used when the central unit of purchases has the possibility of purchasing the products from the agricultural exploitations, assuming the responsibility of the storage and the conditioning during these periods of storage, in order to direct towards the retail sales points;
- d) the long channels are used when a series of economic agents, specialised in the storage and the conditioning of the products for larger periods, they store the products and then they sell them either to the en-gross seller or to the retail sellers, who, in their turn, place them at the disposal of the consumers. Having as an object of activity the take over, the processing and the trading of the agricultural products, the economic agents with a mixed feature assume the responsibility for the storage and the selling by instalments to the en-gross sellers and the retail sellers existing on the internal markets, but also on the external ones.

In the choice of these distribution channels, one should take into account the expiration date of the food products which make the object of the distribution, so that the products that have a small expiration date should not stay too long on their way from the producer to the final consumer.

The food products are under the impact of the environment agents, so their properties are constantly changing from the moment of the end of the manufacturing process and until the products reach the non-edible stage when the attitude of the negative changes make an impression on the consumption, needing to take it out from the food circuit. Within this frame, one must take into account the following time parameters: the maximum duration of the product circulation, the validity period given by the manufacturer, the maximum duration to store it and the maximum duration of the edible stage. The producer guarantees the quality directly during the validity period, within this period the merchandise should be wrapped, transported, manipulated and stored according to the instructions, in order to preserve the initial quality unchanged. The validity period set forth experimentally by each manufacturer in precise conditions, is lower than the durability of the food product, which in turns is smaller than the consumption of the food product.

In order to reduce the trading risk, it is indicated that the manufacturer to deliver rhythmically food products, after the end of the technological process, in order for the validity period to be as much as possible at the disposal of the trader and the consumer.

It is mandatory to write down on the wrapping or on the label the validity period or the expiration date for consumption of the respective products. The problems connected to this can take many shapes: either the expiration date is missing from the wrapping or it is overdue, situation in which the respective products shall be pulled out of the economic circuit and destroyed, or, due to the improper conditions of storage and preservation of the respective products are altered, although they are within the normal validity period.

4. The hygiene and sanitary conditions of food products

The food products must fulfil hygiene and sanitary conditions. The food products in general and the food products of animal origin especially, must fulfil the hygiene and sanitary norms in force in the European Union.

The hygiene and sanitary conditions must be complied with starting with the hay for the animals, the sacrificial facilities, the halls of the slaughter houses, the warehouses and the preservation place until the shops.

The feeding of the animals with the hay that does not comply with the norms lead to their falling ill, the meat obtained from the animals becoming inadequate for consumption. Not a few time, the inspectors have found discrepancies in the slaughter houses halls, in the storage facilities, the respective unites being closed down, withdrawing their licence.

Even if the products reach in fairly good conditions the retail units, many irregularities have been found regarding the products trading (without being kept in the right conditions of temperature, the non-compliance with the principle of vicinity, the precarious conditions of hygiene). Including the persons from the commercial sector who come into contact with the respective products like the transport companies, the seller etc. must fulfil certain hygiene conditions.

5. The wrapping conditions of the food products.

The wrapping is the key point in maintaining the quality features of the food products along the technical and economical circuit. Besides the protection function fulfilled by the wrapping, the consumer can obtain information about the respective product through it.

The problems that appear in the case of the wrapping are connected to the manner of wrapping and the material of the wrapping. This must be chosen so that it can protect the product from the external factors and must ensure an environment for the preservation of the optimal quality of the product.

Along the technical and economic circuit of the product, an improper manipulation of the products can deteriorate the wrapping fact that might lead to the partial or total loss of the respective product to the contamination of the product or to the loss of the quality features of the product. Even the wrapping operations must be performed in such a way to avoid the contamination of the products or their deterioration.

6. The products traceability

The traceability of the food products, of the animals from which the food products are obtained and of any substance destined to the incorporation into a food product is set forth for all the stages of the production, manufacturing and distribution. The operators from the food sectors and the operators with an activity in the field of animal food must be able to identify any person who has provided them with a food product, food for the animal, an animal from which food products are obtained or any other substance destined to be incorporated into a food products or animal food. To this purpose, these operators dispose of the systems and procedures which allow this information to be placed at the disposal of the competent authorities, upon request.

The food products which are introduced on the market or are expected to be introduced on the market in the Community are labelled or identified accordingly for the facilitation of their traceability, through documentation or adequate information, according to the relevant requirements of the special dispositions.

There are specialists who state that the complete traceability is impossible to achieve. A system which follows every input and process, with an adequate degree of accuracy, is almost impossible. In essence, according to the EU Directive no. 178/2002, the concept of traceability means the ability to follow the agricultural product or the hay, an animal which produces food or a substance which is about to be incorporated in a food product or in the hay, in all the stage of the production, processing and distribution. For the European countries, the traceability has become a key concept in the are of the logistics, in the context of the crises from the '90, related to the mad cow disease which appeared first in Great Britain and then in other EU countries, as well as in the context of the very powerful debates referring to the genetically modified organisms or bio terrorism.

The concept of traceability refers not only to the upstream sequence, but also to the downstream sequence of the marketing channels. Besides the ability to identify the supply sources, any operator must dispose of the ability to identify the organisations which have supplied its products.

The specification of each operator's obligation to ensure the traceability is a real challenge under the organisational and informational aspects. Each economic agent from the production, processing and distribution field of the agricultural food products and of the hay must dispose of the systems and procedures which allow the information to be available at any time within the organisation and to be place at the disposal of the competent authorities, upon their request.

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THE PUBLIC ADMINISTRATION COMPARED TO PUBLIC MANAGEMENT AND OTHER SCIENCES

Suciu Leonina-Emilia

Universitatea Babeş-Bolyai, Facultatea de Ştiinţe Economice şi Gestiunea Afacerilor

Lazăr Ioan

Universitatea Babeş-Bolyai, Facultatea de Ştiinţe Economice şi Gestiunea Afacerilor

Abstract: In this paper we try to analyze the meaning of the public administration term. In our opinion it is necessary to be able to define exactly what public administration means but at the same time to clearly distinguish it from the other sciences. This is due to the fact that very often confusion is made between public administration and public management, public administration and bureaucracy or public administration and policy.

Throughout this paper we hope to clarify some of the aspects related to what exactly distinguishes public administration from the above mentioned sciences and what are its own particularities.

Keywords: public administration, public management, new public management

JEL Classification: H 83

The Concept of Public Administration

The public administration term has a latin origin and comes from the latin „administer” which means servant, or from another point of view, instrument. The verb „administro” means to lead, direct or lend a helping hand. The word „administer” almost synonymous with „minister” – which means: servant, care-taker, helper was formed from the root „minus”-„minor”, which means „less” and the prefix „ad”, which point direction, „sensul” and highlights the state of inferiority related to „magister”, translated as the one who orders, the superior, the boss – word that was formed from „magis”, which means more (Matei, 2006).

In the Romanian dictionary, administration refers to the activity of administrating, leading, directing, as well as to the total of administrative organs in a country or section of an institution encharged with administrating that institution.

The Ilustrative Oxford Dictionary defines administration as business management, public affairs management, governing.

In the Public Administration Dictionary (Fox & Meyer, 1996) is shown that administration involves performing activities by persons encharged with comun objectives.

Some authors believe that administration means public affairs management or the way in which a country functions in exerting government duties (Maheshwari, 2002).

Administration is the most obvious part of governance, it is the governance itself, it is the executive side, the operational one, the most visible part of governance, and it is of course, as old as the governanace itself (Pestrit, 2005).

Of all the numerous meanings that the term of administration can have, the accent is predominantly put on what public administration means, having as purpose to clarify the meaning the later has.

Most of the times there is a tendency to confuse the terms, although at a closer examination, the aspect that diferentiates administration and public administration is the purpose and the method of organizing activities.

Defining public administration is necessary, firstly in order to establish the general boundaries and to express the main concept of discipline and practices of public administration, secondly in order to help including this area in a large political, economical and social context, and third to be able to show that by considering the major definitions of public administration there are three major approaches for this field (Ioan, 2007).

Public administration, as many human efforts, is difficult to define, but people all have given a sense to it, although there are different opinions on how it could be achieved (Ioan, 2001).

A simple approach of public administration is that it refers to two distinct, but close activities: a professional practice and an academic area. On one hand, it refers to administrating or management of the aspects related to society, politics and its subparts that are not private, familial, commercial or individualist, and on the other hand, it refers to the disciplined study of these aspects (Marini, 2000).

In spite of the apparent similarities, nowadays public administration is an entirely different organism from the public services in the past. It is wider than before and is still expanding. It is much more complex than in the past and it continues to grow each day. It has more responsibilities towards the citizens and it still needs to handle the increasing demand of the population. It needs more qualifications, but more than before, it needs to restrain activities and to reach the standards of equity, justice, social justice and most of all of assuming responsibility (Vigoda, 2002).

Public administration is the activity that consists in using managerial, political and judicial processes and theories, in order to achieve legislative, executive and judicial government mandates, to ensure the regulations and services for society in its ensemble, as well as for its segments (Ioan, 2007).

Public Administration and Politics

Public administration has frequently been understood through the political analysts point of view or the point of view of political researchers. Alternatively, it was considered to be a specific field of the management science. Meanwhile the origins of administrative processes are firmly identified with political science, political studies and managerial construction of public institutions, it would be inaccurate to show the nature of public administration strictly referred to these aspects (Vigoda, 2002).

Eran Vigoda (Vigoda, 2002) shows in „Public Administration An Interdisciplinary Critical Analysis”, the main approaches of various American authors, which refer to the connection between politics and public administration as follows:

-„the political approach of public administration made by Rosenbloom shows the value of representativity, of political responsibility and of the responsibility towards citizens through the officially elected persons”;

-Wallace states that in fact, public administration represents „a problem in political theory. It operates with the responsibility of administrative and birocratic agencies as opposed to the officially elected, and through them, towards the citizens”;

-Shafritz and Russell mention a few definitions of public administration, oriented towards politics: „it is what Government does, it is a phase in the politics cycle, it is a first tool in implementing public interest and achieves in a collective manner what cannot be achieved individually” .

Although seldom mistaken for politics in general, public administration is different. The delimitation is superficial as each definition of public administration contains both terms that refer to administration and terms that refer to government, to the political process in general (Cziprian-Kovacs, 2005). The boundary between the public, the private sector and the volunteer sectors has a crucial importance in the understanding the future course of public administration (Fenwick & McMillan, 2004). Delimitating politics from administration, reformers believed that scientific rationality would eliminate the political conflict (Rabin et al., 2007). However, there is a dichotomy between politics and administration (Rosenbloom & O'Leary, 1997). If this mechanism, composed of politics and public administration, could be compared, it would resemble a human body, with politics as the head and public administration as the body (Cziprian-Kovacs, 2005).

Public Administration and Bureaucracy

Very often, the terms „administration” and „public administration” are mistaken for bureaucracy. In the eyes of the public, the governmental administration is „bureaucratic”; the private administration is „expeditive”; governmental administration is „political”; private administration is „apolitical”; governmental administration is characterized by „formality”; the private one is not (Simon et al., 2000).

In Max Weber's vision, bureaucracy is a social and political phenomenon, whose characteristics were defined as the following: (Weber, 1997):

- a strict definition of upper- and subordination, meaning the authority relationships;
- a high work division according to the specialisation of the human factor;
- a complex system of rules, converted for each post and person, part of the system, as related to rights and obligations;
- impersonal interpersonal relationships, which exclude subjectivism in interhuman intra- or extraorganizational relationships;
- selection and promotion of personnel by strictly professional criteria;
- a series of procedures for the work done.

Administration, as related to bureaucracy is a subspecies, meaning that it is higher than bureaucracy. The definition of administration is wider than the one of bureaucracy. In other words: all bureaucracies are administrations, but not all administrations are bureaucracies. (Cziprian-Kovacs, 2005).

Public Administration and Public Management

Another interesting debate is the referring to the connection between public administration and public management. As long as the sector was small, public management was defined as administration, the exercise of public authority in accordance with a fixed system of rules. The accent was placed on the administrative action, the formal decision-making process and the implementation according to the established procedures (Matei, 2001). At the same time with the increase of public sector dimension, with service functions more important than administrative functions, the relevance of public administration has started to be deformed. As opposed to public administration, often mistaken for bureaucracy, public management (Păunescu, 2008), is not limited to following the procedures (although it includes them), but it also involves focusing on results, on establishing strategies (short and long term ones) and attention to the environment, depending on the external evaluation of services, especially by the citizen. The idea that public management is based upon is related to the concern for the quality of public services that are offered to the citizens and for their satisfaction. The failure of implementing governmental

programs was due to the focus on the results of public programs, instead of focusing on the behaviour of government agencies and their employees (Sindane, 2004). Public management wishes to be reformed by the New Public Management and by the New Government. The paradigm of change The New Public Management, or the theory of the most recent paradigm of changing the way in which the public sector must be governed (Lane, 2002), involves a reformation of the public sector based on the model of the private sector, meanwhile the New Public Management (Păunescu, 2008) has as a basis the idea of a partenerial collaboration between the private, the public and the volunteer sector and of producing value for the citizen.

There are no successful economies without successful administrative states (Ellison, 2007), some authors believe.

As a result of all the above mentioned, public administration, having the role to actively participate in achieving the general interest, expressed by law, represents the activity through which law is organised, executed and its execution is guaranteed up to the material facts (Negoiță, 1993).

CONCLUSION

The public administration is one of the often mentioned fields of study, in the specialized literature. Its complexity is due to the fact that government actions have implications for all inhabitants of a state and also to the many changes in this area over the time, some of them due to a historical context of each country.

In our opinion, public administration is the activity exercised upon by the government, for the welfare of its state citizens, an activity which inspires itself from the procedures of management and public management, trying to limit, at the same time, the influence of politics and bureaucracy in its field of action.

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ECONOMIC EFFICIENCY AND PROFESSIONAL ADVANTAGE OF PARTICIPATING AT TRAVEL FAIRS

Szavo Sebastian Mihai
University of Oradea
Faculty of Economic Sciences

The article is meant to create an idea about the opportunities of participating at a travel fair by acknowledging about the most important facts regarding preparation, participation and evaluation. Knowing the reasons of participating both for visitors and participants and getting information about the economic costs that arise at a travel fair will raise the fog from the question of which show to attend and what are the professional advantages if there are any.

Keywords: travel fair, efficiency, advantages, reasons

Jel code: A1

What are travel fairs?

Travel fair represents a wonderful opportunity to meet travel professionals in a single place. This kind of events reunites under the same roof not only the promoters of inbound, outbound, but those of the internal tourism, too.

Travel fairs offer unlimited opportunities to promote and sale the company's special destination or special product.

Fairs are able to stimulate travel, tourism, hospitality both inside and outside the country. It represents a place where travel professionals and potential customers meet face – to – face and develop a potentially advantageous relation.

Travel fairs are valuable occasions both for already active companies and for those who's activity are about to begin. These companies can later remember what they've learned from the show and they can network with potential business partners, they can study the sales strategies of the participants. For these reasons and not only, it should be paid maximum attention in participating at travel fairs as a visitor and as an exhibitor as well.

Good preparation for the travel fair will eliminate the obvious stress which comes few days before the show.

Advantage of promotion at a travel fair

Before they begin, during the shows and after they shows there is a concentrated promotion campaign to ensure and to inform an interested public. The means are:

- invitation campaigns by email and post for potential guests from different domains: transport, tourism, hospitality industry, aviation industry, government and private institutes, travel industry related companies

- publicity in main local newspapers, publicity in the most important magazines, TV publicity, Internet publicity, radio publicity etc.

- briefings from the travel show in travel related magazines

- the event is strategically programmed it should take place before the beginning of the season.

Promotion at the show is realized with the help of a media company which through its travel fair experience can ensure an adequate image of the exhibitor.

Who is participating?

Visitor's profile

- Visitors from the travel industry
- Business people visitors
- Visitors - potential holiday makers, travelers
- Visitors with a role in decision making (business, local authorities, institutions of the government)
- Potential investors in the hotel, travel and entertainment industries
- Travel agents
- Tour operators
- Visitors without any relation to the industry

Exhibitor's profile

- Government institutes and travel industry organizations
- Tour operators(inbound and outbound industry)
- Travel offices
- Tourism associations
- Professionals in relation with the travel industry: sport equipments makers, means of transport makers(buses, minibuses, camping cars) etc.
- Producers and sellers of hotel management and catering relating goods
- Publishing houses of travel related literature(books, maps etc.)
- Educational institutes

Participating at a travel fair is above all an investment for both exhibitor and visitor as well. They must take a decision about participation or not at a certain travel fair. Above the things that might have to be considered before taking any decision are: the name of the travel fair, location, date, who is the organizer, type of the show, relative number of exhibitors, relative number of visitors, the cost of rental of the booth and the necessary equipment, cost related to the travel, accommodation, meals, cost of the promotional materials and their transport(brochures, catalogues etc).

Before taking a final decision exhibitors try to determine the necessary budget. In order to be capable to realize that it must consider creating a handout with the approximate number of employees who will represent the company at the show and the estimated costs that will arise.

Although travel shows are a very good occasion to make business, limits must be considered, especially financial limits, because the investment will not necessarily determine an immediate raise of sales. In general, expenses with travel, accommodation will highly depend on the show's location, namely the distance from the company's residence.

Reasons for participating

Of course, here are certainly hundreds of reasons for participating at the travel fair. For an active travel business, participation means the opportunity to meet hundreds or maybe thousands of potential customers who visit its booth. One of nowadays sale strategies is exhibiting at travel fair, *where customers come to companies and vice versa. Speaking about difficult times(after the Gulf war, 9. 11 events, actual economic crises) travel companies must reconsider all previously tested sale strategies and implement new ones.*

Travel fair are perfect exhibition spaces to introduce new travel products or destinations, for establishing new contacts or selling or buying products or services, all these in the same spot with maximum efficiency. In order to develop customers portofolio and for a better visual presence participation is vital both for older comapnies and new comers as well.

Main reasons for an exhibitor:

- Create awareness of products/services with potential buyers
- Evaluate the competitors

- Research for demand.
- Generating sales.
- Enhancing the image of the company
- Reach of a specific targeted public
- Establishing a strong market presence
- Distribution of brochures, catalogues, promotion objects
- Enhancing marketing politics.
- Meeting face to face the customers, competitors and distributors
- Evaluation of potential or new competitors/customers.
- Demonstrating products in ways not possible using other marketing channels
- Recruiting new distributors
- Education and information for targeted customers.

The importance of a professional booth

The exhibition booth must be professionally designed. It must be able to attract the audience’s attention by using different themes(tour operators who promote a certain destination use colors and objects to remind the culture of the destination country).

Travel fairs are very important for small companies as well because exhibition are is not expensive and booth are easy to design very attractively even with the small amount of money. This way smaller company can look like a much bigger business giving a kind of an advantage.

Travel shows are a very powerful marketing atmosphere because they take place in a single location, they have limited time(usually 2-3 days) and unite hundreds of exhibitors and potential customers. It is very common for an exhibitor that during a show he will meet many of his suppliers, customers and dealers.

But, which show is worth to attend?

A research conducted by the National Fair Exhibitors Association in America revealed the top 15 criteria used by exporters in selecting which fairs to attend were:

The quality of Visitors

The proportion of visitors with decision-making power	1
The proportion of target customers among the visitors	2
Fair limited to a certain type of clientele(domestic tourism fair)	8
Number of new contracts made in previous fairs	9
Visitor rating	15

The quality of Visitors

Number of visitors	3
Extension of promotions during the fair	5
Number of visitors to the fair last year	6

Booth Location

Booth Position	4
Ability to perform requirements and specifications (size, location)	7
Traffic between the lines of traffic side booth	13

Logistical issues

Easy Registration	10
Safety (security)	11
Ease of entry or exit from the booth / fair assistants	12
Bringing / removal equipment / facilities needed	14

The decision to participate or not at a certain show belongs to each company's head and the result itself reveals the importance of that specific show for the business. Sometimes trade simulations are made to evaluate if employees are ready enough. This study reveals the importance given to people with decision power, followed by the proportion of targeted customers from the number of visitors. Facts like easy registration, security are on the end of the top.

Budgeting for the show

Budgeting for an exhibitor is not only about the cost or space and booth rental. Below there is an estimation in euro for the 3 fazes of a travel show(before, during and after) for a travel agency who finally have not attended a local travel fair organized on Oradea, in Selgros mall parking in 2009.

Before the fair

The cost of renting space / booth	300
Cost of booth design	30
Construction cost with stand	40
Creating promotional materials	300
Cost of transport	50
The cost of moving	10
The cost of preparing the team	100
Other expenses	100
TOTAL	930

Cost over the fair

Accommodation	0
Local travel (e.g. Hotel - fair)	30
Staff pay cost over fair	150
Expense for receiving guests	100
Expenses necessary equipment	20
Entertainment expenses	50
Other expenses	0
TOTAL	350

After the fair

Travel home	10
The cost of transportation advertising equipment / materials home	20
Other expenses	0
TOTAL	30

GRAND TOTAL

930 + 350 + 30 = 1310 EURO

Measuring the economic efficiency

To determine the economic efficiency indicators can be used:

- Total number of visitors(e.g. 10.000)
- Number of visitors who attended company booth(e.g. 2.000)
- Percentage of visitors who attended company booth from total number of visitors (2.000 x 10.000/100)
- Promotion level – number of catalogues/brochures distributed(e.g. 1.000)
- Number of new contacts established during the show(e.g. 50)
- Number of new requests during and after the show(e.g. 200)
- Number of effectively realized booking(e.g. 100)

If we want to appreciate the economic efficiency we must create a report containing all the fact we encountered. First and foremost the objectives must be considered if they were achieved or not, the results can be compared to previous shows or previous years.

Conclusion

Among the advantages of participation at a travel fair are the new experiences we get, enhancement of customer relation abilities dealing with a large number of potential customer in a very short time, the enhancement of company and personal image.

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DESIGNING A MANAGEMENT MODEL FOR ACHIEVING ECONOMIC-ENVIRONMENTAL BALANCE IN INVESTMENT PROJECTS

Research conducted in the Concept Research Project 1239 PN II 2007 CNCSIS

Szentesi Silviu Gabriel

Universitatea "Aurel Vlaicu" din Arad

Facultatea de Stiinte Economice

Franțescu Marius

Administrația Națională de Meteorologie

This paper describes a method for achieving the economic-environmental balance based on the assessment of environmental and/or pollutant factors in connection to community option on the evaluation of investment projects having a major impact on environment. This assessment is based on the concept of welfare, the distinction between satisfaction and dissatisfaction and implies a practical approach including the scientific aspects of environment pollution degree and the community position on developing an investment project, by assuming responsibility for negative and positive aspects of such a project, respectively for satisfaction and dissatisfaction, in order to fulfill the supreme goal of preserving the environment and ensuring human welfare.

Keywords: welfare, Pareto optimum, satisfaction/dissatisfaction, model, economic-environmental balance

JEL Code: A12

1. Definition of welfare and the historical evolution of the welfare concept

Social welfare indicates the satisfaction or utility degree gained by each participant, but is not equal to the sum of individual welfare.⁷¹⁷

Pareto concept of welfare represents a milestone in economics history. Until then it was considered that the welfare is the sum of communities' quantifiable cardinal utilities, the optimal resource allocation maximizing the welfare.

As noted before, Pareto optimum is defined as the point that allows the improvement of a certain individual welfare, meaning his movement to a preferred position by adjusting goods or services through production or exchange without affecting someone else's welfare. In order to remove the need for interpersonal utilities' comparison, Pareto has refused to assess any other changes of welfare. Therefore, his definition drops the concept of unique social optimum, providing instead an infinite number of unmatched optimums.⁷¹⁸ The comparability area can be extended by introducing the concept of compensatory payment. This concept was mentioned first by Enrico Barone in his famous article called "The Ministry of Production in the Collectivist State" (1908). Barone suggested that all individual welfare changes can be expressed using the real equivalent income an individual agreed to receive or pay in order to regain his original welfare.

A change that favors certain individuals in the detriment of others can still generate an improvement of global welfare, if those who earn can compensate the losers, so they voluntary accept this change, after compensatory payment is made, and the winners are better off, but also the losers are not in a worse situation. In order to better understand this statement, we consider the example of coexistence of an airport and its surrounding areas. The airlines company and its

⁷¹⁷ Gilbert Abraham-Frois -" Political Economy' Editura Humanitas București, 1994, pag. 312.

⁷¹⁸ X^* vector is the optimum solution if from the equations: $f_i(x) \geq f_i(x^*)$ ($i=1,2,\dots, m$) we have $f_i(X) = f_i(X^*)$ ($i=1,2,\dots, m$). When $f_i(X)$ are concave, and the admissible set of solutions x is closed and convex, then for each Pareto optimum x^* we have weighting coefficients that maximize the amount at x^* . This point provides the best available welfare.

passengers are the winners, while the neighbors are the ones that lose because of sonic pollution. The inhabitants have nothing to lose if they are compensated for their loss, finally obtaining an increased community welfare.

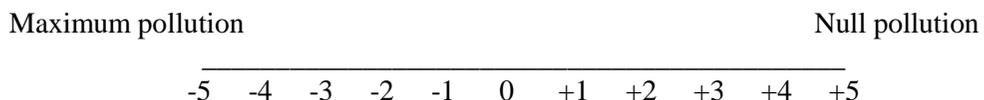
The Pigovian economy of welfare implies a Pigou analysis of the divergence between private marginal profit and social marginal profit. It is the problem of real external economies or diseconomies in relation with income marginal benefits. Pigou describes in his work „The Economics of Welfare” social losses such as: industrial accidents, professional diseases, child and women employment, air and water pollution, technological unemployment. The measuring of such diseconomies is a difficult task because of their pretty difficult “internalization” as they are considered outside the price system by definition.

A reward of Pigovian economics of welfare when the society goal is to maximize the difference between global benefits and global costs, shows that in a market where the price equals the marginal social cost of a product, the Pareto optimum condition is met. This can be better explained in the case of an economic activity generating external effects (diseconomies).

2. Practical considerations on designing an economic-environmental balance model for investment projects

The investment projects for fixed assets having a major impact on environment must be assessed and classified according to models that lead to their approval or rejection. The major pollutant investment projects are thermal plants, electric plants, power stations, nuclear plants, etc., but also investments in the chemical, petrochemical, steel and rubber fields. The development of a model implies, besides scientific and theoretic issues such as the acceptable pollution level, eco, green and clean technologies, also a responsible involvement of all parties involved in the positive and negative outcomes of an investment project development. These parties can be the beneficiary of the investment, the environmental agency, the developer, local administration, population, farmers from the affected area, other individuals or legal entities affected by the investment project development. Therefore, in taking the approval or rejection decision, the parties involved must assume a point of view based on a scale derived from the one suggested by the theoretic model, that can be a Stapel scale, as follows::

Stapel scale



In addition to assessing the pollution level on the main environment components – air, water, soil, etc. – we need to quantify the importance of each type of pollution and/or pollutant, using a weighting or importance scale (similar to the one included in the theoretical model). Through this practical approach we can determine the degree of satisfaction and/or dissatisfaction for each issue of the analyzed investment project. For example: noise level, level of suspended particles in the air, radioactivity level, thermal pollution, chemical substances soil pollution, water pollution, etc.. Such an approach facilitates the classification of suggested project alternatives, the decision-taking process regarding mutually exclusive projects and the collectivity involvement in assuming both benefits (satisfactions) and pollution (dissatisfactions) generated by such an objective.

Its practical implementation implies an active collaboration with the Environment Agency, environment experts and professionals in investment projects’ design, in order to develop a model for pollutants that allows the measurement of the perceived satisfaction or dissatisfaction level, and finally to achieve a global level of satisfaction or dissatisfaction regarding the

development of an investment project, based on weighting these elements with the importance assigned to each pollutant.

The main equation is:

$$B_j = \sum_{i=1}^k AB_i \cdot p_i$$

where:

B_j - is the j party score for a project or project alternative, which indirectly expresses a certain level of welfare as a result of project development;

AB_i - is the welfare level influence degree generated by the influence factor or pollutant i

p_i - is the weight of the influence factor or pollutant i

$i=1, \dots, k$ is the number of pollutants

$$B = \frac{\sum_{j=1}^n B_j}{n}$$

where:

B- is the global score of a project or a project alternative, which indirectly expresses a certain level of welfare as a result of project development;

$j=1, \dots, n$ is the number of parties involved in assessment.

For each investment project, the Environment Agency identifies the parties involved in preserving the environment and the parties affected by the project development, on the basis of an impact study. The Environment Agency provides the assessment applications to the beneficiary and the parties involved, and requires their response before the final notice of the project. The assessment application can also be provided to a representative sample of the affected population; in the case of major investment projects having complex implications on the economic-environmental balance, a full research can be done.

3. Case study CET Arad

"Centrala Electrică de Termoficare Arad" company, under the authority of Arad City Council (CMA), administers by concession the assets of the former Electrocentrale Branch Arad, founded on the basis of Governmental Decision 105/2002 from [S.C. Termoelectrica S.A. București](#). S.C. CET Arad S.A. provides electricity and heat through two thermal plants: CET Lignit Arad and CET Hidrocarburi Arad. From the perspective of heat production necessary to cover the needs of Arad city inhabitants, the two stations are interconnected in order to ensure a continuous provision of heat to consumers. Considering the local meteorological conditions, and especially the directional wind frequency, we consider the location of Centralei Electro-Termice (CET) Hidrocarburi Arad downtown and of Centralei Electro-Termice (CET) Lignit Arad in the north of the city of Arad inappropriate.

In order to obtain the values on the Stapel scale, presented in the table below, we considered the air pollution, water pollution and soil pollution (including underground waters, especially groundwater) with carbon oxide (CO), sulfur oxide (SO), nitrogen oxide (NO), lead and lead composites (Pb), hydrocarbons (HC), sedimentary and suspended particles + noise. The results are far from encouraging, with particular focus on air pollution (value -3) and soil pollution (value -2), according to the data provided by the Environment Preserving Agency (APM) Arad. Regarding other dissatisfactions and discomforts generated by Centrala Electro-Termică (CET) Arad, we notice human health in general and respiratory diseases in particular, according to the data provided by the Public Health Department (DSP) Arad.

Company /Indicators	Weight	Environment Preserving Agency (APM) Arad	Public Health Department (DSP) Arad	Land Reclamation Department (DIF) Arad
Air pollution	0,5	-3	-2	-1
Water pollution	0,3	-1	-1	-1
Soil pollution	0,15	-2	-1	0
Noise	0,05	+2	+3	+4
Global score per party involved		-2		
Project global score				

Stapel scale

-5 -4 -3 -2 -1 0 +1 +2 +3 +4 +5

A more analytical assessment approach for an investment project, based on the model described above, involved the following data:

Identification data _____ _____ _____												
No.	Pollutant	Satisfaction level										
		Maximum pollution	-4	-3	-2	-1	0	+1	+2	+3	+4	Null pollution
1												
2												
...												
n												

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WAGE FLEXIBILITY IN THE CONTEMPORARY SOCIETY

Țeculescu Silviu Alexandru

National Institute of Scientific Research in Field of Labour and Social Protection

The paper follows to offer the most efficient solutions for the attainment by Romania of the economic development level associated to the Western European countries. It proposes the division of the flexibility of labour market in three components, namely: internal flexibility, external flexibility and wage flexibility. The analysis performed within the present study will emphasize the wage flexibility. Wage flexibility can be classified in four components: a) plans of individual and group incentives; b) plans of assigning wages out of productivity; c) plans of distribution of profits and, respectively, d) plans of suggestions. The labour market flexibility, in general, and especially the wage flexibility contributes to the increase of employee motivation at the workplace, aspect which leads to the growth of labour productivity, through this one being put the bases of the medium- and long-term economic development.

Keywords: flexibility, security, incentives, efficiency, productivity.

JEL classification code: J24, J33.

Flexisecurity of labour market, that has two biunivocal dimensions, namely: a flexible labour market concomitantly with the guarantee of employees' security, is nowadays one of the most important problems of the modern society for ensuring the economic development on a medium and long term, a reason for which it has to be taken into account by all the worldwide economic agents with decision power. It is necessary that it be applied in the context of strictly orderliness with action directions – axes – afferent to the Lisbon Strategy, revised, formulated by Jose Manuel Durao Barroso. Only in this way the mentioned strategy can achieve its purpose, namely the one that – **in the context of overcoming the actual economic recession – on a medium term, there be created not less but 6 million workplaces on the background of the generation of a medium economic growth at the European Union level of approximately 3% per year.**

The axes of the revised Lisbon Strategy are the following:

- to make Europe a more attractive place for investments and for working, by accomplishing an internal market in those fields where there is place for increase and employment;
- it is necessary that innovation and knowledge be put in the service of economic growth based on investments on a medium and long term, and on this purpose it is necessary that 3% of the GDP should be directed to the fields of research, development, innovation;
- creation of more and more attractive workplaces. The principle is that more and more individuals would be attracted on the labour force market by reducing unemployment among young people and by modernizing the social protection system.

Regarding the labour market flexibility typology, we can distinguish among internal flexibility, external flexibility and **wage flexibility**. Wage flexibility is translated through transposing into practice some incentive plans / programs for employees. They divide into the following categories: 1. plans of individual and group incentives; 2. plans of assigning wages out of productivity; 3. plans of distribution of profits and 4. plans of suggestions. Following, we will undertake a detailed analysis upon these categories of plans.

1. Plans of individual and group incentives

1.1 Merit payment plan

By this plan, wage increases, known as **payment raises depending on merit**, are determined in correlation with the performance at workplace, the employees that reach a certain level of

performance earn a payment raise to the basis salary that varies between 15 and 30 % depending on the organization. Organizations with exclusive or mainly private capital, but also public companies tried to implement a system to stimulate employees for increasing their attachment to the enterprise, an aspect that has positive effects both upon work productivity, and upon the position occupied by the firms on internal and international markets.

Despite their relative popularity, these plans proved to be, sometimes, ineffective motivators of performance. If, for example, the performance assessment system within the company does not adequately distinguish among superior levels of performance, it is possible that decisions regarding wage raise or fall would be influenced, along objective factors (**achievement of organization objectives**, both the short-term ones, and the long-term ones, **observation of each employee's habits in part, critical incidents**, namely adverse performance), including variables that are irrelevant for performance, such as **perception of others, personality, age, gender, race**, or **anticipation of (positive or negative) reactions** of the group of employees or of the trade union. Along these aspects, there come also **internal and external forces in the organization** that translate through **budget constraints, the need of correcting inequities, the need of making a difference among groups and levels, education and instruction, moral levels, inflation / cost of living or competition on the labour market**.

1.2. Incentive plan for employees in production

This type of plans usually offer additional compensations to those employees that produce goods over a certain quantity/quality previously specified. When these plans are well grounded, they can contribute to the organization's efficiency by increasing the employees' productivity and decreasing production costs for each department. However, such plans tend, by our opinion, to contribute to the increase of efficiency, but not to perfect it. For instance, in industrial production, incentive plans are often in correlation with important changes in work methods for supporting the increase of efficiency gained through time and movement studies or through work simplification. Along another line, some strategies of job description can be used for organizing tasks more efficiently or for simplifying them, and the incentive system is intended so that the employee use some more and more efficient methods.

A traditional incentive system that is used for the employees in production is **the plan depending on the quantity of items** where wage is correlated to the number of items produced. In many such plans, the worker is guaranteed a basic salary, or a minimum income per hour that supposes a certain number of items and is paid additionally for the production realized over this norm. For each item that he realizes additionally, the employee is paid a greater amount than the employees that realized only the minimum standard.

Through the **production bonus**, employees that exceeded the minimum production standards receive a supplement that is correlated to the decrease of production costs and to the increase of labour productivity. An example is the **standard-hour plan**, through which the standard time for the realization of a particular task is established. The worker is paid with the standard ratio even if he reached his norm in a shorter time. For instance, if the standard time associated to a certain task is nine hours, and the employee fulfills it in six hours, his earning represents the equivalent of nine hour ratios.

1.3. Incentive plan for employees in sales sector

Wage plan applied in the sales sector by the majority of organizations supposes **commissions** or bonuses that are granted depending on the number of products sold or in correlation to the income obtained through their sale. These can be thus considered as being individual incentive plans.

One of the **advantages** of commission-based payment is that the present system is closely linked to the income and profit obtained by the firm. Usually these are stimulated, but when the company passes through a recession period, a commission-based system allows the decrease of

its costs. The main **disadvantage** of this system from the employees' point of view is represented by the fact that their standard of living can be lower than if they were paid the basic wage.

1.4. Incentive plan at the management level

The most frequently used incentive plans for the management staff are represented by **performance bonuses**. Details linked to these bonuses vary, though, to a great extent from a company to another. For instance, they can be granted on the basis of a general assessment referring to the contribution that each manager had to the improvement of the firm activity. Regarding the bonus that can be granted at the end of each year, it depends to the extent in which the respective individual reaches the objectives that were agreed upon on the basis of annual collective negotiations.

Bonuses, paid a single time annually, represent gradual wages accepted as supplements both for the managing staff and for the other categories of employees. One of the **advantages** of such bonuses is the one that they do not additionally complicate a wage structure, if it is established that this structure is too branchy. A **disadvantage**, seen especially in the case of employees, is the one that bonuses do not increase benefits such as pensions and insurances, that, usually are in close connection with the wage level.

Another form of incentives is represented by the **sale of shares**. Through such a plan, both the managing staff and the subordinates have the right to buy a certain number of shares of the company to the established price on a certain date. The number of shares that each person is entitled to is in direct correlation with the performance of each employee. If the value of shares is superior to the predetermined price, then the person that owns them obtains a substantial profit from the exercise of the right of sale upon these. In the contrary situation, this right will not be exercised.

During the last years, incentive plans that refer to the managing staff made the object of several criticisms for the reason that the majority of these give results rather on a short term than on a long term. For instance, a study performed upon the multinational companies in the United States and the Occidental Europe⁷¹⁹ emphasizes the fact that 85% of the interviewed companies reward the managing staff on the basis of the increase of earnings that can be realized from the company's shares. However, the increase of earnings per share must not be automatically correlated with the increase of the price of shares. Earnings per share can be easily manipulated on a short term, this thing non-contributing to the long-term success of the organization. Therefore, many corporations from Great Britain and the United States⁷²⁰ established incentive systems that reward the managing staff on the basis of the efficiency of investments or of the economic growth.

2. Plans of sharing earning from productivity

More and more companies offer prizes based on the productivity of the organization. These prizes, often encountered under the denomination of **plans of dividing earning from productivity**, follow to stimulate the production efficiency, allowing the employees to receive a quota of the total savings reported to the costs with work and production, by the grant of some periodical prizes. The wide participation of the employees is a defintory characteristic for this type of plans. Generally, employees participate in commissions that develop and propose suggestions about the various problems of production such as work methods, necessary equipments and materials, reduction of rejections, placement plans etc.

2.1. The Scanlon plan

This is a well-known plan of earning distribution that not only allows, but it also requires a massive participation of employees. The plan grounds on a ratio between the costs of labour force

⁷¹⁹ BOS, AIG, General Electric, Bayer, Colgate-Palmolive.

⁷²⁰ BG Group, Hanson, AT&T, Citigroup, Mitchell Fein.

and productivity. When the costs of labour force decrease compared to productivity, employees are entitled to receive bonifications. When costs related to labour force do not decrease, there are no possibilities of dividing savings. Normally, all the employees benefit from the cost savings, also including employees from production, the ones in sales, supervisors etc.

The Scanlon Plan distinguishes through the fact that it puts the accent on the cooperation among the leadership of trade unions and the production commissions formed of employees, at all the levels. In fact, the father of this plan, Joseph Scanlon, would have not elaborated a plan without the agreement between the leadership of trade unions and employees. A production commission from each department that includes those members chosen by the trade union or by the majoritary vote of the employees of an organization and the supervisors, gathers regularly for taking into discussion of some modalities of increasing production and for assessing the proposals come from the part of the employees for improving the efficiency of the activity developed.

2.2. Rucker and, respectively, Kaiser plans

Another group of systems of rewarding and participating regarding the receiving of bonuses for decreasing the costs of production is represented by the **Rucker** respectively **Kaiser plans**. The **Rucker Plan** resembles to the Scanlon Plan, but the granting of bonuses has at its basis a more complex analysis including here the economic audit of activities for the preceding years. This audit is used for the professional check of some activities, procedures, processes for expressing a competent, well-founded and independent opinion on the basis of reporting to a quality standard. Through the **Kaiser Plan**, savings to the labour force, deliveries or materials based on the increase of efficiency are shared with the employees. The company benefits of the advantages resulted in a ratio of 67.5%, the rest of 32.5% being distributed to the employees under the form of monthly benefits.

2.3. The Lincoln plan

The **Lincoln Incentive Plan**, applied within the American company Lincoln Electric, combines the characteristics of the plans of widened planned productivity, plans of group rewarding and individual plans based upon the number of achieved pieces. At Lincoln Electric, employees are rewarded individually depending on the number of pieces achieved, but employees work together within the productivity commissions for establishing ways to reduce costs and to increase the profit of the organization. Each employee is paid by the superior depending on the quality and quantity of work and the bonus is calculated accordingly. The payment that an employee takes at home is approximately double compared to those that perform similar activities in competition companies. This plan is correlated also with other benefits, such as life insurances or the purchase of shares by the company's employees. This plan tends to become one of the most widespread incentive instruments used within strongly industrialized states.

2.4. The Improshare plan

One of the newest plans to allocate earning from productivity is the **Improshare Plan** that is correlated to a less extent to participation compared to the other plans mentioned. This plan is based **on the achievement of a pre-established number of items in a time, measured in hours, shorter than the envisaged one**. For instance, if in a company there is envisaged to achieve three clothing items in eight hours, and the employees of the respective company fulfill this objective within six hours, then for the time savings of two hours they receive a bonus with a value of 25% of their daily reward. In the situation this objective is realized, the resulted earning is distributed by the company to the employees.

The present plan distinguishes by the fact that the participation of employees within the commissions and the consideration of employees' suggestions regarding the improvement of work efficiency are **optional**. For this reason the leading staffs of the companies put a smaller accent on the employees' participation than on the corresponding rewarding system. In order that

a plan to have success in a company without trade unions, it is necessary to exist a minimum level of confidence and cooperation between the managing staff and employees.

3.Plans of profit allocation

Through such a plan there is understood a rewarding system through which a part of the organization's earnings is distributed to the employees as a supplement to their usual wage. Generally, the purpose of these plans is that of motivating the employees to contribute to the organization's rentability. The plans of profit distribution can be used for encouraging cooperation, increasing moral and for increasing the financial security of the employees. Within an organization they can include all the employees, only a selected group of the executive council or the management staff.

Following, we will analyze the typology of these plans.

3.1.Plans of Current Distribution

The respective forms of incentives are also called cash plans. Through them, a certain percentage of the company's profits – for example 25% of the net profit - is distributed under the form of cash to employees at intervals of one year or less.

3.2.Differenced Repartitive Plans

Through this type of plans, a part of the company's profits are transferred into a deposit following that the accounts of individual employees be credited. Money becomes available at the moment the employees retire. Some plans allow employees to contribute with supplementary amounts to their accounts. There are used various methods for allocating the funds resulted from the distribution of profit to employees. For instance, the amount that an employee receives can have as a ground the individual basic wage, years of service, merit-based or a combination of these factors.

4.Suggestion Plans

A **suggestion plan** is a rewarding system through which employees are rewarded if they provide useful ideas for the improvement of the organization efficiency. The usual reward is **payment in cash**, although a number of companies provide instead of this products or trips abroad. This type of plans is usually used for obtaining from the part of employees suggestions referring to the decrease of production costs, work protection or the improvement of products' quality. However, some companies promote suggestion plans for granting employees more opportunities to get involved in the company's problems. On the other side, these plans can be useful for the improvement of the communication with the managing staff. However, supervisors are often excluded from these plans because the control upon costs is a part of their job description.

Suggestion plans take the form of some boxes placed in convenient places close to the workplaces, accompanied by some forms. Employees use these forms for writing their own suggestions, then they put them in the boxes for being assessed by a commission. If suggestions are accepted, employees are paid in cash on the basis of a percentage that takes into account the productivity increases that will be possible to be obtained during the first years through the application of the respective suggestions. A standard amount is paid if the decrease of costs is difficult to be quantitatively expressed, or for suggestions that do not have a direct relation with the income, such as the improvement of work protection.

The number of companies that use individual incentive plans tends to decrease. It is not clear if the use of group incentives increases in importance, but certain companies passed, at least during the last years, from the individual plans to the group ones. It seems that plans for allocating earnings from productivity present an increasing importance. The plans of merit payments are used on a more larger scale than the other incentive systems.

Therefore, we can draw the conclusion that the **flexibility of the labour market** in general and the **wage flexibility** in special **contributes to the increase of the employers' motivation at the workplace**, an aspect that is reflected in the **increase of the work productivity**, through this **being put the bases of the economic development on medium and long term**. At the same time, on the purpose of achieving this strategic objective, so that as until 2030 Romania would recover the differences existing at present comparing to the countries that are senior in the European Union, it is necessary that **the governmental strategy, independently of its orientation, should propose as an objective a budgetary policy intended to guarantee the continuous flexibilization of the labour market, concomitantly with the insurance of employees' security irrespective of the company where they develop their activity**.

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MANAGEMENT CONSIDERATIONS REGARDING THE TOURISM FACILITIES WITHIN THE ROMANIAN PILGRIMAGES PLACES

Țirca Alexandra-Maria

Babeș-Bolyai University of Cluj-Napoca

Faculty of Economics and Business Administration

Stănciulescu Gabriela Cecilia

Bucharest Academy of Economic Studies

Faculty of Commerce

Chiș Alexandru

Babeș-Bolyai University of Cluj-Napoca

Faculty of Economics and Business Administration

Religious pilgrimages have a real history as economic generators for the visited areas and the elements of supply involved. Romanian monasteries are experiencing some continuous and constant flows of pilgrims, but, at the same time, they also turned into attractions for mass tourism. The aim of this paper is to identify tourism facilities and to establish their development level. The research method of this study was a questionnaire based survey among more than one hundred monasteries' superiors from different regions of Romania, places known as "holy" destinations for the Romanian religious people.

Keywords: religious tourism, tourism facilities, religious sites management, Romanian monasteries.

JEL classification: L83, M10, M21, R10.

1. Introduction

Tourism is a complex phenomenon regarded as an engine in many countries and areas which became one of the economic activities most spread worldwide (Bazini and Nedelea, 2008). The development of spiritual journeys coincided with the development of tourism in the modern era. Even though industry and "its related practices interact with religious life and religious institutions, hypothetically, in every corner of the world" (Bremer, 2005, p.37), *religious tourism is one of the least studied fields in tourism researches* (Vukonić, 2002).

Moreover, as a result of marketing programmes and of the high interest in cultural tourism, religious sites are more and more visited by rather curiosity-driven visitors as compared to genuine pilgrims and this is the reason why *they are promoted, adapted and comprised in products meant for tourism market* (Timothy and Boyd, 2003).

Moreover, many tour operators think that for an individual or a tourist is not mandatory to be very religious to make a journey or to enjoy visiting some attractions endowed with religious significance (Stoykova, 2009). Also the differences between pilgrims and tourists at sacred sites are vanishing, as new similarities are emerging (Collins-Kreiner, 2010).

At the same time, *the structure of the services supplied within religious attractions have changed*, as it was aimed at their adaptation and diversification according to the needs shown by various types of visitors or categories of the general public.

Therefore, *the purpose of this work* is to establish the development level of tourism facilities and the percentage share of each activity of a different nature than religious found in the main places of pilgrimage for Orthodox spirituality, which is the majority religion in Romania, yet regarded as traditionalist and conservative as compared to other denominations.

2. The tourism facilities within the religious travel

A number of economic realities determined the religious settlements to obtain funds by means of trade, collection of entrance fees and provision of some restoration services, guide or accommodation. As for religious tourism, in certain areas, the demand for services from the part of tourists and pilgrims changed the environment, the structure of local economy, while urbanization followed the track of pilgrimage centres.

Lourdes in France and Fatima in Portugal are clear examples as in these cases pilgrimage area can be divided in two: commercial or profane area made up of restaurants, shops, hotels etc. and the sacred area comprising churches, sanctuaries for pilgrimages etc. (Gesler, 1996). Lourdes' urban design has considerably changed in the sense of agglomeration of souvenir shops and restaurants lined all along the road connecting the commercialized area of the city to the pilgrimage area of the city (Rinschede, 1986). Following the same line of ideas, the number of hotels in Lourdes exceeds 200 units, starting from 4**** (stars) and up to 1* (star), without counting for „bed & breakfast” accommodation units and other residence to rent. In Romania, the number of boarding houses in the close neighbourhood of one monastery highly renowned, for instance Humor of Bucovina, exceeds 20 units.

Souvenir shops adjacent to many religious objectives have a more significant economic importance. In many cases, these are owned by the religious organization in charge with that respective destination, but often, these belong to local communities. *The souvenirs which are most looked for and sold are those representing religious symbolism*, especially if they can be associated with the place or the events that occurred at the place of purchase (Timothy, 2006). Objects which are more often traded in Christian religious sites are crosses, icons (this is especially the case with Orthodox Christians), statues (mainly in the case of Roman-Catholics), books, postcards, holy water or myrtle, rosaries, little things made by hand and handicrafts.

Like any other tourist, pilgrims must spend the night somewhere. *Accommodation means to which they resort vary from tents, little guest houses, houses for pilgrims up to luxury hotels.*

A special situation is encountered among religious settlements providing accommodation services within their own premises as is the case of the Romanian monastic complexes of Nicula, Neamț, Afteia, Portărița, etc. which are offering more than 100 accommodation beds each or the case of Bârsana monastery, which besides the accommodation beds within the monastic complex has its own tourist villa. Accommodation within the premises of the religious site is a rather frequent practice also in Guadalupe, Mexico, Medjugorje, Jerusalem etc., and in the case of monasteries or temples.

People may be provided a meal within the premises of Romanian pilgrimage sites, even within the premises of monastic settlements, while some settlements have a capacity to provide meals of more than 300 seats (Rohița Monastery of Maramureș County or Sănmărtinu de Câmpie of Mureș County). But many of them do not have fees for these services. It is the choice of every person to pay a certain amount of money for these services.

2. Study methodology and objectives

The main objective of the study were to identify tourism facilities existing within the central attractions for religious tourism in Romania and the activities carried out here which could turn into attractions, but, at the same time they represent means to obtain the financial resources which are necessary for the preservation of the religious settlement. The hypotheses from which the study started aimed at:

- *H1.Existence of some significant differences concerning the development level of facilities provided to visitors according to the identification features of the monastic complex.*
- *H2.Existence of some significant differences concerning the activities provided according to the identification features of the monastic complex.*

Therefore, the population investigated has been made up by all Orthodox monasteries all throughout Romania, while the sampling unit has been represented by the monastic settlement by means of the abbot, as its representative and the person in charge with the place.

Based on the sampling frame identified by means of the Directory of Orthodox Monasteries of Romania, we excluded the monasteries located in larger cities in order to identify with precision the locations where the demand is exclusively or mainly oriented towards religious tourism attraction. Moreover, we took into consideration the lack of permanent inhabitants within monasteries and paid a special attention to monasteries specified in tourism guide books as these monasteries, by their very nature meet at a larger extent the purpose of this survey aiming at identifying the features of religious tourism supply. As a method of data collection we used “face to face” punctual survey at the site of monastic settlement. With respect to data collection tool, we opted for a questionnaire.

Sample size comprised 151 monasteries. The choice of the units within the sample was made, in the first stage, according to a probabilistic method: the areal method. Thus, we divided the territory into 6 areas corresponding to the 6 Metropolis Community Churches, and from these we counted out 3 areas from where we were to inquire all the units. It was impossible to inquire all the units in every area due to high expenses for travelling, so we applied convenience sampling. Sample structure is outlined in the table below (Table 1):

Table 1. Sample characteristics

<i>Monastery Type</i>	<i>Percent</i>	<i>Metropolis Churches</i>	<i>Percent</i>
Monks	51.08%	Ardeal Metropolis Church	6.47%
Nuns	48.92%	Muntenia and Dobrudja Metropolis Church	2.88%
<i>Monastery Size</i>		Moldavia and Bucovina Metropolis Church	15.11%
1- 5 members	34.71%	Oltenia Metropolis Church	7.19%
(5-10] members	19.01%	Banat Metropolis Church	10.79%
(10-15] members	15.70%	Cluj, Alba, Crişana and Maramureş Metropolis Church	57.55%
(15-20] members	7.44%		
(20-25] members	6.61%		
More than 25 members	16.53%		

3. Research results

The first set of questions aimed at establishing the accommodation facilities within monasteries as well as their structure. Thus, more than 61.00% of religious settlements have accommodation facilities within the monastery (generally, within a single building called “guest house”), the number of beds ranging between 3 and 200. In the case of most of them, people are not charged for accommodation services as it is a service free of charge. However, pilgrims make donations and leave money most of times for these services. Percentage share of accommodation facilities and fees are listed in the table below (Table 2):

Table 2. Analysis of accommodation facilities existing within monastic settlements

<i>Type of accommodation services</i>			<i>Number of beds</i>	<i>Room type</i>	<i>Remarks on fees</i>
<i>Within the monastic complex</i>	Yes	61.80%	M= 43.44 (n=73) S=3171	1,2,3,4,5,6,8, 10,12,15,20, 25 beds	Average price per night = 10. 83 lei (2.5 Euro);(n=73) * at 77.30% of monasteries, accommodation is free of charge
	No	38.20%			
<i>Outside the monastic</i>	Yes	13.00%	M=60.31 (n=16) S=784	1,2,3,4,6,7,8, 10,20 beds	Average price per night = 31. 10 lei (8 Euro); (n=16) *at 20.00% of units, accommodation
	No	87.00%			

<i>complex</i>					<i>is free of charge</i>
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M= Average of the number of accommodation beds; S=Sum of the number of accommodation beds

Only 13.00% of the monastic settlements subject to our study have accommodation facilities located outside the monastery (we referred here to accommodation units which are within the property of the monastery or are run by monastery's inhabitants) and the number of beds within these accommodation units ranges between 15 and 150 beds. These units located in the close neighbourhood of monasteries usually take the form of chalets, villas, pilgrim houses or motels. Fees generally vary.

We have to underline that the rules regarding monastic life do not allow a layman (a person not belonging to clergy) to spend more than 3 consecutive nights in the monastic complex. For these reasons, some monasteries decided to build accommodation units where such rules do not apply. In case of Bârsana Monastery, for instance, a three-star villa was built having almost 54 beds in double and single rooms with phone, fax and PC access.

Some of monasteries' abbots stated that the existing accommodation beds within monastic complexes are sometimes not enough. Therefore, during peak periods, especially in the summer, the demand exceeds the existing supply to spend the night within religious settlements. In the case of Bârsana monastery, for instance, it is mandatory to make a prior reservation for an accommodation bed during summer time, one month prior to arrival at the least.

We continued by examining meal providing related facilities (restoration services) existing within monastic complexes (Table 3). The research outlined that for more than 80% of the monasteries subject to our study, tourists or pilgrims may be provided a meal while for more than 15% of monasteries, visitors are provided a meal only if they are accommodated in one of monastery's facilities.

Table 3. Analysis of meal providing facilities existing within monastic settlements

<i>Possibilities to provide meals</i>	Non	19.51%	M=63.46 (n=89) S=5648	<i>There is a fixed schedule to provide a meal for 63.60% of monasteries.</i>	<i>Seats number</i>	
	Yes, under all conditions				64.22%	33.71%: less than 20 seats;
Yes, only if lodged		16.27%				
<ul style="list-style-type: none"> - 13.79% of monasteries provide only meal without meat; - 86.21% of monasteries, except for fast days, visitors can be provided any kind of food (in certain cases without meat); - In certain monasteries, people suffering from various diseases may be provided special meals. 						

M=Average of the number of seats to be provided a meal; S=Sum of the number of seats to be provided a meal.

The following investigated aspects referred to the number of additional facilities existing within monastic settlements which are used on the one hand, but also expressly looked for, on the other hand, by tourists or other visitors.

The *hypotheses from which the survey started*- concerning the significant differences which might exist among facilities and activities of a different nature than a religious one which can be encountered or conducted within the main pilgrimage settlements according to their identification characteristics, they were tested by means of Pearson's correlation coefficient, specific to nominal variables.

The *hypotheses taken into consideration* were sub-divided each into 3 secondary hypotheses, concerning the influence of monastery type, size and Metropolis Church (administrative structure

of The Romanian Orthodox Church). The testing of these hypotheses allowed only their partial validation. Significant differences between these facilities emphasized two relationships of an average intensity as presented in the table below (Table 4):

Table 4. Additional facilities existing within monastic settlements and monastery characteristics influence

<i>Facilities existing within religious settlements</i>		<i>Influencing factors</i>	<i>Relationship intensity</i>
Souvenir / religious objects shop	70.50%	Monastery size	$C=0.375$ ($df=5$; $p=0.028<0.05$)
Arranged parking lot	43.40%	-	
Meeting/ conference room*	19.70%	Metropolis Church	$C=0.500$ ($df=5$; $p=0.013<0.05$)
Access to internet	11.50%	-	
Banking service (ATM, etc.)**	0.80%	-	

(C= Pearson's correlation coefficient; p= Significance level of study)

*more frequent in Cluj, Alba, Crişana and Maramureş Metropolis Church and Muntenia and Dobrudja Metropolis Church

**Bârsana Monastery

The main facility encountered within more than 70% of the monasteries investigated (the extremes values were 100% for the monasteries with 10-15 members and 47.6% for small monasteries) aims at giving to all those visiting the monastery the chance to buy souvenirs or religious objects from specialized shops which are usually located at the entrance of monastic complexes.

In tight connection to the commercial side we *identified the activities of a different nature than a religious one, which are carried out within monastic settlements and which might represent a source of funds*, but also an attraction element for many visitors. Significant differences between the activities carried within the monasteries (especially in what concerns the monastery size and type) emphasized a number of relationships of an average intensity (Table 5).

Table 5. Activities of a different nature than religious carried out within monastic settlements and their influence on these activities

<i>Activities carried out within monasteries</i>		<i>Influencing factors</i>
Painting	29.50%	Monastery size: $C=0.383$ ($df=5$; $p=0.001<0.05$) Monastery type: $C=0.371$ ($df=1$; $p=0.000<0.05$)
Embroidery	14.90%	Monastery size: $C=0.334$ ($df=5$; $p=0.011<0.05$) Monastery type: $C=0.369$ ($df=1$; $p=0.000<0.05$)
Weaving	9.80%	Monastery type: $C=0.332$ ($df=1$; $p=0.000<0.05$)
Tailor' workshop	6.50%	Metropolis church: $C=0.574$ ($df=5$; $p=0.031<0.05$)
House-keeping and gardening	6.50%	-
Agriculture and animal breeding	5.70%	-
Sculpture	4.06%	Monastery type: $C=0.465$ ($df=1$; $p=0.023<0.05$)

(C= Pearson's correlation coefficient; p= Significance Level of study)

Thus, most activities carried out in a monastery, other than religious activities refer to painting, embroidery, weaving workshops (specific to monasteries of nuns and to large monasteries). Among other activities carried out by monastic settlements we can also mention the tailors'

workshops specializing in clerical clothes (specific to monks monasteries), rosaries, candles, objects made by hand, etc.

4. Conclusions and managerial implications

The investigation of tourism facilities existing within monasteries allowed the identification of the following essential issues:

- More than 60% of monasteries provide with accommodation services within the monastic complex, and 13% outside the complex in own villas, chalets, etc. Accommodation service within the monastery is free of charge for almost 80% of the monasteries subject to our study. Nevertheless we have to specify that tourists pay most of the times for these services on their own initiative in the form of donations, amounts to pay for church service, etc., while in the case of the units run by monasteries where these unites are located outside the complex, accommodation fees amount to 30 lei (8 €) per night on an average.
- It is possible to be provided with a free meal at about 75% of the monasteries comprised in our study, sometimes only if the visitor is also accommodated within the monastery; more than half of the monasteries have a fixed schedule for meals and 20% of them provide only meal without meat.
- In more than 70% of the Romanian monasteries we can find souvenir shops; almost 40% of them have arranged parking lots, 20% have conference rooms, while 10% have access to the internet.
- Painting and embroidery are the main activities carried out within Romanian monasteries.
- Some of these facilities vary according to monastery type, size and Metropolis Church to which they belong.

Within such religious attraction settlements, people conduct a number of activities, *whether cultural or related to objects made by hand contributing to the raise of funds*. These activities represent also an attraction for visitors. Quite often, the sale of the objects made in monasteries is intended for foreigners who are more likely to appreciate their special beauty and authenticity. Issues related to religious tourism economy and commercial activities can also be found, in broad outline, in Romanian religious destinations, but on a smaller-size scale and not so much focused on the material side. One can also notice that the services and the facilities provided are at an incipient stage in the case of some religious settlements, generally smaller or less known, but in the case of other monasteries we can talk about a developed tourism and religious supply ranging from spiritual services to banking facilities or communication and information technology-related facilities.

Therefore, the *potential to develop these religious tourism attractions is extremely high*, although the crystallization of this market has hardly begun at domestic level. Nevertheless, we can talk of an ever increasing development and adaptation of the facilities provided by main places of pilgrimage as a response to a more and more diversified demand, as a significant integrant part of religious tourism phenomenon.

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BREAKING THE GLASS CEILING – FEMALE ENTREPRENEURSHIP

Todericiu Ramona

*Universitatea „Lucian Blaga” din Sibiu
Facultatea de Științe Economice*

Muscalu Emanoil

*Universitatea „Lucian Blaga” din Sibiu
Facultatea de Științe Economice*

Ghițulete Andrada

*Universitatea Babeș-Bolyai Cluj-Napoca
Facultatea de Științe Economice și Gestiunea Afacerilor*

„Entrepreneurship allows women to become economically independent, the essential premise for a change in mentality, attitude and behaviours.”⁷²¹

Specialists claim that the only certitude of the XXIst century is change, as these decades have been marked by the fastest and most spectacular changes in the history of human kind. Difficult to forecast, the transformations that took place can be found in all areas: technical, economic, social, IT, educational, cultural and political. One of the most important, but insufficiently captured and considered changes is represented by the situation of the SMEs in the front line of the development: their transformation into the most dynamic factor and, in this context, the more and more active presence of women in management positions in SMEs.

In Romania, The National Agency for SMEs has implemented for the first time a promotion program for entrepreneurship among women managers of the SMEs sector. The program enjoyed a great success and resulted in a big impact in the business community. The program stimulates⁷²² the growth of women entrepreneur within the business community, the development of the skill and entrepreneur spirit among women and efficient use of the human capital formed by potential women entrepreneur, improving the economical performances of existing enterprises, led by women through the growth of the training of their employees. Other aims are equal access to the knowledge based economy, experience sharing among business women, establishing partnerships and encouraging the will to represent personal interests in the civil society.

Keywords: SMEs, entrepreneurship, women entrepreneur, human capital, knowledge based economy

Current context

Numerous studies developed by researchers and experts in the field of entrepreneurship have shown that starting a new organization is a key element in the process of economic development and rebound. Nowadays, we are all aware that in any modern economy, SMEs are the “heart of the economy” as they represent 99% of all EU enterprises and have provided over the past years over 80% of the new jobs in the EU.⁷²³

Recent statistics from the developed countries complete this picture: most of the GDP comes from the SMEs, most of the employed work force is located in SMEs as they are, within the

⁷²¹ Vinnicombe, S., Colwill, N.L., *Femeile în management*, Ed. Teora, București, 1998.

⁷²² Rotaru, C.I., *Prezentarea de bune practici privind promovarea antreprenoriatului feminin*, conferința *Promovarea implicării femeilor în mediul de afaceri* – Craiova, 2009, găsit pe www.mimmc.ro, accesat aprilie 2010.

⁷²³ http://ec.europa.eu/enterprise/entrepreneurship/sba_en.htm, accesat aprilie 2010.

current economic context, the only ones who create jobs and represent a favourable environment for creativity and innovation. The adoption within the EU of the law concerning SMEs is an essential stage for implementing the Lisbon Strategy for growth and work places. This results in “public administrations that that respond better to the expectations, less late payment of bills, access to a greater support through financing, innovation and professional education, lower VAT for local services and a better access to public procurement contracts. Moreover, this package will offer SMEs access to a Statute of the private European companies in order to decrease bureaucracy and increase transparency.”⁷²⁴

Philippe Maystadt, president of the European Investment Bank (EIB) has pointed out in a discussion that “*small and medium-sized enterprises wellbeing and growth will be key to Europe's future competitiveness. The market alone is unable to provide sufficient and appropriately priced finance for SMEs, in particular for high growth, innovative businesses. The EIB Group will therefore seek to address gaps in the market by broadening the scope of its financing.*”⁷²⁵

The level of entrepreneurship activities varies from one country to the other, as well as within one country, from one region to the other or from one social group to the other. Generally, regardless of country, the studies from the past years concerning the level of entrepreneurship activity show that, although the importance of female entrepreneurship shows an upward tendency in any economy, the rate of starting new companies is higher in the case of men.

Charles Handy, a management guru, states in his paper, *The Empty Raincoat* that “Organizations want quality people, well educated, trained and adaptable for management positions. They also want people who can tackle more tasks at once, people who want to act and who are not preoccupied with the title or position they have, but are more interested in the phenomenon of power and influence, rather than the social statute. They want people who will make the best of instinct and intuition as well as analysis and rationality, who can be tough, but sensitive, firm but friendly, people who can reunite all these necessary contradictions. Consequently, they want as many women as possible.”⁷²⁶

Nevertheless, female entrepreneurship still represents “an unused source of economic growth. Therefore idea that in order to fully benefit from the entrepreneurship potential of a country or region, the emphasis of female entrepreneurship is necessary.”⁷²⁷

The approach of the female entrepreneurship issue is not new, but it is more popular nowadays. The wish to expand female participation in the management activity is based on three major arguments, presented by Susan Vinnicombe and Nina L. Colwill in the paper “Essence of women in management”, as follows:⁷²⁸

- the natural style of women in work is more easily adaptable to job and structure shifts within companies than that of men;
- women can offer companies a competitive edge on the global market, helping them to better reflect in the management teams the gender composition of the markets where they are active;
- qualified women represent a vital resource. As the demographic results show, in the near future as well as in the far future, women involvement in management positions can be an imperative request

Nowadays, statistics show that women get involved in businesses at in an overwhelming degree as compared to the past years. Changing the rules of the game, women entrepreneurs create their

⁷²⁴ Maystadt, P., *Raportul de consultare al Băncii Europene de Investiții* găsit pe www.eib.org/attachments/strategies/sms – consultation – 2007 – 2008 – en.

⁷²⁵ idem.

⁷²⁶ Handy, C., *The empty raincoat*, găsit în Apostol, D., *Femeile antreprenor schimbă regulile în afaceri*, articol apărut în Wall-Street – Business in timp real, 2007 găsit pe <http://www.wall-street.ro/articol/Careers/32279/Femeile-antreprenor-schimba-regulile-in-afaceri.html>, accesat aprilie 2010.

⁷²⁷ idem.

⁷²⁸ Vinnicombe, S., Colwill, N.L., *Femeile în management*, Ed. Teora, București, 1998.

own style of leading, totally different from that of men. This new style of management has nothing from the predefined notions of tough competitiveness, aggressiveness and leadership, claims Margaret Heffeman, writer and entrepreneur.⁷²⁹ In her opinion, organization, empathy and relational management represent advantages in the management of a company; the reasons that underlie the involvement of women in business are also very different than those of men. More than half of women entrepreneurs rely more on intuition when it comes to market analysis, which allows women to see opportunities that men generally fail to notice. Moreover, the feminine nature offers them a better mix of analysis and creativity – essential point for start-up companies.⁷³⁰

We will present below some statistic data for the year 2009, data that will complete the female entrepreneurship picture in Romania.⁷³¹ The data shows that:

a. Women represent:

- 51.2% of the total population of the country
- 45.6% of the active population
- 53.0% of the employed population (64.7% men)
- 5.2% are unemployed (8.2% in the case of men)

b. The female employed population divided on economic activities

- Industry – 35.0% (35.9% men)
- Construction – 1.9% (14.1% men)
- Commercial services – 32.6% (31.3% men)
- Social services – 30.5% (18.7% men)
- Specialists in intellectual and scientific areas: 52.08% women
- Doctors in sciences – 38% women
- Female physicists – 67% (40.9% in the EU)

c. Employed population according to professional position

- Owner of businesses 37.000 women, respectively 24.8%
- Freelancers 512.000 women (28.9%)
- Employees 2.843.000 women (46.1%)

d. Statistics for female entrepreneurship

- 31% of Romanian companies have a woman as an associate

e. Characteristics of companies that emerged

Women

Age of company 5.07 years

Sole owner 47.06%

Owner-manager 78.90%

Initial size 2.9 employees

Growth of business 39.2% new jobs

All these explain the major interest among specialists not only concerning female entrepreneurship and its role in the knowledge based company, **the prototype of the knowledge based company being the SME**, but also its main characteristics: fundamental competitive edge based on increased knowledge, creativity, flexibility and dynamism, high ability to learn and use new knowledge and generate added value.

⁷²⁹ Heffeman, M., găsit în Apostol, D., *Femeile antreprenor schimbă regulile de afaceri*, articol apărut în Wall-Street – Business in timp real, 2007 găsit pe <http://www.wall-street.ro/articol/Careers/32279/Femeile-antreprenor-schimba-regulile-in-afaceri.html>, accesat aprilie 2010.

⁷³⁰ Apostol, D., *Femeile antreprenor schimbă regulile de afaceri*, articol apărut în Wall-Street – Business in timp real, 2007 găsit pe <http://www.wall-street.ro/articol/Careers/32279/Femeile-antreprenor-schimba-regulile-in-afaceri.html>, accesat aprilie 2010.

⁷³¹ Vezi mai mult în *raportul „Femeile și antreprenoriatul”* care poate fi accesat pe: http://www.gemconsortium.org/about.aspx?page=special_topic_women.

The involvement of women in this type of business is a fact undisputed nowadays. More and more women become entrepreneurs and choose to be in charge of their own lives and careers, setting up successful businesses. Which are the most common qualities that all women entrepreneurs possess? In the opinion of Oana Maria Banu they are:

Ambition

A successful woman entrepreneur is extremely ambitious, has a special talent in transforming an idea into reality. The ambition to win helps her have a flourishing business.

Confidence

Confidence that she has all the requirements in order to succeed is another quality of a business woman. She is prepared to learn from the others, to ask for advice from experts and add value to her purposes. The woman entrepreneur has to be optimistic and take risks. The ability to explore new territories is also connected to self-confidence. Moreover, self motivation is an essential factor in keeping the business in high standards.

Openness towards change and will to learn

The woman entrepreneur is conscious of the importance of evolution and adoption of change. Always ahead of competitors, she is open towards what is new and willing to learn. She is curious, interested and can cope with innovations fast.

Realism regarding costs

A business is, first and foremost, money. In order to be successful, a woman who is in charge of a business prepares realistic budgets and her estimates are confirmed by the reality. Minimizing costs without sparing quality regarding services/products is one of the basic characteristics that leads to profit.

Taking advantage of team work and honesty

A business woman has the ability to work with all kinds of people, regardless of their education. She can maintain relations and communicate clearly and efficiently. This helps her negotiate even in the most sensitive aspects.

Maintaining the balance between work and personal life

Concerned not to become a workaholic, the business woman is skilled in maintaining the balance between various aspects of life. Her ability to deal with a lot of problems and also to support the loved ones helps her assume responsibilities in which the business as well as the family is concerned.

Specialists believe that women have nowadays more initiative to go into entrepreneurship and are more open to developing new businesses. Concerning the reason that women get into business, specialists also agree that they are very different from those of men. Women look for a place where they can capitalize on their qualities. For this, most of the women are willing to assume a greater risk in their career than men, claim experts in entrepreneurship.

Moreover, another reason for which women start their own businesses is, in the specialists opinion, that most of them are mothers and they want to be able to work less in order to take better care of the family. “While most of these women operate an *unusual* environment, from the point of view of income, purchases and marketing, it still is like other businesses. Just like in the case of other start-ups, the initial investment is crucial. Most of these have proved to be successful and sometimes have had better outcomes than those owned by men”⁷³², shows a study ordered by the American investment company Venture Worthy.

The study also shows that the skills of the woman entrepreneur, such as intuition, empathy, leading instead of commanding and multitasking without getting lost in details are the true values that lead their business.

⁷³² Studiu realizat de compania Venture Worthy găsit pe <http://www.ventureworthy.com/>, accesat aprilie 2010.

The Global Entrepreneurship Monitor (GEM) concludes in its study that women entrepreneurs represent an important contributor to economic growth, especially in the countries with low or average incomes. The aforementioned study shows that:⁷³³

- In higher income countries, there is no gender difference regarding the rate of survival of businesses led by women as compared to those led by men.
- Women who are employed and have persuaded a social network of entrepreneurs are more likely to become entrepreneurs. The social and economic benefits of women who work represent a driving force for female entrepreneurship to a higher degree than family income or a high education.
- Women tend to be less optimistic and less self-confident than men when it comes to starting a business. However, once they are involved in the entrepreneurship activity, the self-confidence of women increases and they start to know the other entrepreneurs and exploit valuable opportunities, such as men do. Taking into account the differences between the various cultures worldwide regarding the financial independence of women, the lack of trust is not a surprising fact. The good news is that once they are involved in the entrepreneurship activity, they start to gain more self-confidence. Entrepreneurship does not have only financial implications for women, but also social ones.
- The fear of failing is higher in the case of women than it is in the case of men in all groups of countries. Women from low and average income countries in Asia and Europe presented a high rate of fear of failing (40.3%) as compared to women from Latin America and the Caribbeans (34.2%) and women from higher income countries (27.1%).

In which the profile of the business woman in Romania is concerned – here is how the business woman in our country looks like, according to the result of the study Eurochambres-Women in business and in decisions-making⁷³⁴:

- The person is very ambitious
- Married with children (81.8% married, 77.8% with children)
- Higher education, well trained
- Devoted to her own business, sometimes even neglecting the family
- Work over 60 hours a week, deals well with effort
- Very perseverant, managing to surpass obstacles
- Independent (the main motivation for starting a business)
- Will to outdo herself (the lack of time is a barrier)
- Uninterested in participating in decision-making

We would like to take a look in what follows at the main problems that in general Romanian entrepreneurs are confronted with and female entrepreneurs in particular. Therefore, in the opinion of specialists⁷³⁵, the problems that the majority of entrepreneurs are confronted with are: the instability of the fiscal system – the lack of a simple, clear and stable financial legislation; a financial context less favourable for the development of SMEs: high cost of credits associated with the instability of the fiscal system which generate the fear of investors of becoming incapable of repaying the debt; the difficulty in accessing credits in the case of a new firm; administrative bureaucracy, lack of a correct measurement program that would insure the survival of SMEs in the new competitive context created by Romania joining the EU; difficult access to entrepreneurial training due to high costs and lack of time of business women.

In which the gender barriers are concerned⁷³⁶ – the specific obstacles that get in the way of female entrepreneurship are the following: type of education, lack of entrepreneurial role models, entrepreneurship based on gender, weak social statute, professional stereotype (12% lower than

⁷³³ Global Entrepreneurship Monitor găsit pe <http://www.gemconsortium.org/>, accesat aprilie 2010.

⁷³⁴ Natioanal Agemncy for SMEs study 2006, accesat aprilie 2010.

⁷³⁵ idem.

⁷³⁶ Programul național multianual pe perioada 2001 – 2012 pentru dezvoltarea culturii antreprenoriale în rândul femeilor manager din sectorul IMM-urilor găsit pe <http://www.aippimm.ro/articol/comunicate>.

the average salary); social stereotypes, lack of policies, programmes for setting up and developing female-led businesses; lack of studies concerning the accession impact that would include the threats and opportunities of the SMEs led by women; difficulty for business women to enter certain economic areas that are considered exclusively masculine; lack of accessible quality facilities for taking care of the child, sometimes combined with lack of family support; difficulties in accomplishing a balance between the personal and professional life and, most importantly, credit difficulties – difficulties in accessing unrefundable funds, which are due to the lack of education of the entrepreneurs and to Ministry clerks who do not have an “interest – performance coefficient” in making the funds available for businesspersons.

The state supports female entrepreneurship first and foremost through the “National multiannual program for 2005-2012 for developing the entrepreneurial culture among women managers in the SMEs sector”⁷³⁷, program which is aimed at facilitating the mobility of women in the labour market and developing their entrepreneurial skills in order to involve them in private financial structures in the context of the problems connected to maintaining a balance between personal and professional obligations and prejudices that exist at a local level.

The main objective of this program is “Supporting the women entrepreneurs to promote their activity in the Romanian business environment.” The objective is the promotion of an educational system that facilitates women’s mobility in the labour market and develops their entrepreneurial skills. Since there has been no financial support until 2005 in Romania to promote women in the business world, the National Agency for SMEs has initiated this program starting from the necessity to prepare and develop the entrepreneurial culture of women involved in all types of activities, including those who come from a rural environment. Among the measures the program promotes are access to quality and business counselling. The latter helps women consolidate their trust in a positive view for the development and growth of their own businesses. In our country, in the SMEs sector, the required harmonized measures are aimed at:

- The promotion of culture and conditions for entrepreneurship among various categories of women, including those who are farther from the most common financial activity can be supported by innovations regarding the training, well planned innovations which are oriented towards a local level;
- Providing high quality financial support and business services which would create a bridge between private, public and semi-public agencies with the purpose of facilitating the access of women to these types of services is possible with the involvement of the municipality;
- Supporting the development of business incubators which encourage women by concluding business and university partnerships at a municipal level;
- Changing the procedures of public procurement by including social clauses can be successful in expanding the markets for family businesses.

The phenomenon of a developing female entrepreneur culture in our country is both interesting and important. “As small businesses develop, going through successive stages of organizing or legal statute, a slower process takes place, but one that is not less interesting – one of forming a collective mentality regarding business women. It is not only about the other’s attitude towards female business owners (area in which misogynistic qualifications start to give in), but also about an open recognition of the natural abilities of women to coordinate other’s work, their easily adaptable style to the environment conditions and their ability to work in a team and to develop networks, the negotiation and decision-making skills, etc.”⁷³⁸

What else is required for creating a strong female business segment in Romania?

⁷³⁷ *Programul național multianual pe perioada 2001 – 2012 pentru dezvoltarea culturii antreprenoriale în rândul femeilor manager din sectorul IMM-urilor* găsit pe <http://www.aippimm.ro/articol/comunicate>.

⁷³⁸ Vinnicombe, S., Colwill, N.L., *Femeile în management*, Ed. Teora, București, 1998.

This is one of the questions that women associations and NGOs try to answer. We believe that it is critical to create this segment due to the following reasons: “women become themselves more powerful through business, they become more financially independent and bring wellbeing to the family. Women are inventive and creative and these traits will always influence the businesses they develop.”⁷³⁹

A series of opportunities have been developed in social and home activities, activities which are perfectly suited for women. Moreover, specialists believe that an increasingly greater number of women who are involved in businesses will generate a business environment that is less corrupt while financial independence and performance in business of women will give them the visibility and credibility they need in order to develop successful careers.

If “many times, women manage to enter the management of large organizations just by copying the male style (in order not to be different from the male majority of management structures), in their own businesses, women can behave naturally, which makes them more credible; they can even emphasize upon those typically feminine abilities which are sensitivity, concern for the others, empathy – which are in high demand nowadays. The good news is that more and more, the true value of a business person is regarded in relation to the results and type of relations with the others and not regarding their gender.”⁷⁴⁰ We believe that it is normal that in the competition between men and women, the only selection criteria be the skills, team spirit and performance.

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⁷³⁹ Rotaru, C.I., *Prezentarea de bune practici privind promovarea antreprenoriatului feminin*, conferința *Promovarea implicării femeilor în mediul de afaceri – Craiova, 2009*, găsit pe www.mimmc.ro, accesat aprilie 2010.

⁷⁴⁰ idem.

TRENDS IN DELIVERING EDUCATIONAL SERVICES WITHIN THE KNOWLEDGE-BASED SOCIETY

Zamfir Andreea

Academy of Economic Studies Bucharest

Faculty of Management

Education and implicitly educational services become extremely important in the context of the knowledge-based society. Therefore, this study investigates the trends in delivering services identified through research of literature, as well as based on personal experience in providing educational services. It has been concluded that information and communication technology creates a vast opportunity to improve the way of delivering educational services within the knowledge-based society, to develop (educate) people's awareness of the need for knowledge, as well as their skills for the knowledge-based society.

Keywords: management, educational services, information and communication technology, knowledge-based society

JEL classification: A22, I20, L80.

1. Introduction

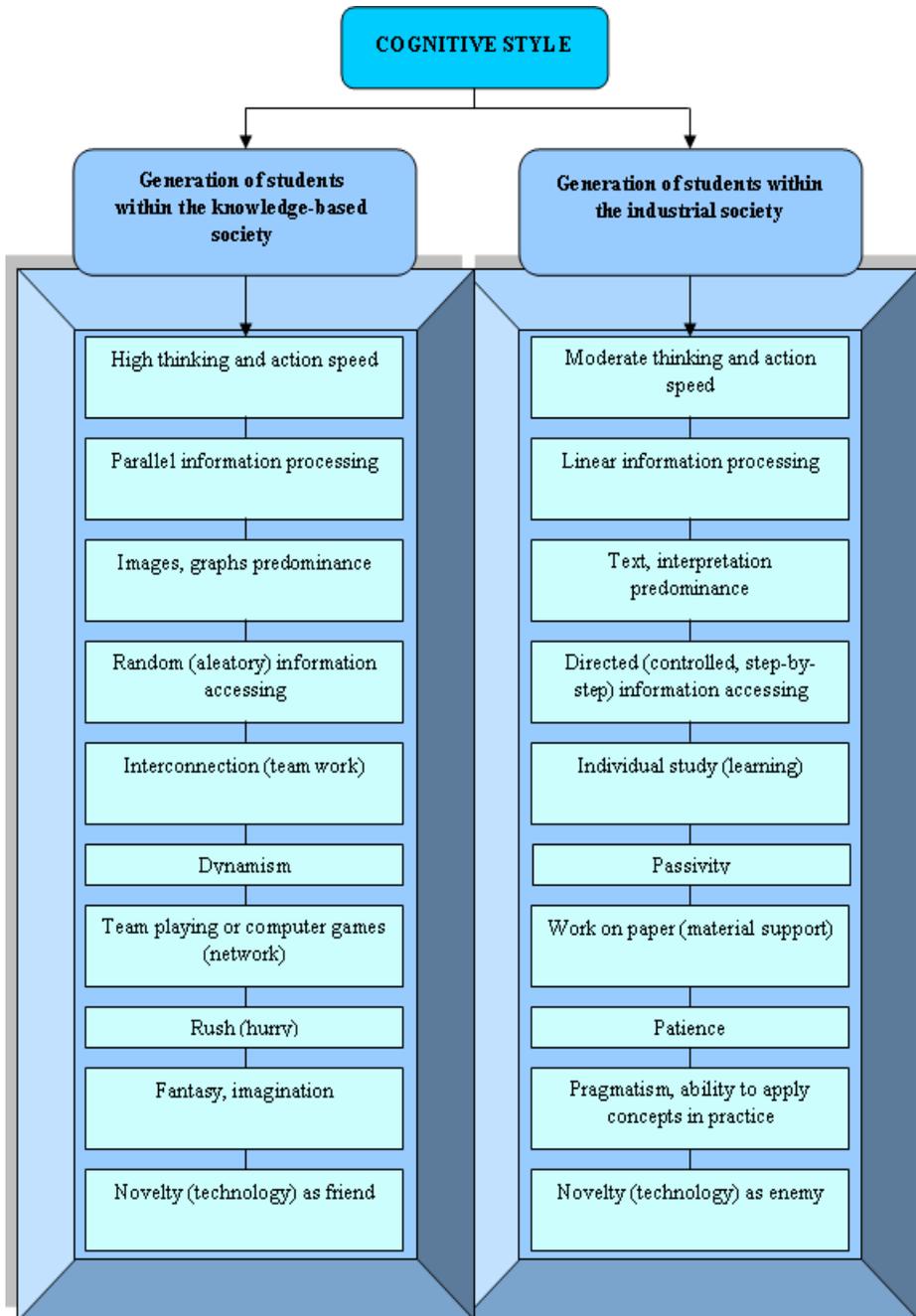
The “key words” in managing services within the knowledge-based society are knowledge, people and networks. Therefore, education (and implicitly educational services) becomes extremely important in the context of the knowledge-based society. This is the reason for trying to briefly disclose in this study some of the trends in delivering services identified through research of literature, as well as based on my personal experience in providing educational services. Since knowledge is assessed throughout people's life (lifelong learning), people's awareness of the need for knowledge should be developed (educated), as well as their skills for the knowledge-based society. Given that information and communication technology plays a major role within the knowledge-based society, it is reasonable to use it for delivering educational services.

2. Developing (educating) students' need for knowledge

The task of developing (educating) the student's need for knowledge is a challenging one because it implies changing the educational practices, its adjustment to new contexts within the knowledge-based society. The generation of learners within the knowledge-based society is different from the preceding one within the industrial society (Figure 1), in the sense that some main cognitive style changes have been observed (Mitchell and Savill-Smith, 2004). For instance, high thinking speed, action speed, interconnection and “friendship” with technology are all changes in the cognitive style of modern students. These changes may be considered in the process of teaching and learning in order to stimulate learners' awareness, interest, and desire to know more and more and to induce them the feeling that they cannot survive as workers within the knowledge-based society without lifelong learning.

Therefore, educational policies and practices should give emphasis to a lifelong learning perspective (Zamfir and Plumb, 2007). The main reason for this is that the spiral of knowledge everlastingly expands due to the application of knowledge to knowledge. Consequently, we may assume that if students are educated to apply knowledge to knowledge in the process of learning as well as in day-to-day life, then this process will become habitual, and their permanent need for knowledge will be encouraged and developed.

Figure 1 Comparative approach of the cognitive style within the knowledge-based society and within the industrial society



(Source: Adapted from Mitchell and Savill-Smith, 2004)

Learners growing up and working within the knowledge-based society are far more experienced and able to process information rapidly than were their predecessors within the industrial society. Therefore, they may be bored and lose interest for continuous knowledge (learning) if their capacities are not exploited and properly stimulated in school, in the process of teaching and learning (Zamfir, 2008b). However, it has been noted (Plumb and Zamfir, 2008) that to some extent curricula still tend to contain theoretical knowledge, which dominates practical learning

and thus changes the educational practices. In this context, applying a learning-oriented approach is a must.

Furthermore, the learning-oriented approach has to consider the cognitive style of the learners within the knowledge-based society. They are intensely using new technologies such as computers, internet, cell phones, simulations and computer games (Mansour and El-Said, 2008: 772). Moreover, the generation of students within the knowledge-based society find modern technology very useful when they search for things of their own interest (Milkova, 2008). As a result, the traditional teaching methods no longer match the current student's needs and behaviour. As teachers cannot change students, the best way is to adjust their pedagogical approach to the students and to create new learning environments supported by artificial intelligence (Prepelita-Raileanu, 2008; Dondon et al., 2008; Paladini and De Carvalho, 2008; Saarinen et al., 2008). These learning environments facilitated by the development of information and communication technology add value when compared to traditional learning environments, and also respond to the learning needs of 21st century students (Saarinen et al., 2008).

Practically, based on my personal experience, I can assert that having in mind the elements which define the cognitive style of students within the knowledge-based society one can educate the students' need for knowledge through various means, such as: assignment of team tasks, appeal to the students' imagination, practising open (free) discussions, avoiding answers to some questions, etc.

With regard to team tasks, instead of individual tasks, these stimulate knowledge sharing and as a result, students may ask themselves new questions starting from the ideas and knowledge shared. Trying to answer these questions in order to solve the team task will require searching the literature, making logical connections, discussing and identifying new aspects of the subject they are studying. As well, when teachers avoid answering to some of the questions posed by the students, the latter will be interested to find it themselves. Appealing to the students' imagination by asking them to imagine different situations, cases or solutions to the problems may contribute to educating their need for knowledge because afterwards they might be interested to know if their imagined solutions were or not discussed in the literature, applied in practice, or if it can actually be applied in the future and how.

3. Developing students' skills for the knowledge-based society

Living, learning and working within the knowledge-based society requires specific skills, emphasising on creativity and innovation, as well as on communication and collaboration. Students should be able to demonstrate creative thinking, to construct knowledge as a means of individual or group expression, to use models and simulations to explore complex systems and issues, to interact and collaborate using a variety of digital environments and media in order to support individual learning and contribute to the learning of others (ISTE, 2007). Technologies that support teacher-student and student-student interaction, whether real time or asynchronous, promote and support collaboration and discussion (Yoder, 2008). People have now more diverse and frequent interaction opportunities than they have ever experienced before, due to the development of the Internet and its communication possibilities such as Email, chat, Web discussion forums, etc. (Woo and Reeves, 2007). This fact could lead to a better teaching-learning process and also to the creation of new and attractive methods for teaching and learning. Educational process could be improved with communication tools that provide synchronous and asynchronous opportunities for interaction and collaboration. Blogs, podcasts, real time interaction, and virtual worlds could be incorporated in education to create a learning environment that strengthens teaching and motivates learners (Yoder, 2008) so as to gain the skills needed within the knowledge-based society.

In the last few years, there has been a growing understanding of the important role of information and communication technologies in education. Various new models of education are evolving in response to the new opportunities (Barak, 2007) that are becoming available by integrating new

technologies and computer applications into the process of teaching and learning. The new educational model is characterized by the interdependence of communicative interaction, new technologies, the development of computer applications, the design of computer-based tasks and focused activity for learners to become critical thinkers and creators of knowledge (Kimber et al., 2007).

Recent educational research from a socio-cognitive perspective has validated students' collaborative engagement with new technologies and heightened understanding of influential factors shaping the effectiveness of peer interactions, learning contexts and computer interfaces for enhancing learning (Kimber et al., 2007). All these changes pose considerable challenges for the educators and business trainers who wish to promote literacy skills (Mitchell and Savill-Smith, 2004).

One significant pedagogical approach gaining credence through research and classroom practice is students' collaborative engagement with problem-solving, computer-based tasks for more effective learning (Kimber et al., 2007). There are some characteristics of the computer applications that contribute to the engagement of the students in the process of learning, such as rules, goals, interaction, outcomes and feedback, challenge, problem solving, etc. (Mitchell and Savill-Smith, 2004). Teachers should focus their efforts to ensure that students are given opportunities to work collaboratively with electronic knowledge-creation tools in their learning process to enhance their learning. When students are encouraged to externalise their mental schemas and clearly communicate their understanding of the interconnectedness of ideas verbally and graphically, then student-designers are effectively engaged in productive, reflective, creative practices (Kimber et al., 2007).

4. Using information and communication technology for delivering educational services

Nowadays educational practices are profoundly changing by integrating information and communication technologies into the process of teaching and learning. Knowledge society and growing demands for highly skilled and educated people are elements that claim for the change of traditional teaching and learning processes. Modern students need to update their knowledge, skills and competences (Beleviciute and Sileikiene, 2006). Therefore, teachers should redesign their courses by adopting new educational methods and appropriate technologies to fully exploit the benefits of web-based learning environments (Lee et al., 2007) and computer applications in education (Zamfir, 2008b). Although some progress is being made, relatively few authentic web-based learning and lifelong learning programs have been developed and implemented at different levels of education (Zamfir, 2008a). One type of changes is related to an integration of various kinds of computer-based learning systems as supplements to conventional teaching methods (Zamfir, 2007).

Many possibilities are available for using information and communication technology for delivering educational services (e.g. PowerPoint presentations, E-mail, Chat, discussion forums, or special software). One of them is computer simulation (which integrates computers, software, virtual networks, people, and knowledge iterative processes) that could be successfully used in economic and managerial education. Some recently conducted studies (Zamfir, 2008c, Zamfir et al., 2009) have confirmed that it is very useful to simulate the activities of a company in order to develop students' competences and skills that they need for their real-life activities. Teachers could integrate into their teaching activity technological tools such as computer simulation, which promote interaction and critical thinking among students, and seem highly motivating and make learning enjoyable for students.

5. Conclusions

Education and implicitly educational services become extremely important in the context of the knowledge-based society. Consequently, we have briefly disclosed some of the trends in delivering services identified through research of literature, as well as based on personal

experience in providing educational services. Since knowledge is assessed throughout people's life (lifelong learning), people's awareness of the need for knowledge should be developed (educated), as well as their skills for the knowledge-based society. Given that information and communication technology plays a major role within the knowledge-based society, it is reasonable to use it for delivering educational services. If students are educated to apply knowledge to knowledge in the process of learning as well as in day-to-day life, then this process will become habitual, and their permanent need for knowledge will be encouraged and developed. In this respect, we have briefly illustrated how information and communication technology could be used to deliver educational services.

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SUB-SECTION: MARKETING

EVALUATING THE CULTURE-LED REGENERATION

Affortunato Francesca

*University of Studies “G. d’Annunzio” – Chieti-Pescara
Faculty of Management Sciences*

Castagna Alina

*University of Studies “G. d’Annunzio” – Chieti-Pescara
Faculty of Management Sciences*

Crociata Alessandro

*University of Studies “G. d’Annunzio” – Chieti-Pescara
Faculty of Management Sciences*

D’Angelo Francesca

*University of Studies “G. d’Annunzio” – Chieti-Pescara
Faculty of Management Sciences*

The aim of the paper is to propose a new approach to urban planning, evaluating the culture-led regeneration processes. In the last few years, the cultural turn in urban planning played a central role in the urban studies. In this way we try to elaborate a more robust perspective interpreting the complex phenomenology emerging from the culture-led regeneration processes. Within the concept of complexity we discuss about the “metabolic process” that are the processes necessary to transform energy, material and information in goods and service functional to the complex urban system life. The approach that will be employed is the MuSIASEM that is based on several novel concept and an innovative methods never applied in this research field.

Key words: Culture led regeneration, complexity, European integration, progressive system, MuSIASEM

JEL codes: R10, R20, Z10

1. Introduction

The issues of cities development trajectories and culture-led local regeneration have become more and more present within the urban studies (see Miles and Paddison, 2005, for a critical review). These emerging phenomena arose in a period of turbulent socio-economic change fuelled by globalization processes. According to these dynamics, virtually all of the cities, that are characterized by advanced levels of industrial development, are experiencing a massive re-shaping of their productive sectors. In this context, culture and creativity are clear examples of sectors characterized by high value added, high incidence of service and other intangible components, and by an interesting socio-economic impact on the local economies. At the European level this issue finds its institutional collocation inside the European research strategies developed by KEA Europe Affair. The year 2009 was designated as the “European Year of Creativity and Innovation”. In that sense the European Commission (E.C., 2009) has drawn attention to the usefulness of culture and creativity in sustaining the emergence of innovation-led economy within the EU integration policies⁷⁴¹.

Moreover it is widely acknowledge the culture’s contribution at a local level of analysis (OECD, 2005) in improving economic performance of local systems (Santagata, 2002;

⁷⁴¹ Actually, the culture and creative sector is found (E.C., 2006) to have both a direct, quantifiable socio-economic impact (it contributed to 2,6% of EU GDP in 2003 and accounted for 3.1% of total employed population in EU25 in 2004) and an indirect, non-quantifiable influence on the productivity of economic systems (by underpinning innovation dynamics).

Sacco and Ferilli, 2006; Scott, 2004; Valentino, 2003). The urban policy agenda is gradually including cultural and creative activities as a key driver in urban regeneration processes. As a matter of fact, it seems that culture and creativity are becoming new keywords in the understanding of new urban transformation (Musterd and Ostendorf, 2004). In that sense the “cultural turn” that emerged across the social sciences in recent years (Amin and Thrift, 2007) influences both the urban economic and policy systems (Crociana, 2009). Actually urban planning processes, fuelled by the culture-led regeneration, are moving toward complexity. This contribution aims to provide a new conceptualization of the cultural and creative sector by using an innovative set of semantic and analytical categories.

The paper is structured as follows: in the next section, we cope with the complexity and the relevance of time in the cultural and creative sector. In section 3 we present the MuSIASEM approach for the culture-led regeneration. Section 4 concludes.

2. Toward complexity.

2.1 Cities as a progressive system

A city can be conceptualized as a progressive system (Calafati, 2007) because it represents a sum of heterogeneous agents and a sum of heterogeneous relationships among them, coevolving progressively during the time, showing emergent pattern of development very difficult to predict. Since urban performance trajectories strictly depend on city’s specific “structure”, it is necessary to develop a methodological perspective able to capture the emerging phenomena that originate from the complex match between sustainable urban planning and the culture-led regeneration processes. That is possible by delineating three pertinent levels of description: (i) the structure of the system; (ii) the metabolic processes of the system, i.e. the processes that organize inputs as matter, energy and information into goods and services, functional to the system’s objectives; (iii) the regulation mechanisms of the system.

In this paper we provide a new conceptualization of the cultural and creative sector by using an innovative set of categories derived from the bio-economics theory elaborated by Georgescu-Roegen (1971). When studying a socio-economic process in terms of energy, material and information conversions, there are two different categories of elements which have to be considered in order to be able to perceive/represent the cultural and creative sector in terms of metabolic processes⁷⁴²: “fund categories”⁷⁴³ and “flow categories”⁷⁴⁴.

2.2 The time relevance in cultural economics

Another important factor of complexity is the time relevance within the cultural economics studies⁷⁴⁵. A number of works show that time has a cost. The existence of these costs suggests a major feature of cultural activities: they are time intensive in consumption (see Becker 1965, Owen 1969). When time factor is applied to the analysis of demand the same conclusion is always reached: the price of leisure time negatively affects cultural consumption, therefore, these activities can only be described as time-intensive products (see Withers 1980, Zieba 2009).

The theories on the cost of time also attempted to the weak growth of cultural consumption associated with rising income. So, on one hand, higher revenue coincides to

⁷⁴² See Crociana and Veneri (2009) for an application of these categories.

⁷⁴³ Fund elements have to be able to preserve - throughout the duration of the analysis - the same definition of themselves as converters.

⁷⁴⁴ Refer to elements disappearing over the duration of the representation (that enter but do not exit) and/or elements appearing over the duration of the representation (that exit without having entered).

⁷⁴⁵ Cultural economics is a branch of studies that grow up within economic theory (see Throsby, 1994; Towse, 2003).

a higher willingness to pay but, on the other, high revenue implies more working hours and consequently less free time.

A second reason that drives us to make considerations on the time factor concerns the temporal evolution of consumer preferences. There is a sort of progression, so as that the more the time people devote to artistic and cultural activities in their past, the greater the present and future consumption will be (Becker and Stiegler, 1977; Brito and Barros, 2005; McCain, 1979). It should be also noted that the consumption of the arts and culture is characterized not only by the effects stemming from previous experiences but also by the effects arising from social interaction; past consumption and social consumption interact mutually reinforcing each other over time.

3. The MuSIASEM approach for the culture-led regeneration

The MuSIASEM approach (Giampietro, Mayumi and Ramos-Martin, 2009), originally proposed as MSIASM by Giampietro and Mayumi (2000), has been developed in relation to the emerging field of science for governance. In particular it can be seen as an attempt to generate a methodological approach capable of providing a quality control on quantitative analyses applied to the issue of sustainability.

The MuSIASEM approach is radically different from conventional scientific tools. It uses a combination of conceptual tools derived from: (i) Complex System Theory, such as “Complex and progressive system”, “Multi-Purpose Grammars”, “Multi-Scale Integrated Analysis” (hierarchy theory); (ii) the seminal “Fund-Flow model”, proposed by Georgescu-Roegen to implement the concept of Bioeconomics which is associated with the concept of “Societal Metabolism” to be interfaced with “Urban Ecosystem Metabolism” analysis. The main goals which are behind the MuSIASEM approach keep clearly separated the descriptive from the normative aspect. It represents in an integrated way the relevant changes in the performance of an investigated system, using an open set of criteria and indicators which can be defined on different scales and in relation to different narratives⁷⁴⁶.

The MuSIASEM approach analyzes the metabolism of a society in regard to a dynamic budget in terms of “per hour of human activity”. Funds stand for the attributes used to define “*what the system is*” and flow coordinates correspond to “*what the system does*” interacting with its environment. The flow-fund representation is based on *extensive* (additive) variables which define the size of the compartment, and *intensive* variables (ratio) which represent the pace of metabolism. This allows to use the same assessment when referring to a hierarchical structure, i.e. to the whole society and to a given subsector (Giampietro et al. 2009). The total amount of what is consumed in terms of hour of human activity at *level n* (the whole urban system) has to be *congruent* with the flow in the compartment of production at the *sub-level n-1*. The allocation of funds and flows over different compartments across each hierarchical level is useful to establish a relation between the characteristics of the *metabolic rate* between and within compartments. At the level of individuals (*level n-3*) we observe the conversion of *endosomatic*⁷⁴⁷ energy into Human Activity (HA). At this level the population has to be divided in a set of type of individuals (*age class*). Each of this individual type distributes its own endowment of HA within a set of categories: Paid Work (PW), Physiological overhead (PO), Leisure Culture (LC). At this level, the congruence constraint is $HA_i = HA_{PW} + HA_{PO} + HA_{LC}$.

At the upper level (*level n-2*), the household level (HH), the focus moves on the conversion of *exosomatic*⁷⁴⁸ energy associated to categories of HA within the socioeconomic process, with

⁷⁴⁶ Obviously, this implies that MuSIASEM can provide only the analytical input within a process of integrated assessment.

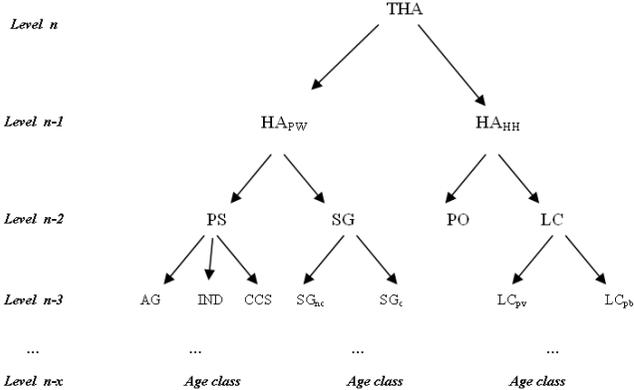
⁷⁴⁷ Information, energy and other material flows metabolized inside the human body for sustaining the physiological activity.

⁷⁴⁸ Information, energy and other material flows converted outside the human body in order to preserve the efficacy of human activity.

reference to the interaction of HH with the rest of the system. On the one hand it means that HH requires an amount of services and products in which working hours, provided by the PW, are embodied. On the other hand HH supplies hours of PW to the society by maintaining and reproducing workers. At the level of economic sectors (*level n-1*) it is necessary to observe the linkage between the PW sector (*Production*) and the HH sector (*Consumption*). The congruence fund constraint is: $THA = HA_{HH} + HA_{PW}$.

This paper aims to investigate the role played by the cultural sector in urban regeneration. From this point of view, we consider the seminal hierarchical structure (Giampietro et al. 2009), focusing the role that culture plays in the socioeconomic system (see fig. 1). Taking into account not only the total population, as it happens in per capita evaluations, but also the demographic structure, this approach allows to analyze the effect that any qualitative change in the cultural sector composition has on the urban socioeconomic system metabolism. In other words, the analysis investigates what happens in this sector in order to try to identify some of the mechanisms taking place at the age class level and vice versa. In this view, it is possible to analyze the socioeconomic characteristics of a culture-led regeneration of the urban system starting from analyzing how household members allocate their time in cultural and creative sector.

Fig.1: Hierarchical time use allocation in urban cultural-led regeneration
Fund category: Total Human Activities (THA)



HA_{PW} = Human Activities PW Sector; HA_{HH} = Human Activities HH Sector; PS= Productive Sector; AG= Agricultural Sector; IND= Industry; CCS= Cultural and Creative Sector; SG= Service and Government; SG_c = Service and Government in the Cultural sector; SG_i = Service and Government in other sectors; LC= Leisure Culture; LC_{pv} = Leisure Culture in Private configuration; LC_{pb} = Leisure Culture in public configuration.

4. Final remarks

Because of the lack of a full-fledged analysis of the deep causal links that make culture-led regeneration so important in the current scenario, it becomes difficult to assess what are the critical conditions that determine whether or not a given urban planning system may be successful. The MuSIASEM approach for the culture-led regeneration allows us to map the allocation of time over different sectors of human activities over different levels. Since our interest concerns the cultural sphere, we intend, in our future works, to effectively measure the hours of human activities spent in producing and consuming cultural and creative “goods” in particular cities of interest. Then we intend to use these data as the “fund category” necessary to construct “intensive variables”, such as income/hour, energy/hour, human capital/hour, etc. These intensive variables are to be used for assessing the contribution of culture-led processes to urban metabolism, through comparisons with other sectors of human activity. This approach could be suitable to evaluate cultural urban performances within the context of international competition deriving from globalization and European integration.

With regard to the feature of the culture that cannot be always consumed in a location distant from where it is produced, this approach is useful to analyze the spatial distribution of the cultural and creative activities within the city borders.

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RELATIONS WITH THE PUBLIC VERSUS PUBLIC RELATIONS IN THE LOCAL PUBLIC ADMINISTRATION

Bențe Florina-Maria
University of Oradea
The Faculty of Economics

Concomitant with the evolution of society, public relations are socially expressed only together with the explicit articulation of public categories and public organizations, once the individual becomes a citizen whose satisfaction is at the core of the public system's preoccupations, ignoring times long gone when the ordinary citizen and the majority of the public administration representatives couldn't tell apart the concept of public relations from that of relations with the public.

Key words: *citizens, organizational culture, routine*
Cod JEL lucrare: M38

Organizations are blindly linked to very heterogeneous human groups and categories, to other organizations, cultural values, currents of ideas and, of course to politics. They need information on these social partners' expectations, their sympathy and adherence. They also need their messages to reach quickly to the public and be assessed by it. They are responsible for organizing the institutional communication and for building up the strategy and communication policies. Public relations are a filter of communication; they allow through and amplify the circulation of favourable messages, at the same time stopping or buffering the impact of unfavourable ones.⁷⁴⁹ Public relations are one of the methods by which the society adapts to changes and solves conflicts of attitudes, ideas, institutions and opposed persons⁷⁵⁰.

In the organization chart and factual relations with citizens, the local public administration institutions focused not too long ago only on the system "relations with the public". Although "relations with the public" concern only the direct communication with the immediate public (citizens, suppliers, visitors, members of subordinate institutions, etc.), getting in contact with at the desk, by phone or on the Internet. Again through "relations with the public" papers are filed for the recipient that is the public institution in discussion. Considering the complexity of local public administration functioning, the relations with the public represent only a component part of public relations.

The public institutions feel the need to communicate when good things happen to them. If they had a spectacular increase of budget incomes as compared to past years, or when they accomplished an elaborate project. Communication is associated with good news. But in times of crisis their tendency is to stay away, this proving to be a big mistake on their part. Public Relations may be regarded as "doctor of crises", the binder that keeps the public close to the organization even in moments not so good. Ignoring this aspect, institutions may fall into a dangerous trap considering the period of the present financial crisis, that of alienating citizens, up to the point of refusal to communicate. Such an attitude has a negative impact by perceiving the institution as not being transparent. Even during crises opportunities must be seized by adapting the communication strategy to the new context. Obviously, the resource of adaptation length lies in the people and their capacity to design and sustain a new mission of the organization, in consonance with the new extra-organizational tendencies. The support of the organizations'

⁷⁴⁹ Prutianu Ș., "Tratat de Comunicare și Negociere în afaceri", Polirom Publishing House, Iași, 2008, p. 282.

⁷⁵⁰ Grunig J. E., Hunt T, *Managing Public Relations*, Detriot, Rinehart and Winston, Philadelphia, 1984, p. 3.

adaptation is of communicational order. The adaptation strategy is, in essence, of communicational category. In this context, the organization's public categories establish and express themselves – the internal and external public, the latter comprising the local public (local community members the respective institution serves). Thus, internal communication becomes more visible than before, the reputation auditing being called for because the crisis is a moment of balance followed by long term decision making.

Even in the public institutions the organizational identity must be created hand in hand with the organizational culture. Swchwebig⁷⁵¹ distinguishes the two concepts by placing culture at a behavioural level and identity at the level of the unconscious. In this perspective, one of the responsibilities of an organization's board is to create and maintain through a proper policy the process of identification with the organization. Partially, the identity is also built up from the relations with the environment and due to internal management. Another very similar concept and often mistaken with the above ones is the concept of organizational climate referring to the visible characteristics of the organizational "atmosphere", visible features for the outsiders even from the first contact with the public institution, for the employees being a rather hard to define ensemble but which may be part of the motivational factors. In the specialty literature the climate was defined as "a relatively lasting quality of the internal environment which is:

- a) lived by its members;
- b) influencing their behaviour;
- c) described by a set of "organizational environment attributes". Thus, climate is a variable prone to creation or alteration in a shorter time as compared to the other two, whose design and management take much longer.⁷⁵²

The identity of an organization when it is well managed may be a very powerful mean of integrating more regulations and activities essential for the success of the organization. It may also furnish the visual cohesion necessary to secure the fact that all communication actions are coherent to one another and the result is an image compatible with the public institution's specificity. Through an efficient identity management an institution may build the understanding and trust for its diverse categories of public.

The effort of public relations communication create an important bond between the organization's strategy and personality, identity, culture, image and reputation, that is why various instruments are used for conveying identity and subsequently, assessment instruments to make sure that identity was properly communicated. The key to the differences between the types of organizational communication is the fact that it focuses on all public groups and has an internal dimension that contains communication with and among employees. A mission, vision and organizational philosophy related strategy develops, and the mission statement includes these values that couldn't have been extracted from the strategy. The mission statement may be used both for the internal and the external communication.

Public institutions also face communication problems due to the fact that the public system is a rigid one, with beaurocracy affecting all members and the performance of communication is also affected by the size of the institution – the bigger the institution (as number of employees) the harder is to obtain an efficient communication between all levels.

A large dimension public institution, rigid, with a rational organizational culture, tends to look to internal routine and less to non-routine, to improving both internal and external communication, with impact on the relations between the parties involved in the process of communication. Also, in an institution whose aim and organizational identity are misunderstood by all members, communication will suffer. In addition, beaurocracy itself affects the communication performance⁷⁵³. Organizational identity should be published in the largest sense possible because

⁷⁵¹ Sfez, Lucien, Dictionnaire critique de la communication, PUF, Paris, 1993, p. 580.

⁷⁵² Cismaru, D. M., Comunicarea internă în organizații, Tritonic Publishing House, Bucharest, 2008, p. 79.

⁷⁵³ Pandey Sanjay K, James L Garnett- *Exploring Public Sector Communication Performance: Testing a Model and Drawing Implications*, Rutgers University, Campus at Camden, 2006, p. 41.

the public categories are influenced in several different ways. Practically, the building of identity is the first major step in image building.

The organizational culture, meaning the common integrating culture that stimulates and reevaluates the members' potential, is the place where internal communication represents an important variable for the infusion of values and of the other elements of an organizational culture. It may be, at the same time, an instrument for the design and construction of a system of values which to stimulate performance and capacity to face the influences from outside. The culture of the organization may be seen as an expression of norms and values, representing that pattern of values and norms that distinguish an organization from the other, appointing to what is important for the respective organization⁷⁵⁴. Organizations must build themselves an organizational culture which emphasizes open and bi-directional communication with the aim of forming positive relations between employees which would lead to improving and/or building positive relations with the public categories outside the organization⁷⁵⁵.

Bluedorn explains that in order to understand and mostly to act in the sense of altering the organizational culture, the time factor must be taken into consideration. The author insists on the fact that the attempt to modify an institution's organizational culture, even of a department to a new creed or a new ideology, is one of the greatest challenges a manager may face; amid all the dimensions of the culture, the temporal one is the most difficult to alter because it stands for the foundation of any culture's values and creeds⁷⁵⁶.

Moreover, the public institutions where positive relations develop have as advantages, dedicated employees (public clerks that feel commitment towards the respective public institution) and employees developing positive relations both inside the organization and with the public categories outside the institution.⁷⁵⁷

At the same time, the organizational perspective makes possible a relevant way to operationally define public information and organizational communication as a priority form of managerial communication. If in the public space public information is legitimated through the norm of social democratism, in the organizational space public information comes as a functional imperative. In other words, "organizational communication is the ensemble of structures and communication processes through which organizations adapt to the external environment changes". In conclusion, in the organizational space, the actors are the organizations themselves. Interests are of an adaptative order and the processes are of communicational nature. In this new context, a new sense and a new possible definition of the public relations become visible, according to the acception of SNSPA: "Public relations constitute an organizational communication strategy, through which organizations become communicant and the fluxes of communication between organizations and the internal and external public categories determining the adaptation of the organizations".

Public institutions must not overlook communication of public relations both due to lower costs and to the role public relations have in building the reputation and in times of crisis reputation is the most valuable asset of an organization. The spreading of its image among the large public depends on the way the public relations activity within the institution is organized, starting from the position of the department in the flow chart and continuing with human, material and financial resources allocated to that field and with the establishment of some strategies and public

⁷⁵⁴ Vlăsceanu Mihaela, *Organizațiile și cultura organizării*, Trei Publishing House, Bucharest, 1999.

⁷⁵⁵ Schneider, B., Bowen, D., Ehrhart, M., & Holcombe, K. (2000). The climate for service: Evolution of a Construct. In N. Ashkanasy, C. Wilderom, & M. Peterson (Eds.), *Handbook of organizational culture and climate*, Thousand Oaks, CA: Sage, pp. 21-36.

⁷⁵⁶ Bluedorn AC. 2000. Time and Organizational Culture. In *Handbook of Organizational Culture and Climate*, Ashkanasy NM, Wilderom CPM, Peterson MF (eds). Sage: Thousand Oaks; 245–260, p. 127

⁷⁵⁷ Yunna Rhee, *The employee-public-organization chain in relationship management: a case study of a government organization*, University of Maryland, 2004, p. 8.

relations campaigns in agreement with the specific and need of the institution. On the way these institutional level relations are managed, on the importance given by the board of the institution and by the entire personnel to this activity depends the draw-up and implementation of some efficient public relations and communication campaigns, and finally, the creation of a proper image of the institution in the eyes of its public categories. In addition, public relations are indispensable in changes. Any decision must have a related communication plan and crises, by definition, imply changes. As a matter of fact, in all public institutions, the focus of public relations communication will move on from informing to explaining, from “what” they do to “why” they do certain things (for example, organizing public meeting to discuss with the citizens about the streets that are going to be rehabilitated, why those and not others, etc.), perhaps not to the liking of their public and “how” do they prepare to meliorate the situation or maintain a positive direction. As general directions of strategy, public institutions must be more internal communication oriented, both with their own employees and with the unions, but also with the communication with the suppliers which due to the peculiar financial situation are not seldom paid with delay, with the ONG but also with the other public institutions they have relations with. Social normality expresses and results from a society’s capacity to assume and practice social norms, of democratic “norms” of social behaviour. The states of social abnormality are possible when in the social life either the tendencies of social “over-aggregation” manifests itself (through totalitarian type practices, of compressing the space of the individual life free existence), or the tendencies of social “under-aggregation” (by the dissolution of “social tissue” and of public authority, through social anarchy manifestations). It is a fact that, in both cases, the root of social abnormality is of a communicational structure and consists in a communication deficit or in a communication crisis. The communication crisis can only be surpassed (or foreseen) through an optimal public communication strategy. Or, this is exactly the essential role of public relations in the democratic societies, a role concentrated on generating communication fluxes between public institutions and citizens, so as the public institution to recognize and act for the real interests of the citizens and the citizens to gain confidence in the public institutions and clerks. In the above context, the following definition of public relations may be formulated: Public relations are a public communication strategy, through which the acknowledgment of the citizens’ interest and their faith in the public institutions are generated.

In this sense the “stake” of public relations is huge being directly linked to a society’s social health state and a society is healthy when citizens communicate freely with each other and with the public institutions.

The practician in public relations serves as intermediary between the organization he represents and all the public categories of that organization. As a consequence, the public relations practician has responsibilities towards the institution and the different public categories of the organization. He distributes information which gives the public categories the possibility to understand the policies of the institution. This implicit role includes the communicational aspect linked to the ascertaining and influencing the opinions of a group of persons.

As important function of the communication strategy public relations describe the followings⁷⁵⁸:

1. Anticipation, analyzing and interpretation of public opinion, of attitudes and elements that may have a positive or negative impact on the organization’s plans and operations.
2. Counselling the board, on every level, about the decisional politics, the course of events and communication, considering their public effect and the institution’s civil and social responsibilities.
3. Research, coordination and continuous evaluation through action and communication programs in order to obtain the information and support of the public, necessary elements for successfully achieving the objectives of the institution. These programs may include financial

⁷⁵⁸ Newsom et al, 2000, apud R. Pricopie, *Relatii publice: evolutie si perspective*, Bucharest: Tritonic, 2005, p. 15.

and marketing techniques, funds raising and governmental relations, with the community and/or with the employees, as well as other types of programs.

4. Plan and implementation of the organizational efforts to influence or modify public policies.
5. Objectives establishing, scheduling, budgeting, recruitment and staff training, developing some activity spaces – in short, administrating the resources necessary for accomplishing the above.
6. Among the necessary knowledge in the public relations professional practice are listed: art of communication, psychology, social psychology, sociology, political sciences, economy, as well as the principles of management and ethics. Specific knowledge and technical abilities are necessary for: study of public opinion, analysis of public related issues, relations with the press, publications, video productions, special events, speeches and presentations. To aid the policies definition and implementation, the public relations practician uses a variety of professional communication abilities and has an integrating role, both inside the respective institution and between the organization and the outside space.

In order to realize an efficient communicational process both intra and inter-institutional, the following criteria must be fulfilled:

- **The credibility criterion** – trust and mutual support between administration and population are some desiderates that cannot be accomplished in a week or a month. These take time, are hard to build and are maintained by permanent efforts sustained by positive elements, performed by both parties involved in the communicational process.

- **The sensitivity criterion** – in the public relations work it is very important that orientation be both dependant on the wishes and expectations characteristic of the organization and on those of the partners. It is wrong to focus only on the own goals and development of own programs without considering their impact on the others. The reverse of the medal is not beneficial either, meaning to listen and act only dependant on the others. The public relations work must have as a result the fulfilment of own goals by not harming the discussion partner or any competitor whatsoever.

- **The realism criterion** – any system, through the work of public relations must very well acknowledge its potential, its strong points, as well as the weak ones. The system must lean on strong elements and it must avoid the alleged problems that weak elements should create. The weak elements once identified must constantly and permanently be enforced to become, in turn, strong points able to help the system. There are also cases when these weak elements take too much effort from the whole system to get strong, case in which they should be removed.⁷⁵⁹

For the good development of all the activities within an organization, the internal communication process must function impeccably. Inside any system where the intra-systemic communication flows in good and very good conditions, there is also a positive environment, aspect that has beneficial consequences on the involvement of its component elements in different actions, as well as on the accomplishment of the proposed targets. Each element of the system has a role of image multiplier. When an employee is satisfied with their working conditions (being met both their material and spiritual needs, of self-accomplishment), they will convey/disclose to other persons their experiences, passing on positive things in general, which brought them satisfaction within the system they work in. Czaplewski, B. Schneider and White & Paul present the relations inside the organization as directly responsible for the satisfaction experienced by the clients after coming into contact with the organization.⁷⁶⁰ The relation public – organization is given by the bond created between an organization and its public, which result from the behavioural

⁷⁵⁹ Rus, Flaviu Călin, *Relații Publice și Publicitate: metode și instrumente*, Institutul European Publishing House, Iași, 2004, pp. 7-8.

⁷⁶⁰ Czaplewski, J. Southwest Airlines: How Internal Marketing Pilots Success. *Marketing Management*, 10(3), 2001, pp. 14-17.

Schneider, B., White, S., & Paul, M. (1998), Linking service climate and customer perceptions of service quality: Test of a causal model. *Journal of Applied Psychology*, 83, pp. 150-163.

consequences (conduct) an organization has on its public, a repeated communication⁷⁶¹ being also needed. We must not overlook the fact that in the case of relations from within the organization the situation is more delicate in the way that employees (as part of the organization) undergo an avalanche of contacts with the organization and when evaluating the quality of the relations, the criteria are different from person to person. Also, as towards the external public, the employees have the tendency to accentuate differently the dimensions and ways of establishing and maintaining the relations between employees. The relation employee – public mainly refers to the individual relational level developing between the employee and the external public. Analyzing this issue, Grunig and Huang⁷⁶² identified trust, control reciprocity, satisfaction and commitment as dimensions of this relation.

The most important tactics public institutions under crisis may adopt are transparency and steadiness in communication in order to maintain the public's trust in the decisions taken and also in the fact that each decision follows primarily the interest of the citizen.

Due to the insecure situation generated by the existent crisis in Romania citizens find it more and more difficult to have trust: in the safety of the job, in the evolution of the economy and of the country's currency and in the public institutions, both central and local. Confidence is one of the poorest of resources from the highest political level down to the smallest economic transaction. At the same time, on a market governed by uncertainty confidence is the most precious resource an organization may own, that is why public institutions must rely more on strengthening the relations with the citizens through the system of public relations.

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⁷⁶¹ Yunna Rhee, *The employee-public-organization chain in relationship management: a case study of a government organization*, University of Maryland, 2004, p. 9.

⁷⁶² Grunig, J., Huang, Y. (2000). From organizational effectiveness to relationship indicators: Antecedents of relationships, public relations strategies, and relationship outcomes. In J. Ledingham, & S. Bruning (Eds.), *Public relations as relationship management: a relational approach to the study and practice of public relations*, Mahwah, NJ: Lawrence Erlbaum, pp. 23-53.

13. Yunna Rhee, The employee-public-organization chain in relationship management: a case study of a government organization, University of Maryland, 2004

IMPLICATIONS OF CITIZEN PARTICIPATION IN LOCAL PUBLIC ADMINISTRATION UPON CITIZENS' SATISFACTION

Bențe Florina-Maria
University of Oradea
The Faculty of Economics

The satisfaction of citizens considering public services depends on the way the authorities identify and offer solutions to fulfil citizen's expectations, which are at least identical or even superior to the services offered in private domain. In addition, the worldwide governments are forced to adapt to the pressure exercised by the changes that appear in the demographic, technologic and economic environment, by the growing expectations of citizens and the necessity of lowering the taxes. As a consequence, the public system is starting to adopt the solutions that the citizens identified for the developing of the public policies, implying and making the community responsible in the act of governing.

Keywords: *social inclusion, exclusion, inequity*
Cod JEL lucrare: M38

The citizen participation is the process through which the preoccupations, needs and values of the citizens are incorporated in the decisional process of local public administration. There are two directions of communication (between citizens and administration), with the general purpose of making better decisions (local public administration) sustained by the citizens, on the basis of the attributes their satisfaction develops on.

Both Upson⁷⁶³ and Schachter plead for the implication of the citizens in the act of governing. The problem they notice is given by the difficulty of implication of the citizens in public affair problems. After Schachter, the indirect benefits associated with the involvement of citizens in the administrative act are: economical development, community reviving, perception of safeness, low mobility of the citizens with low salaries. Stone⁷⁶⁴ fights Schachter's ideas through the prism of plural wishes, expectations and opinions of citizens which mainly cannot be transform into efficient results for the governing act. Even though, Schachter himself admits the fact that the same project can be efficient or not, depending on what that community has been waiting for. In conclusion, it is difficult for the leaders of a community to decide which project should be implemented, because the results can be labelled as efficient or not depending on the subjective criteria each individual has. With such a big emphasis on the conformity of the administration's results to the citizens' expectations, Schachter misses the fact that the citizens' expectations can be unrealistic in what efficiency is concerned⁷⁶⁵.

Ebdon and Franklin⁷⁶⁶ claim that the instruction of citizens with respect to fiscal aspects with which they operate in public system, helps them to separate the feasible projects from the unfeasible one. When Upson talks about the implication of citizens in problems of efficiency he distinguishes between "how" and "what" the public administration does. Upson argues that because this two situations interact with each other, the civil servants have to pay attention to

⁷⁶³ Upson, Lent D, Letters on Public Administration from Dean to His Graduates, Detroit: Citizens Research Council of Michigan, 1954, p. 152

⁷⁶⁴ Stone, Deborah, Policy Paradox: The Art of Political Decision Making, New York: W.W. Norton, 1997

⁷⁶⁵ Bothe John, Governmental Efficiency in Our Time: Is the "What" Really More Important Than The "How"?, Public Administration Review, Sep/Oct 2007; 67; 5; ABI/INFORM Global, p.813

⁷⁶⁶ Ebdon, Carol and Aimee L. Franklin, Citizen Participation in Budgeting Theory. Public Administration Review, 2006, 66(3) : 437-45

both aspects: “what administration does and how it does it”.⁷⁶⁷ By comparison, the hypothesis that Schachter supports relies more on “what” administration does and less on “how” it acts. Bothe⁷⁶⁸ says that it might be possible to obtain better results, if they first of all let citizens know about actions, functions and implications of the activities performed in those public institutions, and only later, after they developed their knowledge in the matter of public system, the citizens can understand “how” the administration works and based on this knowledge they can analyse if the projects they support bring realistic solutions.

The most influential theory that has dominated the research in the domain of social and political participation of the past years is Putnam’s theory on social capital, from 1993, which resumed from another perspective the theory on political culture developed by Almond and Verba. The social capital refers to the characteristics of society, trust, norms and networks of interpersonal relationships, which can better the society’s efficiency, by facilitating common actions. According to Putnam’s⁷⁶⁹ theory a civic community (society) (which can be said to detain a social capital to a large extent) would be characterized by the following elements:

1. Civic employment: the citizens participate actively in the public domain, pursuing their interests in the broader context of society acknowledging at the same time, the interests of the others.
2. Political equality: the community is bounded through relationships of cooperation and reciprocity, not through relationships of authority and dependence. People are employed in the process of self-governing, following norms of reciprocity, in the perception of citizens one being able to find the growing satisfaction of the act of governance.
3. Solidarity, trust and tolerance: the citizens are active, equal and they help, respect, trust each other, even if they have different opinions, they are tolerant with their opponents.
4. Associations, which are, in fact, “social structures of cooperation”: the norms and values of civic community are incorporated in distinct social structures and practices.

Putnam’s research on the communities in Italy pointed out the tight connection between the type of community and the degree of social integration: the citizens from less civic communities in the south Italy feel, to a larger extent, alienated, exploited and powerless. The social networks based on trust have bigger chances to overpass the difficulties that come from non-fulfillment of common interests, as a result of opportunistic and isolated actions of the citizens that are not implicated in the mechanisms of collective actions.

Spontaneous cooperation of people is facilitated by social capital, but the production of the social capital is a cycle. In the participation process, people acquire new skills, greater confidence in each other, so that the provision of social capital is recharged. All the forms of social capital grow as they are used, and they decrease if not implemented.

Almon and Verba have considered that it is good to begin with the local community when it comes to participation, because the problems are easier to understand, the government organisms are less distant and the chances of efficient participation are bigger. It is only here that the citizen can develop a feeling of knowledge with respect to the social and political problems⁷⁷⁰.

The citizens’ disinterest towards the involvement in the process of decision making and their distrust in their capacity of influencing the decisions of the authorities have as effect the emphasis of a dominant position of the public authorities in the structure of a participative administration. In this context, the role of local public authorities implies not only the acceptance

⁷⁶⁷ Upson, Lent D, Letters on Public Administration from Dean to His Graduates, Detroit: Citizens Research Council of Michigan, 1954, p.153

⁷⁶⁸ Bothe John, Governmental Efficiency in Our Time: Is the “What” Really More Important Than The “How”?, Public Administration Review, Sep/Oct 2007; 67; 5; ABI/INFORM Global, p.814

⁷⁶⁹ Putnam Robert D, Making Democracy Work: Civic Traditions in Modern Italy, Princeton, NJ: Princeton University Press

⁷⁷⁰ Almond G., Sidnev V., *Cultura civică, Atitudini politice și democrație în cinci națiuni (Civic Culture, Political Attitudes and Democracy in Five Nations)*, Bucharest, Du Style Publishing House, 1996

of citizen's participation, but also the initiation of some measures for their effective implication in the decisional processes. The disinterest of public authorities considering citizen's participation seems to be a factor at least as important as the passivity of citizens, the relations between the mentioned dimensions being one of reciprocal causality⁷⁷¹.

Gretchen⁷⁷² reveals in his study the lack of an active implication and participation of the final beneficiaries (citizens), demonstrating that this way the structural and operational changes that demand implementation fail to produce the desired effect, or at least it takes longer than expected.

The citizen's participation in the process of making public decision includes not only the specific methods of implication at local level, but also ways of ensuring participation of the entire community in the process. The diversity management becomes an important part of the process of implication of the citizens in the public life.

Integration

"The opportunity of participating equally in the socio-economical life, without losing the distinctive identity (linguistic, cultural) and simultaneously, the contribution to the cultural heritage of society through individual distinctive elements...⁷⁷³"

If through integration the identity of a group is maintained, being identified modalities by which these would become a part of an entirety; the assimilation has, of course, a negative connotation due to the minorities' loss of identity and the adopting of the majority identity elements. The political integration based only based on equality in rights as it derives from the citizenship won't grant equal opportunities and it won't prevent social conflicts either. The participation opportunity implies not only the participation but also its capacity of consolidation. Not to become a symbolic effort the comprehensive integration has to complete the political, socio-economic and cultural participation with the inclusion and consolidation of the capacity.

Social inclusion

The social inclusion is the process through which the persons with a higher risk of poorness and social exclusion gains access to the opportunities and resources needed in order to have a full participation to the normal life of the society they live in. The process implies an active participation in decision making which affects their lives and the guarantee of fundamental rights. Inclusion has an important role because the role of the state is to ensure security, order and prosperity. The state can accomplish this task only if it manages to integrate all the groups of society. The inclusion has an important role because:

- if a group feels rejected from the process of elaboration of policy and from the state's institutions, it will create its own separate institutions;
- the majority will see these institutions and the work agenda of that minority as a threat;
- this situation might generate conflict.

The inclusion implies the participation of minorities in the processes of elaboration of policy and the consolidation of their capacity, for a more efficient participation; it means acknowledgement and adaptation of minority groups. Thus, in what defining of community problems are concerned, the information has to include the definition of everyone's problems and needs, from the viewpoint of each, majority or minority. After the problem has been defined, they are prioritized and included in the work agenda. This process needs to be based on the participation of all the groups of community, reflecting the problems and the needs of the community in general and not only of a particular group. In what the participation of the minority to these processes is concerned, greater attention needs to be paid to the way the minorities are represented. The

⁷⁷¹ Comşa, Mircea et al. (2006) Evaluation of Law 52/2003 on decisional transparency in public administration, research report of Metro Media Transilvania, beneficiary InWent,p.35

⁷⁷² Gretchen K. . Managing the impersonal in a personalized public service. Public Administration and Development 23(2), 2003,pp. 197–209.

⁷⁷³ United Nations Development Programme(2002).The Roma in Central and Eastern Europe.Avoiding the Dependency Trap. <http://roma.undp.sk/>

principle of the majority decision does not have to be determinant for the setting of priorities and of the agenda, neither in continuity in general, nor inside groups.

Thus, local policies need to be adapted to the diversity of the community and at the diversity within each group, as well. The participation of all the groups in the process of elaboration and implementation of local politics ensures their acceptance by the entire community, triggering a feeling of responsibility towards the results obtained. The responsibility of local authorities, in addition to the ensuring of participation of all those affected directly or indirectly by that policy, includes the development of complimentary structures of the policy, the creation of capacities and allocation of resources.

Exclusion and inequities

Social exclusion means limited or blocked access to social systems (labour market, political institutions, access to education, social services etc.). It is a process in which certain individuals are pushed to the margins of society and they are not allowed to fully participate, because of discrimination or due to poorness or lack of elementary competences.

It is important to emphasize that the inequities are characteristic to democracy not only at a level of representation, but also at the participation level: non-dominant ethnic groups, inferior in number or vulnerable ones could not only be neglected, but they also have less power to influence the rules, procedures and policies. If these are not taken into consideration or moderated by special procedures, they can cause later inequities.

On short term, the exclusion of a non-dominant group and of the preferences of this group from the political agenda might seem an efficient and effective solution, but on long term, the win-lose situation will become a loss-loss one as long as the social situation will get unbalanced. The restricted competition for power and resources and the exclusion of different groups from the decision making process sooner or later results in social conflicts, massive migration which effect the entire community, not only the group that is exposed to the exclusion. In such cases the risk of conflict is higher.

There are more values accepted in governing, such as equity, equal treatment, inclusion, social unity, participation. They all are meant to fight against the phenomenon of exclusion. Therefore, good governance is designed to reduce exclusion and promote inclusion, a fundamental principle of democratic states.

Marginalization

According to the Law concerning prevention and fight against social marginalization, social marginalization is defined by peripheral social position of isolation of individuals or groups with limited access to economic, political, educational and communication resources of community, it is manifested by the absence of minimum social conditions of life ⁷⁷⁴. It is the result of multiple exclusion from different social systems and of segregation. It is a process of socio-economic degradation. It is the total failure of inclusion.

Segregation is illegal separation without consent or expressed desire of the segregated. It means isolation from society by denying access to major social, political or economic institutions. Segregation based on ethnic criteria can lead to both "vertical" and "horizontal" stratification, where different units are separated into their own structures and mutually incompatible.

To be fair, the state and its institutions must be neutral and must not favor one group over another. To ensure participation of all groups in local decision-making process there is a primary need for recognition and awareness of diversity as well as of the way in which the identities overlap and intersect.

Public participation is desirable when it is effective. The management of the participatory process primarily supposes a series of decisions and actions meant to make it possible:

- identifying the most appropriate form of participation for the desired goal, considering the nature of the problem, the size of the group involved;

⁷⁷⁴ Law no.116 / 2002, art.3

- identification and clear communication of the objective of participation;
- invitations sent in time;
- providing necessary resources for the good development of the process: moderators, operating room, materials to present the problem, etc.

To get the desired result, participation must be first *inclusive*, i.e. the views of those directly and indirectly affected by the resulting public policy should be allowed to transpire. This is especially relevant where the community is distinct ethno-culturally.

Language barriers

Symbols, linguistic structures and rules make the coding mode of the message sent to the listener represent an important barrier in intercultural communication. Beyond the linguistic problem, the level of knowledge of communication language and the vocabulary which the participant has, make the message and its understanding difficult the way it was intended by the others. Ensuring communication in mother tongue is one of the ways of passing that barrier.

Anxiety

Coming into contact with members of other cultures makes them find out that other cultures have different values, that in the same situation the culture guides others differently. Interaction with a stranger is a challenge for any guide considering the behavior, the rules that were as clear as possible in the communication with a person of the same culture are lost, thus leading to anxiety - nervousness. Such an emotional reaction is normal when someone enters an environment that is unfamiliar, considering the fact that one cannot predict the behavior of others.

Stereotypes

Stereotypes are labels that are applied to individuals that are associated with a group of people and share one characteristic. They can be negative, and they function as mechanisms to discourage involvement in community life.

Cultural context

Communication must take into account the differences in codes of conduct and rules of communication that can differ according to culture / different ethnic group, age, social environment. These differences are relevant when they either discourage the participation due to the misunderstanding of the communication meaning and of behaviour, inability of expressing in the same way or have negative and offending effects that certain behaviours can inflict to the others.

However these communication barriers can be overcome. The Public Administration role in this process is to identify the differences among community members, to facilitate mutual understanding and communication between them, to mediate conflict situations.

To meet the needs of citizens, participation must be *transparent*, which is to rely on early communication of information necessary for participants to make decisions. The information must be communicated in a language accessible to a bigger part of the target group. Also, information should be distributed as widely as possible.

Participation should be facilitated in order to allow each participant to express their views, to ensure reaching a conclusion related to the objective of participation. The role of the facilitator or mediator is based on four principles:

- *separating people from their problems*: separation of subjective problems, caused by different perceptions and other inherent obstacles in communication between people, by objectives, by content;
- *focusing on interests beyond the positions of different parts*: finding the real problems, under apparent solutions or symptoms;
- *generating of multiple solutions before reaching an agreement*: identifying alternative solutions to the same problem, to identify the best alternatives or combination;
- *identifying objective criteria for the reached agreement*: objective evaluation of multiple options for taking any kind of decision, when determining priority issues or choosing the best solution from several alternatives.

The participation goal is to reach an agreement, a common understanding on solving a problem of the community or of a part of the community, thereby achieving a higher level of satisfaction of the community members.

The most effective methods of citizen involvement are the direct ones:

- *Regular meetings* between representatives of public authority with the public, both on specific areas of local public policies and with groups of citizens directly affected by specific policy measures (an effective method of citizen involvement is represented by the meetings organized by the local executive with the leaders of associations of owners in the community to identify together the ways of meeting the wishes of the citizens they represent).

- *Public hearings* - to identify problems of public policy brought by citizens.

- *Public debates* aiming to identify the alternatives of public policies approved by citizens and to select alternatives that are viable and/or the evaluation of the impact of implementation of various public policies (consulting citizens living on the streets included in the project of asphaltting and rehabilitation, aiming at surveying the riverants' opinion on the opportunity of the project implementation, on the method of further development of the road ditches, bridges etc.).

- Encouraging *the formation of citizen advisory committees* to identify solutions to the diverse problems of public policies at local level.

International experience shows that in the case of efficient and effective functioning of local authorities through active and direct involvement of citizens, the chances of the development of the town become bigger, but this has also a positive effect on decreasing the level of corruption at the level of local officials and clerks, all these reflecting a significant impact on citizens' satisfaction. Even if there is a legal framework in this regard and even if the transfer of power and financial funds is perfected, they should be supported by the knowledge of the citizens regarding this process and their commitment for local problems of public interest, too. But, the participation of citizens, more likely its effectiveness, is influenced by more factors such as: civic responsibility, knowledge related to the system, possibilities of participation, age as an indicator of political mobility and knowledge, occupation as time constraint, social integration as a network communication, income, education level, consumption of media.

In the case of services, implicitly those of local public administration, the client is part of the provision process. Therefore, there is a need to inform and educate him/her that his/her opinion counts, that depending on his/her options certain public services can develop and reorganize, that the benefits of active and inclusive involvement of citizens in the process of elaborating legislative acts and that of decision making are multiple. This involvement can be conceptualized as a form of partnership between authorities, public institutions and citizens to achieve common goals at the level of community. Citizen involvement is also a way of socialization, of making citizens responsible regarding community problems. Citizen involvement contributes to an atmosphere of cooperation and mutual support necessary for a balanced, sustainable and long-lasting development at local level.

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MARKETING FOR SMALL ENTREPRISES – CASE STUDY POSITIONING OF “PLAFAR” DI LTD

Brandabur Raluca

Academia de Studii Economice Bucuresti

Facultatea de Marketing

Popescu Andrei

Academia de Studii Economice Bucuresti

Facultatea de Marketing

Bacau health and wellness market has grown to embrace an array of products, including dietary supplements. As a typical “Plafar” store, Plafar DI offers a wide range of natural products, from teas, extracts and creams, to nutritional supplements, cosmetics and biological foods, most of them produced by local companies, as well as imported. Half of Romanian small and medium-sized firms are seriously and severely affected by the economic and financial crisis. Now, like thousand others small companies “Plafar DI”, from Bacau, should use an intelligent marketing positioning in order to survive the crisis.

cod JEL lucrare : M3

Keywords: brand positioning, SME, case study

1. Herbal medicines

Traditional medicine is the sum total of knowledge, skills and practices based on the theories, beliefs and experiences indigenous to different cultures that are used to maintain health, as well as to prevent, diagnose, improve or treat physical and mental illnesses.

Traditional medicine that has been adopted by other populations (outside its indigenous culture) is often termed alternative or complementary medicine.

Herbal medicines include herbs, herbal materials, herbal preparations, and finished herbal products that contain parts of plants or other plant materials as active ingredients⁷⁷⁵.

Medicinal plants have played a key role in world health. Since its early beginnings human existence has been closely connected to the art of healing. Herbal drugs have been used since ancient times as medicines for the treatment of a range of diseases For a long time the main therapeutic arsenal of the human being were the plants as the most important and easy curative method. For ages the empirical medicine counted on the treasure of the nature, offered by the healing virtues of plants which have been, in their different forms, until the end of the XIX century and the beginning of the XX century, one of the weapons to fight against diseases

In spite of the great advances observed in modern medicine in recent decades, plants still make an important contribution to health care. It is estimated that about 25% of all modern medicines are directly or indirectly derived from higher plants. In some particular cases, such as antitumoral and antimicrobial drugs, about 60% of the medicines currently available on the market and most of those in the late stages of clinical trials are derived from natural products, mainly from higher plants⁷⁷⁶.

⁷⁷⁵WHO, Fact sheet N°134, December 2008,

⁷⁷⁶ Calixto J.B., Efficacy, safety, quality control, marketing and regulatory guidelines for herbal medicines (phytotherapeutic agents), Brazilian Journal of Medical and Biological Research, February 2000, Volume 33(2), p. 179-189.

During the past decades, public interest in natural therapies, namely herbal medicine, has increased dramatically not only in developing countries but mainly in industrialized countries [reviewed in 1-3]. This has increased the international trade in herbal medicine enormously and has attracted most of the pharmaceutical companies, including the multinationals. Until a few years ago, only small companies had interest in the marketing of herbal medicines. Currently, most large multinational companies are interested in producing and commercializing herbal drugs. “The green medicine” as it is called the production of different pharmaceutical products from plants, extracts or other pharmaceutical forms based on plants, generated the setting up of some small enterprises to harvest and render profitable, under a certain supervision, this activity. Consumers use herbal products as therapeutic agents for cure of diseases and pathological conditions, as prophylactic agents to prevent diseases over the long term, and as proactive agents to maintain health and wellness. Additional, herbs and phytomedicinals can be used as adjunct therapy, to support conventional pharmaceutical therapies⁷⁷⁷.

2. Plafar – main source of herbal medicinal products in Romania

Macroeconomic and environmental factors, such as poverty, industrialization and hectic lifestyles, are transforming the diets of Romanian consumers and threatening to undermine healthy nutrition despite the improvements in the food chain. High deficiency rates of basic nutrients, such as calcium and other minerals, are shaping the popularity of dietary supplements in Romania. In contrast, developed economies in North America and Western Europe are “discovering” the benefits of supplements geared toward a specific health condition, such as joint disease or insomnia, or even toward improving beauty⁷⁷⁸.

In Romania herbal medicinal products are traditionally sourced from “Plafar”. Plafar - is a famous Romanian brand with 80 years on the market a traditional brand with high customer awareness. Plafar become a generic name for a herbal products shop, like Xerox for photocopies, despite existence of the chain of “Societatea Nationala Plafar S.A.” markets and manufactures aromatic, herbal and medicinal plants a company who was founded in 1999 and is based in Bucuresti, Romania. A typical Plafar store offers a wide range of natural products, from teas, extracts and creams, to nutritional supplements, cosmetics and biological foods, most of them produced by local companies, as well as imported. It also sells bio foods, and specific books and magazines.

Last 10 years a large number of “Plafar” cover the supply for herbal products all over the country. Except the units of “Societatea Nationala Plafar S.A.” most stores are results of individual economic initiative, and practically are small companies.

3. General economic context for a small pharma business - Romania

Half of Romanian small and medium-sized firms are seriously and severely affected by the economic and financial crisis. In Romania small businesses do represent a high percentage of the total number of enterprises. Last year, the number of operational Romanian small and medium companies went down to some one million⁷⁷⁹.

During the early stage of the transition, small and medium enterprises (SMEs) began to grow dramatically, primarily because of the privatization of enterprises in trade and services. The majority of SMEs at that time specialized in trade.

⁷⁷⁷ Blumenthal M., *The Complete German Commission E Monographs: Therapeutic Guide to Herbal Medicines*, ed. American Botanical Council in cooperation with Integrative Medicine Communications, Austin, Tex, 1998, p.10.

⁷⁷⁸ Feldman M, Hudson E, Romania, Saudi Arabia and Vietnam Among Top Future Nutrition Product Markets, *Euromonitor International*, November 2009.

⁷⁷⁹ Romanian Trade Registry’s National Office

A short review about “plafar” stores talks about 200 small stores⁷⁸⁰, but real number is bigger. Unfortunately statistics not cover real data about such kind of small business selling herbal products.

Poor or less educated consumers use herbal products self-medicate with herbal preparations for preventive or therapeutic purposes instead pharmaceutical products, because of small costs or may assume that these products are safe because they are "natural". As a natural result, herbal products are strong attached to the pharma market. Romania lacks a regulatory system for herbal products. Although only limited research on herbs has been published all over the world. There are increasing discussions over the miraculous power of plants, over their properties, the fact that each of us should give more importance to nature

Some products cause adverse effects or have the potential to interact with prescription medications. Yet herbs contain hundreds of components, some of which can cause ill effects directly, while others can interact adversely with pharmaceutical agents.⁷⁸¹ Few herbal drug manufactures can make claims of their product that have controlled double blind studies proving these claims.

According to market research firm Cegedim Romania in 2009 the domestic medicine market slowed down its growth rate measured in the national currency, by 13.1 %, and amounted to 8.1 billion Lei. In 2008, the medicine sector saw a 17.7 % increase, that is up to 7.16 billion lei. In Euros, the sales of medicines in Romania last year went down by 1.7% , reaching 1.9 billion Euros, as compared to the reported 6.8 % growth in 2008. Cegedim representatives estimate that this year medicine sales expressed in Euros will keep dropping by 2-3%, after the 1.7% decrease in 2009⁷⁸².

Herbal products market is almost unknown in terms of data. Herbal products are included into a wide category: alimentary supplements, who, about specialists estimation⁷⁸³ is continual growth. There are some possible explanations for this fact:

- herbal supplements are more popular now than ever before. People are looking for new ways to improve their health, and they are turning to natural remedies rather than pharmaceutical drugs more and more.
- anecdotally, it is thought that herbal products and dietary supplements are popular as a result of a widespread belief that the preparations are natural and, therefore, safe.
- herbal products are affordable. Pharmaceutical products are often very expensive.

4. “Plafar” DI – positioning strategy

Plafar DI is a small and successful family business consists in 2 stores.

None of the owners has previous experience, training or even idea about business. They practiced an adapted training that qualifies each one of them directly operational for the job market (not academic or diploma).

Bacau health and wellness market has grown to embrace an array of products, including dietary supplements, fortified/functional foods and beverages, organic and naturally healthy food and beverages, and nutritional products targeted to specific health conditions and food allergies/intolerances. Plafar DI has understand early this situation and has opened a first store into the Central Place in Bacau – most visited area in town (year 2003).

The market they act – Bacau area⁷⁸⁴, is covered by almost 25 stores. The large majority of them are small companies which are active only in the area where they have been established. Only a

⁷⁸⁰ Culita L., Do you remember Plafar teas?, Business Magazine, july 2009

⁷⁸¹ Zink T., Chaffin J., Herbal 'Health' Products: What Family Physicians Need to Know, American Family Physician Journal, October 1998.

⁷⁸² Mediafax announcement, Radio Romania International site, 21.04.2010,

<http://www.rri.ro/art.shtml?lang=1&sec=10&art=31789>

⁷⁸³ Dinu. D.I., Alimentary supplements market – 3 times smaller, Pharma Business, December 2008

⁷⁸⁴ Plafar DI estimations

mini-chain, from 4 pieces, seems to be a real competitor. Big, powerful player, with national coverage are less important (one single player) from local market. The tendency seems to be increasing competition.

From an economic perspective, however, a city (Bacău -175500 inhabitants⁷⁸⁵) does not represent a population within rigid geographical boundaries. To an economist or strategic planner, a city represents an area of dominant influence over markets in adjacent areas. This fact was very good understood and applied from Plafar DI, when opening a second store near to the bus terminal (year 2010).

Plafar "DI" has already experienced some of the problems of small and medium-sized enterprises have already been identified as: limited access to funds, credit markets freeze and a shortage of liquidities, a reduced European fund accessing capacity and high taxation. In order to survive this poor condition and succeed into a very competitive market, "Plafar" DI should develop an efficient and coherent positioning strategy.

This process involve selecting specific attributes with witch is desirable for the company to be associated. Knowing witch attributes, benefits and values consumer use within a given product category constitutes a grand start for brand assessment⁷⁸⁶. A brand position is how it is perceived in the mind of consumers relative to competitor brands (Stanton 1978).⁷⁸⁷ An effective position can be defined as one that enables a brand or service to occupy a preferred and unique niche in a customer's mind that is also consistent with the overall marketing strategy⁷⁸⁸

"Plafar DI" has a relative easy mission because lack of management knowledge of their competitors. A good product policy, in terms of a wide range of products, and a large number of information provided to the consumer are determinant in gaining a significant position.

The information Plafar "DI" provide **is to educate their customers on the proper use of herbal drugs and help guide them towards healthy lifestyle** changes that provide a better sense of well being and overall improved health. Plafar "DI" personnel acts as the attentive sisterly figure who guides patients in selecting the appropriate herbal treatment regimen for their various conditions, respecting next rules:

- the vendor shall have a general knowledge of herbal products.
- the vendor shall have a current, reliable reference.
- the vendor shall be satisfied that the products are safe.
- when counseling, the vendor shall be satisfied that the product(s) will not interfere/interact with the patient's possible disease state and/or other traditional medications.
- When counseling, the vendor shall be satisfied that the patient understands that the product is not to be used as an alternative to hi/her traditional therapy, unless so directed by his/her physician.
- When counseling, the vendor shall encourage the patient to inform his/her physician of the decision to try new therapy.
- The vendor shall recognize the need for intervention and/or referral to a physician.

The goal of an ad program should not be to communicate, but to occupy a "position" in the prospect's mind.

The main purpose of this process is that of promote a new image of "Plafar" DI, attracting many clients independent of living area, helpful for companies to consolidate their position on the market. Gaining customer loyalty becomes a key objective for "Plafar" DI who decide to adopt a relationship marketing perspective.

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DISTRIBUTION OF BANKING PRODUCTS AND SERVICES.

Bulgărea Cătălin Nicolae
Universitatea Transilvania din Braşov
Facultatea de Stiinţe Economice

Starting with the '90s, retails banks have faced several challenges. One of them is how to efficiently deliver their products and services to the customers. In fact, the most important challenge of a bank is how to efficiently reach the customer, with the right product or service, at the right time. Today, they can choose between branches, contact centers, ATMs, online channels, portals and web banks. Multichannel banking is, therefore, more relevant than ever. Multichannel banking is more than just offering multiple channels, but offering integrated channels, with the optimal balance of services, prices and offer across channels. Banks should have the ability to deliver the right service at the right time in the right channel. The bank should define exactly how they are going to use each channels, which services and products in which channels, how to mix and integrate the channels and how to support the channels.

Keyword: banking, banking products and services, banking distribution channels, multichannel banking

Cod JEL lucrare: M31

Distribution in banking

A distribution channel is a route to the market for a supplier⁷⁸⁹. In the case of a bank, the distribution channel is the way the banking product or service takes from the bank to the customer. Most banks have multiple channels to serve their customers. Today, they can choose between branches, contact centers, ATMs and online channels, portals and web banks.

Types of distribution channels

1. Branches. These are the face of the bank and the place where the client meets the bank. The distribution is made by the traditional counter. The bank's president is far away and not always known to customers. However, the client manager is close, he advises, listens to the client, makes clients' financial life easier⁷⁹⁰. According to a survey carried out by Accenture in September 2008⁷⁹¹, the branch is the most preferred channel for all the interactions that emotionally involve customers, such as buying complex products (76% preference) receiving financial advise (71%) and resolving an issue (59%). 73% of the customers visiting a branch say that they are looking for a personalized contact. In this respect, the branch is a distribution channel where the human factor plays a dominant role.

2. Specialized branches have been created as an alternative for the classic branches. These specialized branches are focused on a certain type of activity such as: operations for individuals, for small business or for corporate clients. Banks have opened such branches in supermarkets or malls. The main reason for establishing such branches was to have a close relationship with these corporate customers and to provide services of interests for their clients. Their primary activities are the consumer loans and basic operations for individuals (payments, foreign exchanges etc.). These branches are accessible all week long (even in Saturdays and Sundays) as long as the

⁷⁸⁹ Julian Dent – Distribution Channels. Understanding and Managing Channels to Market, Kogan Page, London, 2008.

⁷⁹⁰ EFMAG Magazine No. 220 July/August 2009, Branches- The Client comes for a service to satisfy his needs, http://www.efma.com/index.php/our_services/efmag/index/EN/1/74/220.

⁷⁹¹ EFMAG Magazine No. 218 March/April 2009, Multichannel Distribution – The interconnected approach http://www.efma.com/index.php/our_services/efmag/index/EN/1/74/218.

supermarkets and malls are open. BRD-GSG, ING Bank were the first banks to open such branches in Romania.

3. In order to better serve certain ranges of clients, banks have also created **corporate branches** or **private banking branches**. These clients require more sophisticated products and services and high standards of quality. Therefore the staff employed in these branches should be seniors in terms of products knowledge and the quality of service delivery.

4. Among the specialized branches, we can also mention: the **mortgage branches** whose focus is on selling mortgage loans. Raiffeisen Bank created such a branch named „Raiffeisen – Casa Ta” as a result of the high demand for mortgage loans and the complexity of these products.

5. Self banking branches were first created by ING. These branches have two areas: one where the customers are served by bank employees (usually 3 or 4 persons) during the normal working hours and one where the customers can use self banking devices. These can be used all day long (24h/24, 7 days/7) and the access to this area is given to all the bank customers who have a debit card. Here, the clients can make deposits, payments, cash withdrawals, invoice payments, repayments of loans installments. BRD-GSG, RBS have also created such self banking branches.

6. Mobile branches were first used by Raiffeisen Banca pentru Locuitorii. The bank did not have a branch network and the products were delivered by the help of sales agents. The bank started a banking caravan which reached the most important cities in Romania. The aim of this caravan was to promote and to sell the bank’s products. BRD-GSG has also created a flexible and movable branch. (BRD BLITZ) located mainly in rural areas. In this respect, the branch wanted to reach the rural population (neglected by all others banks). These branches had a rapid installation (2 weeks) and can be easily relocated to another place (if necessary). The opening hours were 2-3 days/week, 3-4 hours/day.

7. Banking cafes were first settled in Romania by Banca Transilvania. The banking cafe is the result of a partnership between a bank and a cafe. The branch that is located in a cafe can offer a full range of products and services (information point which offer leaflets, brochures with the bank’s products and services to the existing and potential customers along with financial newspapers and magazines). This concept was later developed by ING, Volksbank, BRD. These banking cafes are in the major cities of Romania (where there is a large business community).

8. Direct mail is another distribution channel for banking products and services. In the same time, direct mail is also a promotional tool. The aim of delivering the banking products and services by mail can be, not only just simply informing the clients about a new product but also convincing the client to buy a certain product. The main advantage of delivering by mail is the fact that the bank can promote its products and services to a certain segment of clients. In this way, the bank can target a certain group of clients in order for the message and products to be tailored accordingly.

9. Automatic teller machines (ATMs) were first introduced in Romania in 1995 and they have evolved ever since. By the end of 2006, the number of ATMs overcame the number of branches. This fact is explained by the difference of operation costs involved by these two distribution channels. ATMs have been rapidly moving from just a cash-dispensing machine to a self-service banking channel. The driving forces of this movement are: firstly, the pursuit of operational efficiency and then, the battle for differentiation in the service being offered.

ATMs can increase the marketing potential by providing services to clients in others places than the bank branches. ATMs are an alternative for crowded desks in branches. Cash withdrawals were moved from the cash desks to the ATMs and this transfer is encouraged by most of the Romanian banks by lower fares for these services. This can reduce the waiting time in branches. The numbers of ATMs users has increased in Romania. The clients appreciate the user-friendly feature of ATMs , the large number of operations that can be done through ATMs, the speed and the security of these devices and last but not least the theoretically unlimited availability of ATMs. Besides all these, all the transactions are automatic, which reduces the risk of human mistakes in transactions.

9. **EFTPOS (Electronic Funds Transfer at Point of Sale)** is a payment method that can be described as a distribution channel. EFTPOS is a system by which the clients pay the services they acquired just by using a bank card. This system is very used when shopping, travelling, buying tickets.

In a society where time is money, there has been a huge request from the customers for more accessible distribution channels. The computers and the mobile phones were the best choice. As a result the banks have made considerable investments in the development of services that are not based in the branch and which are accessible through the Internet or mobiles phones. The development of electronic distribution channels has resulted in the appearance of a new concept: **the virtual bank**. This is the bank where the contact can be reached by a large variety of distribution channels, but maintaining the same interface and having access to the same services. The client has the possibility of choosing from a large variety of channels: phone, ATM, POS, Internet. As a result,, a new form of banking has appeared. „Martini banking” which signifies the presence of the banking products and services „anywhere and any time”.

10. **Mobile banking** appeared in Romania in 2003. At the beginning, only some services were available: account balance, information about exchange rates etc. At present, all the banks provide mobile banking and the range of services provided is very wide: payments, direct debits, information about the nearest ATM/branch etc.

11. **Call centers** - Raiffeisen Bank was the first bank to start up a call center in Romania in 2004. Up until that moment, the only possibility to contact the bank by phone was through the branches' numbers. The only dedicated phone-line for a bank was the one related to card problems. The client used to pay the price of an ordinary phone call. By means of call centers, the contact with the bank was made through a toll-free phone-line which makes this distribution channel very accessible. Through call centers, all the information is received for free and one client can choose from a large range of services (information about accounts balance, payments, exchanges, applying for a credit etc.) The most important issue is to ensure the security of this service. The client is authenticated for each transaction by certain devices. Nowadays, the call centers are used as a marketing tool. Through it, the bank can start marketing researches, can sell products and services. As the mobile phone is an almost indispensable accessory, incomparably easier to handle than a computer, the phone banking is becoming a more advantageous alternative to Internet banking.

12. **Internet banking**. There is a debate about the impact of technology in services marketing, for example the Internet. The Internet-driven information revolution is widely seen to be transforming the way both business and consumer operate. This is particularly relevant in banking services, where transactions do not require interpersonal interaction. In such cases the Internet becomes a new distribution channel. However in other context the Internet is widely used as an information source or a promotional tool⁷⁹². Internet banking was launched in Romania in 2003. At that time, the bank posted on the Internet information concerning only the bank and the range of products and services provided. Later on, the Internet became a distribution channel by providing an entire range of services: payments, information about account balances. The Internet facilitates payments for services (event the state taxes) by the help of virtual cards. The Internet is also a tool for acquiring new clients by online applications for different products. In terms of clients' preference, the internet is more preferable to other distribution channels by simplicity, availability and customization⁷⁹³. The only constraint is the fact that the Internet is not accessible to all the clients.

13. As banking market is highly competitive, the banks have looked for new formats to successfully develop market and deliver its services. Further promising approaches to distribution

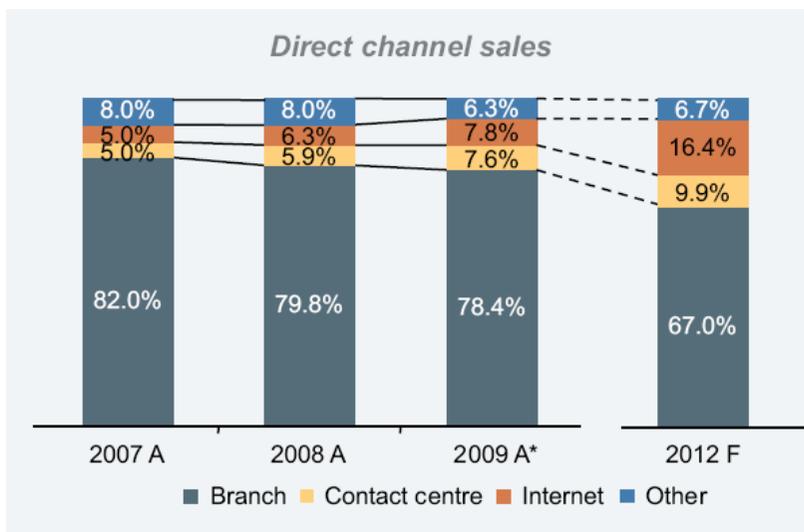
⁷⁹² Gilmore Audrey – Services Marketing and Management, Sage Publication, London 2003

⁷⁹³ EFMA Magazine No. 218 March/April 2009, Multichannel Distribution – The interconnected approach http://www.efma.com/index.php/our_services/efmag/index/EN/1/74/218.

can be found outside banking. In many sectors, a rapidly growing number of **franchise** systems works with self-employed entrepreneurs as franchisees, who sell the franchisor's products or services, benefiting from a standardized sales and marketing concept. In Romania, ING and Volksbank operate through franchises.

Besides, the banks started also to deliver through **sales agents**. The Romanian banks use this distribution channel for specialized services. Raiffeisen Bank, for example, have created teams of sales agents whose sales' focus is on credit cards and loans for SMEs.

According to Finalta/EFMA Multichannel Survey 2009⁷⁹⁴, the proportion of all retail banking sales made through each of the main distribution channels is shown in the following chart:



Source: Finalta/EFMA Multichannel Sales Productivity – November 2009

As we can see from this chart, there is a change on a year-to-year basis in direct channel sales. This is most due to the impact of information and communication technologies on banking. Sales is moving away from branches. Still, the branch remains the dominant channel by sales volume. While its contribution is expected to decline by 2012, banks still believe it will account for nearly two-thirds of sales. The share of retail banks sales from direct channels increased from 12,2 % in 2008 to 15,4 % in 2009. Bankers forecast rapid future growth, estimating that by 2012 direct channels sales will account for a third of all products sold, driven by a doubling of the Internet's sales contribution.

Conclusions

As we could see, most banks operate through various distribution channels. The expectation was that customers would eventually conduct most of their business online or by phone. However, current studies suggest that customers still prefer the branches. Over the last decade, banks have made considerable investments in the development of services that are not based in the branch. (this has led to a dramatic increase in the use of Internet and mobile banking, whilst the role of the ATM has also increased). Multichannel banking is, therefore, more relevant than ever. Multichannel banking is more than just offering multiple channels, but offering integrated channels, with the optimal balance of services, prices and offer across channels. Banks should have the ability to deliver the right service at the right time in the right channel. The bank should define exactly how they are going to use each channels, which services and products in which

⁷⁹⁴ Multichannel Sales Productivity 2009, EFMA/FINALTA Report, November 2009, http://www.efma.com/index.php/our_services/publications_studies_surveys/detail/EN/1/262/1-5I90X.

channels, how to mix and integrate the channels and how to support the channels. To do this, they need to understand customer behavior, channels performance and the channel's operating cost. However, managing and integrating the distribution channels within an increasingly complex and challenging operating environment has become very difficult.

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Constantinescu-Dobra Anca

Université Technique de Cluj-Napoca, Faculté d'Ingénierie Electrique

The present study attempts to reveal the main market values that count for Romanian managers when adopting critical decision. We also want to evaluate if the main orientation of Romanian managers are through relational or transactional marketing. Another research objective was testing the correlation between organizational and demographic variable and the managers market values. The data is collected from a sample of 693 managers from different fields of activity. We cluster the 12 decisional market value in 5 categories. The main findings are: the most important decisional values is customer satisfaction while ethical consideration is neglected. There are present decisional values specific both to relational and transactional marketing orientation in the same company. The managers departments strongly influence the most important decisional market values of the managers.

Keywords: managerial market values, transactional marketing, relational marketing

JEL Classification: M11, M31

Introduction

C'est bien connu que dans les conditions d'une concurrence accrue, la survie et le développement des entreprises de n'est possible que les efforts soutenus des tous les employés de l'entreprise pour la fabrication de produits ou services qui pleinement satisfont les clients. Deshpande et Farley⁷⁹⁶ affirment que dans les pays émergents **l'orientation vers la clientèle est fortement corrélée à la performance des entreprises** (chiffre d'affaires et les bénéfices) en comparaison avec les pays développés où l'innovation a le plus important rôle. Le marché roumain est de plus en plus mature et les consommateurs sont plus exigeants et instruits, ainsi que les valeurs de marché des managers ont commencé lentement à se développer. Contrairement à la situation existant pendant le communisme, aujourd'hui n'est pas suffisant pur le manager de se concentrer sur leur produits, mais les services supplémentaires offerts sont importants aussi. Les managers roumains doivent comprendre que la source de revenu d'une entreprise reste à la clientèle.

De même manière, les bonnes relations avec les employés, les distributeurs, les fournisseurs et le publique de l'entreprise, un marketing éthique sont les clés qui assurent le succès à long terme de l'entreprise.

Dans cet article, nous avons examine les plus importantes valeurs concernant le marché dans le processus décisionnelle des managers roumains et les différences selon certaines caractéristiques démographiques et organisationnels. Nous avons recherché aussi si les managers du communisme et leurs valeurs de marché ont changé. D'autre part, nous avons trouvé si les valeurs dépendent du domaine d'activité du manager interrogé.

Pour faciliter l'existence durable d'une entreprise, quelques principes essentiels (valeurs) doit être partagé par les membres de l'organisation. Ils guident la conduite quotidienne des employés et représente la base de la culture organisationnelle.

Les conclusions d'une étude sur un échantillon d'entreprises du Transylvanie⁷⁹⁷, un pourcentage de 78% employés a déclaré que leur entreprise a un ensemble de valeurs. Toutefois, l'étude révèle

⁷⁹⁵ Cette étude a été réalisée dans le cadre d'un contact de recherche PN II 186/2007, *Le leadership des entreprises roumaines: motivations, valeurs, styles*, financé par CNCISIS-UEFISCSU (Unité d'Administration pour Financer l'Enseignement Supérieur et de la Recherche Scientifique Universitaire)

⁷⁹⁶ Deshpande R., Farley J. (2004) *Organizational culture, market orientation, innovativeness and firm performance: an international research odyssey*, International Journal of Research Marketing, 2, p. 3-22.

⁷⁹⁷ Danis (2008) http://danis.ro/romana/Noutati/Provocari_manageriale_si_evolutia_organizatiilor.pdf.

qu'un répondant sur cinq pense que les valeurs ne sont pas connues par les employés. En outre, 33% des répondants pensent que les employés ne croient pas à ces valeurs.

La valeur de marché des managers

L'évolution des valeurs de marché des managers est directement liée avec *les stratégies de marketing implémentées*.

En fonction de la relation entre les ressources des entreprises et la cible visée, la littérature⁷⁹⁸ se réfère à l'existence de plusieurs étapes (à partir de l'orientation production, l'orientation produite, l'orientation vente).

Dans la littérature spécialisée et la pratique sont utilisés trois concepts: l'orientation marketing, l'orientation du marché et l'orientation client. Certains auteurs font une distinction claire entre ces termes et des autres les utilisent de façon interchangeable. Pendant les 2 derniers siècles, la stratégie de base est orientée à le réseau de clients, l'attachement à la clientèle rentable à long terme, correspondant à une vision intégrative sur le marketing. Le développement de stratégies de marketing ont suivi chronologiquement deux périodes: le développement extensif et cèle intensif. Une étude réalisée en 2009⁷⁹⁹ montre que *le marketing des entreprises roumain est également transactionnel et relationnel*. Dans la plupart des cas, le marketing transactionnel est accompagné par les pratiques de marketing relationnel qui ont besoin de technologie (marketing de base de données ou de e-marketing) et ils ont comme principal objectif d'attirer de nouveaux clients.

Compte tenu de ces considérations, les valeurs du marché que nous considérons ci-dessous sont les valeurs des managers sur **la satisfaction des clients, relations avec les employés, le publique de l'entreprise, les concurrents, les valeurs éthiques impliqués dans le développement des affaires et la performance de l'entreprise**.

Si les valeurs relatives à la performance des entreprises persistent, nous concluons que l'orientation vers le marketing transactionnel est présente. Toutefois si les autres valeurs emportent (la satisfaction du client, les relations avec les employés, le publique d'entreprise, les concurrents, les valeurs éthiques impliqués dans l'entreprise), la tendance est l'orientée vers le marketing relationnel, actuellement acquise dans les pays plus développés⁵.

Satisfaction de la clientèle

Les recherches effectuées sur les valeurs du marché des managers roumains montrent que la plupart des valeurs du marché formel ne sont pas appliquées dans la conduite des affaires. Une étude menée en 2001 sur le degré d'adoption de marketing par des entreprises locales⁸⁰⁰ a révélé que seulement 3% des entreprises étudiées ont une orientation vers le consommateur, et dans la plupart des compagnies roumaines, le marketing était seulement déclaratoire, et non pas opérationnelle. Une autre étude menée en 2007 sur un échantillon des hôpitaux roumains montre qu'ils ont partiellement l'orientation marketing, matérialisés dans les activités de marketing efficace qui semblent être exécuté sur une certaine stratégie. Cette perception des valeurs pragmatiques ont un support fragile idéologique, ce qui signifie marketing perçu n'est pas suffisamment. Cette constatation fait les auteurs d'examiner les résultats de la recherche avec prudence (les sujets étant assez déclaratives à remplir les questionnaires)⁸⁰¹.

Relations avec les employés, distributeurs, fournisseurs, publique

En addition à l'importance accordée aux besoins des clients, les managers doivent développer un réseau des relations saines entre ses employés. Dans un tel contexte où l'énergie positive est

⁷⁹⁸ Catană, Gh. A. (2003), *Marketing. Filozofia succesului de piață*, Editura Dacia, Cluj-Napoca.

⁷⁹⁹ Maxim A. (2009), *Contemporary marketing practices in Romania*, Analele Facultății de Științe Economice Oradea, vol.4, Management and Marketing, p.716-719.

⁸⁰⁰ Catană, G.A., Catană, D. (1999), *Romanian Cultural Background and its Relevance for Cross-Cultural Management*, Journal for East European Management Studies, Vol.4, Number 1.

⁸⁰¹ Catana G. A., Catana D., Constantinescu-Dobra A., (2007) *Do the Romanian Health Care providers have marketing attitude?* Acta Electrotehnica, vol.48, nr.4, Editura Mediamira, ISSN 1841-3323, p. 133-139.

transmise par l'organisation résulte une augmentation de la productivité, la satisfaction et la créativité et, finalement, la satisfaction du client.

Une étude réalisée par *Hay et WorldatWork* sur un échantillon de 763 organisations dans 66 pays développés montre que 70% des managers ont augmenté l'importance des programmes de motivation pour les employés par rapport à d'autres programmes comme la satisfaction clients et l'innovation.⁸⁰²

Une autre étude réalisée dans les pays émergents montre que l'orientation vers le public, les employés et les concurrents ont un impact plus important sur le résultat financier et de marketing qu'uniquement l'orientation client. Dans ces pays, les relations avec les actionnaires, les fournisseurs, les distributeurs et les institutions de l'État en particulier, ont une plus grande importance que le prix ou les politiques de promotion.⁸⁰³

Relations avec les concurrents. Éthique

Les recherches montrent que la transition du communisme à une économie de marché a affecté les valeurs éthiques des managers en Europe de l'Est. Ici domine le scepticisme sur le rôle de l'éthique pour le développement des entreprises.⁸⁰⁴ En outre, les managers de ces pays face à la corruption bureaucratique et la plupart des jeunes ont une attitude négative envers le comportement éthique que les anciens managers.^{805 806}

En ce qui concerne l'éthique des managers roumain, selon une étude récente³, elle est *une valeur importante pour les managers de la Roumanie*. La plupart des répondants (82,8%) croient que l'éthique est une valeur dans leur propre organisation, mais n'est pas valorisée dans l'environnement des affaires en Roumanie (80,4%). En descendant la hiérarchie, l'importance de l'éthique dans leur propre organisation est plus faible. Ainsi, si 86% de directeurs général estime que l'éthique est évalué ayant une grande ou très grande valeur dans leur organisation, seulement 71% des autres managers partagent le même avis.

La méthodologie de recherche

Les objectifs de la recherche

1. Analyser les plus importantes valeurs de marché des managers roumaines pour prendre la décision et déterminer après leur orientation principale de marketing (transaction ou relationnelle);
2. Analyser la corrélation entre les valeurs de marché des managers roumaines et les caractéristiques démographiques de l'organisation;
3. Évaluation la valeur de marché en fonction du département des managers roumaines.

L'échantillon: Notre recherche est exploratoire, sur un échantillon de 94 organisations de trois domaines complexes de l'activité: l'exploitation minière et la foresterie, la fabrication et la construction, respectivement, les services. Les répondants sont 94 managers supérieurs (directeur général et entrepreneurs) et autre 599 managers (managers des directions ou de départements).

Les données ont été collectées à travers les 12 variables utilisés dans GLOBE III questionnaires (*Global Leadership and Organizational Behavior Effectiveness*). Les questionnaires demandent aux managers à évaluer l'importance qui doit être accordée à 17 valeurs fondamentales de

⁸⁰² Mihai A. (2009) *Managerii recompenseaza performanta angajatilor prin beneficii invizibile*, Ziarul Financiar, 01.06.2009

⁸⁰³ Burgess S., Steenkemp JB (2006) *Marketing renaissance: how research in emerging markets advances marketing science and practice*, International Journal of Research Marketing, 23, p.337-356.

⁸⁰⁴ Ahmed M., ChungK., Eichenseher (2003) *Perceptions on ethics and moral judgement: a cross cultural study*, Journal of Business Ethics, 43, p.89-102.

⁸⁰⁵ Brouthers L., Lascu D., Werner S. (2008) *Competitive Irrationality in Transitional Economies: Are communist managers less rational?*, Journal of Business Ethics, 83, p. 397-408.

⁸⁰⁶ Jafe E., Tsimerman A. (2005) *Business Ethics in a Transition Economy*, Journal of Business ethics 62, p.87-97.

décision dans leur organisation. Nous avons choisi seulement ce question qui se réfèrent aux valeurs de marché déjà mentionné (12 valeurs): la satisfaction du client, relation avec les employés, le public, les aspects éthiques, mais aussi les problèmes de performance de l'entreprise (rentabilité, le volume des ventes).

Les questions ont la forme suivante: « *Quelle importance devraient avoir la satisfaction de la clientèle dans le processus décisionnel* ». L'importance de chaque valeur décisionnelle (variable) est mesurée sur une échelle de 7 points (1 = aucun, 4 = modéré, 7 = très important que tous les autres). Nous regroupons les questions relatives à une valeur et nous avons obtenu les déjà mentionné 5 catégories (*clusters*).

Nous avons comparé les valeurs obtenues et nous avons établi les corrélations (si elles existe) entre les 5 variables et le type de société (entrepreneurial / non-entrepreneurial), le département de travail et variables démographiques (sexe, âge, éducation).

L'analyse des données a été réalisée à l'aide de soft SPSS 17.

Les résultats

1. Les valeurs de marché des managers roumains important pendant le processus décisionnel

Les résultats de la recherche sont présentés dans les tableaux 1, 2 et 3.

Tableau 1. La moyenne des clusters

Variable	N	Min	Max	Moyenne	Std. D.
Satisfaction du consommateur	692	3.00	7.00	6.0564	.56656
Performance	686	3.00	7.00	5.5121	.78433
Employées	693	1.50	7.00	5.4387	.79571
Public	693	1.00	7.00	5.3218	1.0405
Éthique	693	1.75	7.00	4.6883	.91505

Tableau 2. Le plus important pourcentage dans l'échantillon

Variable	Freq.	% pour 7	% pour 6	% Cumul.
Satisfaction du consommateur	35	5,1	34,8	39,9
Performance	13	1,9	3,6	5,5
Employées	12	1,7	5,1	6,8
Public	31	4,5	47,6	52,1
Éthique	-	0	9,8	9,8

Le tableau 1 présente (ordonné par moyenne) les plus fréquentes valeurs de marche que les managers roumains prennent en compte pour décider.

Le plus important facteur dans la prise de décisions est la satisfaction des consommateurs (avec une moyenne de 6,05 sur 7 possibles). Dans l'ordre des résultats obtenu, la performance de l'organisation suit (avec une moyenne de 5,5), puis les relations avec les employés (5,5) et avec le public (5,6). De tous ces valeurs de marché, la performance de l'entreprise (profitabilité, le volume des ventes, le coût des produits ou services) suggérant une évolution vers le marketing transactionnelles plutôt que relationnel. La dernière place dans la hiérarchie est occupée des valeurs morales: la contribution au bien-être de la nation, de la communauté et environnement mais les considérations éthiques aussi (4,6).

En faisant une analyse *des plus importantes valeurs de marché des managers roumains* pour prendre les décisions (voir le tableau 2), nous constatons que la satisfaction du client est primordiale pour un pourcentage de seulement 5,1% des managers de l'échantillon. Un résultat surprenant est ce que *les relations avec le public de l'entreprise prennent une deuxième place* (4,5%). Ce résultat valide, pour la Roumanie aussi, la recherche déjà mentionnée, menée dans autres pays d'Europe de l'Est. En ce pays les relations avec les distributeurs, fournisseurs, gouvernement local sont plus importants que l'attention à la satisfaction de la clientèle par la valeur ajoutée.

Toutefois, à partir de la dimension culturelle de la société roumaine⁸⁰⁷: *le collectivisme et la féminité*, ces valeurs représentent plutôt des prémisses pour l'orientation marketing relationnel,

⁸⁰⁷ Luca, A. (2006), „România, eminentamente feminină”, *Revista de Marketing și comunicare în afaceri, Markmedia*, studiu efectuat de de *Gallup Organization România și Interact*, 08.01.2006

probablement pas pour des raisons de compétitivité sur le long terme. D'autre part, *l'orientation à court terme et le degré élevé de contrôle de l'incertitude* peut faire les managers à se concentrer sur la performance des organisations.

Analysant des valeurs de marché spécifique des managers roumain dans le processus décisionnel, nous concluons qu'il n'existe pas une tendance générale vers le marketing transactionnel ou relationnel, mais, selon le type d'organisation (entrepreneurial, non- entrepreneurial) **NOUS** pouvons élaborer des résultats. Les entrepreneurs considèrent les relations publiques, la performance et les relations avec les employés comme les valeurs les plus importantes pour prendre la décision, tandis que les managers non-entrepreneurs se concentrent plutôt sur l'éthique. La satisfaction des consommateurs est également importante pour les managers de ces deux types de sociétés.

2. Les corrélations entre les valeurs du marché et les variables démographiques et organisationnelles

Tableau 3. Les corrélations entre les valeurs du marché et de l'âge, sexe et de l'éducation formelle des managers roumains

Variable		L'éducation formelle	Sexe	âge
Satisfaction du consommateur	Pearson correlation Sig. (2-tailed) N	-.071 .085 592	.052 .209 591	-.041 .318 591
Performance	Pearson correlation Sig. (2-tailed) N	-.048 .246 592	-.087* .034 592	-.023 .575 592
Employées	Pearson correlation Sig. (2-tailed) N	.062 .133 592	-.025 .537 592	-.011 .781 592
Public	Pearson correlation Sig. (2-tailed) N	.066 .109 592	-.015 .716 592	-.043 .298 592
Éthique	Pearson correlation Sig. (2-tailed) N	-.009 .819 592	-.010 .816 592	.088* .033 592

L'analyse des corrélations bi variées présentées dans le tableau 3 montre qu'il n'y a *aucune corrélation significative* entre les valeurs du marché et les caractéristiques organisationnelles et démographiques. Il faut toutefois noter la *corrélations moyenne entre la responsabilité éthique et l'âge de manager, la performance de l'organisation et le sexe de manager et finalement, de la satisfaction du client et le nombre d'années d'éducation formelle de manager*. Ainsi, comme les managers sont plus âgés, les valeurs éthiques sont présentes. Ce résultat vient renforcer les conclusions de l'étude mentionnée, réalisée en Europe de l'Est : les managers de l'époque communiste ont une responsabilité éthique plus grande que leurs collègues plus jeunes, qui ont exercé leur poste de direction dans l'économie de marché.

Les hommes se focalisent principalement sur la performance dans la prise de décision. Étonnamment, la corrélation négative entre la satisfaction des consommateurs et le nombre moyen d'années d'éducation formelle des managers souligne le fait que les managers sont de plus en plus éduqués, la satisfaction du client n'est plus une valeur fondamentale. Ils valorisent, en principal, les relations avec le public pour consolider l'image favorable de l'entreprise et les relations avec les employées (probablement avec le but principal de diffuser l'attitude de marketing dans toute l'entreprise).

3. Les départements des managers influence leurs valeurs de marché?

Selon nos attentes, la satisfaction du client est la valeur la plus importante pour les responsables du marketing (42%), suivie de près par les managers administratifs. Simultanément, les relations avec le public d'entreprise et la responsabilité éthiques ne sont pas les plus importantes valeurs dans leur processus décisionnel. Les relations avec les employés sont les plus importantes valeurs par les managers financières (ou comptabilité) (7%) et celles concernant les relations avec le public sont importantes pour les managers impliquées dans la production (5,8%) et les managers administratifs (4,5%).

Directeurs de services administratifs et ceux des départements Ressources Humaines valorisent la performance pour prendre une décision (21,56%, 17,11%).

Les considérations éthiques sont les plus importants dans la prise de décision pour les managers de la production et des ressources humaines (4%).

Conclusion

En conclusion, dans le processus décisionnel, des managers roumains prennent en compte la satisfaction du client tandis que les considérations éthiques sont quasiment inexistantes. On peut dire que les managers roumains sont orientés également vers le marketing transactionnel (des valeurs concernant la performance de l'organisation) et de marketing relationnel (relation avec les consommateurs, le public, les employés).

Il existe une corrélation moyenne entre la performance et le sexe de manager, entre l'éthique et l'âge, et entre l'importance de la satisfaction de la clientèle et le nombre d'années d'éducation formelle des managers.

Le département des managers influence l'importance des valeurs du marché: les directeurs financiers, de production et la performance administrative sont également orientées vers la performance et vers les relations avec les employés et le public tandis que les managers de marketing tiennent compte principalement de la satisfaction des consommateurs.

Le fait que la satisfaction des clients occupe la première place dans la hiérarchie des valeurs de marché montre que, pendant les deux dernières décennies, les managers roumains se sont écoulés de l'orientation des produits vers la vente et puis vers l'orientation marketing.

Établir des limites concrètes entre le marketing transactionnel et relationnel c'est difficile parce que les deux tendances coexistent dans la même entreprise. Dans l'avenir, nous souhaitons élargir notre recherche, en clarifiant les valeurs transactionnelles et relationnelles et les pratiques des organisations roumaines.

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FOCUS-GROUP AND ITS IMPACT IN THE QUESTIONNAIRE OF MARKETING RESEARCH ON THE ROMANIAN CAR MARKET

Cruceru Gheorghe

University Transilvania of Brasov, Faculty of Economics

Săvoiu Gheorghe

University of Pitești, Faculty of Economics

Manea Constantin

University of Pitești, Faculty of Letters

Designing a questionnaire is the most profound activity which makes an impact on a research in marketing. The investigation instrument finally determines the quality of this type of research. Never will a market research be able to exceed its questionnaire in point of quality. The present contribution succinctly itemizes a research project for the Romanian car market, emphasizing the importance of focus group, and appends, at the end, the concrete result, applied to the Romanian car market. The first part describes the hypotheses and sets out the objectives of the research, focusing on the market leader, i.e. Automobile Dacia Renault. The second section describes the practical process of designing the questionnaire, with a special stress laid on the impact of focus-group in the final version. The synthesis of focus group is materialized through a number of final remarks on the manner of concretely writing the questionnaire, which was put to practical use on the Romanian car market.

Key words: questionnaire, marketing research, car market, focus group.

JEL Code: M31

1. Introduction

The questionnaire is the most widely used instrument in marketing research, and it is on its quality that the success of such an undertaking depends. Half a century ago, C. A. Moser concluded that any enquiry cannot be better than its questionnaire. This fact hints to the special significance that has to be attached to its instrumental carrying out, i.e. to its materialization through a formalized set of questions, built in order to generate the data needed to achieve the objectives of a marketing research. A multiple-target marketing research can also have recourse to sets of questionnaires: in that situation, association with staggered / overlapping canvassing / poll becomes a methodological necessity. Whether one questionnaire or sets of questionnaires are used, their practical role remains to secure the *conversion of the objectives and hypotheses of a research into adequate questions*, which are then administered, and also getting veracious information from the responders.

2. Hypotheses and specific objectives as reflected in the questionnaire of marketing research in the car market

In general terms, the questionnaire allows to simultaneously achieving several objectives:

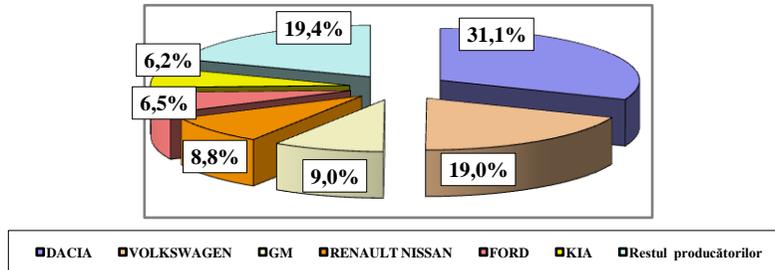
- *it contributes to shaping the structure of the interview*, by ensuring a logical succession of the questions;
- *it secures the standard format and lends uniformity to the manner in which factual information is recorded*, as well as the opinions and attitudes of the responders;
- *it motivates and coherently sustains the responders' cooperation* through the type of the questions used, through the manner the latter were formulated, and through their succession, and even through the general aspect of the questionnaire, in order that the final end of the interview is reached in the best conditions;
- *it serves as a data base concerning the research conducted*;
- *it facilitates scanning, processing and analyzing facts*, through its format, hierarchies and

logical correlations.

The present article tries to give solutions to a question of the type “What specific, fundamentally different aspects must a car market questionnaire respond to?” to begin with, this questionnaire will centre on the market leader, none other than Automobile Dacia Renault, as can be seen in the recently concluded picture of market structure for the year 2009.

The principal competitors on the Romanian car market having a quota above 5%

Graph no. 1.



Data source: www.drpciv.ro

The questionnaire will investigate the degree to which most of the owners of Dacia Renault cars know the market, and also the extent to which they are informed as to the car make they own. The other hypotheses, which concentrate the questionnaire on the detached market leader, namely Dacia Renault, could be detailed starting from the following noticeable facts:

- most of the car owners previously had at least one other car;
- most car owners consider that the cars correspond to their expectations;
- there are no differences between the appreciations of the leader made by male and female responders;
- a number of customers consider the optional equipment as insufficient;
- the majority of the customers prefer petrol / gas as an engine fuel;
- most of the customers are satisfied with the commercial distribution network;
- a relatively small number of car owners are dissatisfied with the servicing conditions.
- most customers consider that the export of components makes the prestige of the Dacia car make increase;
- most of the car owners consider that the *Dacia Asistență* car service is satisfactory.

These hypotheses are quantified, and can be statistically formulated in order to be tested by the agency of the questionnaire.

Consequently, a few approaches can be exemplified, which can contribute to stagger the scales of the various questions of the questionnaire, while ensuring the statistical testing of the hypotheses formulated (where, in the idiom of classical econometry, H_0 defines the null hypothesis and H_1 the alternative hypothesis).

Table no.1

Null hypothesis: H_0	Alternative hypothesis: H_1
1 customer out of 2 knows the performance of the car	H_1 average # 50%
1 customer out of 3 has already owned a car	H_1 average # 33%
2 customers out of 5 would have preferred a domestic car	H_1 average # 40%
1 customer out of 2 considers the price as accessible	H_1 average # 50%
1 customer out of 3 considers the domestic car as similar to an imported car	H_1 average # 33%
4 customers out of 5 considers that their income does not essentially influence their choice	H_1 average # 80%
3 customers out of 5 appreciate the quality/price ratio	H_1 average # 60%
9 customers out of 10 do not see any differences in appreciation between women and men	H_1 average # 90%
4 customers out of 5 consider that the car	H_1 average # 80%
7 customers out of 10 are satisfied with the commercial distribution network	H_1 average #70 %

Delineating and setting up the objectives of the marketing research is a complex process, and its structure in the car market is centred on specific targets, issues, and finally, on concrete objectives.

Setting up the objectives of the marketing research concerning the position of the Dacia Renault car on the Romanian market

Table no. 2

Aspects or targets to be quantified and made into a hierarchy	Problems that have to be answered through the research	The concrete and quantifiable objectives of the market investigator
1. Identifying the manner of purchasing of a Dacia Renault car	1. Which is the most frequent manner of purchasing the car? 2. Which is the most widely used source of funding?	1. Determining the modal value concerning the manner of purchasing a car. 2. Determining the prevalent funding source in purchasing.
2. Quantifying the degree of knowledge about the Dacia Renault car	1. To what extent are the car's variants known? 2. To what extent do the subjects detain information about the types of engines? 3. To what extent do the questioned people consider the car as being polluting? 4. To what extent does the inner space correspond to the expectations? 5. Do the buyers have any proposals for the improvement of the car?	1. Identification of the degree of knowing the car variants 2. Scaling the knowledge of the engine types 3. Scaling the opinions of the car's pollution degree 4. Scaling the opinions of the adequacy of the inner space as to the customers' expectations 5. Identifying the expected improvements.
3. Delimiting the adequacy of the distribution network to the expectations of the potential customers	1. Which is the coverage of the commercial distribution network? 2. Which is the owner's opinion concerning the quality of the services? 3. Which is the buyer's opinion concerning the purchase of a car?	1. Quantifying the coverage of the market by the distribution network 2. Scaling the car owners' opinion of the quality of the services 3. Scaling the buyers' opinion of buying a car
4. The degree of qualitative satisfaction of the demands of the customers through the manufacturer's network	1. Which is the buyer's opinion of the quality of the repair work and the service? 2. What do the customers think of the duration of the repairs? 3. Which is the customer's opinion of the veracity of the repair costs?	1. Scaling the buyers' opinion of the quality of the repair work and car servicing 2. Identification of the prevalent customer opinion of the duration of the repairs 3. Scaling the customers' opinion of the veracity of the repair costs.

3. The process of designing a questionnaire, and the impact of focus-group in the final writing

The stages of the practical design / planning of the questionnaire have been the following : specifying the information needed and the aspects/targets to be quantified and ordered hierarchically, setting up the solution of the stratified poll (strata / layers of customers as natural or legal entities), and the self-administered questionnaire with an anticipated rate of non-response, as a method of collecting data, elaborating the questions (content, type, quality order, pre-coding), using focus-group in a first pilot-analysis of the questionnaire, and the re-planning of its physical characteristics, endorsing the questionnaire by the beneficiary of the research, piloting, pre-testing and revising the questionnaire, as well as preparing the final variant and printing the questionnaire. The impact of the focus-group was bad far the most important factor of re-planning and final writing of the questionnaire, thus clearing most of the problems of writing and revising some peculiar aspects, derived from the specificity of the market. Four *sub-groups of experts* were used (each comprising on average 2-3 members), which appear in the following centralized table abbreviated as S.E. (1= quality/cost, 2 = technical, 3 = psychological = marketing).

Modeling focus-group of the final form concerning the Dacia Renault car in Romania

Table no. 1

Categories of themes	SE 1	SE 2	SE 3	SE 4
1. Knowledge or information possessed about cars generally				
1.1 Utility Car	Utility as to car price	Characteristics concerning the speed of traveling	Motion independence and favorable limit-situations	It is useful mainly in work-related, and family holiday trips
1.2 The degree of hazard of the car for drivers and pedestrians	None, if rules are observed	Any technical advance brings about hazards	Possibly, but compensated to a small extent by the advantages of use	Very little, or none
1.3 Major critical aspects in car	Assessed comfort/post ratio	Power of the engine and speed of travel	Robustness and endurance in time	Possibility of purchase
1.4. Competition with other solutions of transport	Convenient	Flexible and adapted to technological evolutions	Fast and prompt	Modern and easy
2. Evaluation of the interest that the interviewed subjects had in the Dacia Renault cars				
2.1 Identification of information sources	Internet, SIAB, dealers, financial situations	Technical catalogues and specialized magazines (technical specifications)	Friends, acquaintances, colleagues, brochures, etc.	TV ads, internet, radio, car fairs
2.2 Variety of models	Complete assortment	Incomplete; off-road models are in order	Incomplete; a small-tank model would be useful	I think there are enough models
2.3 Diversity of optional equipment	An anti-theft device would be necessary	Parking sensors, side airbags and adjustable steering-wheel	Increased communication and entertainment comfort	Each model with a distinctive additional option
3. Identification of the knowledge and information they had about the quality of the Dacia Renault cars				
3.1 Types of known engines	Small engine = low consumption, plus diesel fuel	Out of the 6 engine variants, the GPL and K4M formulas are preferred	I prefer silent the engine formula (with no diesel fuel variant)	The engine formula should give an image of comfort and economizing
3.2 Fuel consumption	Minimal consumption = low travel costs	Consumption up to 6.5 liters / 100 km	I prefer a special efficiency to an apparent small consumption.	Higher consumption for a good image of its power
3.3 Inner space	Very roomy inside	Rather high, but passable	Generous to its owner	Very roomy for a family
3.4 Flaws noticed at the already manufactured models	Low stability at turn	The Diesel engine formula is far noisier	Visibility affected by the side pillars of the screen	3-4 years' use increase the noise of the car
3.5 Improvements expected the cars	Only in terms of economicalness (of efficiency)	Adjustable suspension (load, and on road)	In terms of crash survivability	In terms of adaptation to the road network
3.6 Price, as an important factor in choosing a car	Acceptable and attractive, if compared to other cars	Factor ranking in second place, according to the technical quality	Price can raise problems, if continuing to go down	In point of image, a rise is needed, but not a really major one
4. Determining the buyers' attitude towards the quality of the distribution network:				
4.1 Distribution network A.Fortes and B.Weaknesses	A.Diversity B.Low coverage / high cost	A.Spatial coverage B. Relatively incomplete technical information	A.Close to the public B.Rather high degree of red-tape	A.Diversity and additional facilities B.Interface /communication
4.2 Quality of staff in the distribution network	Training and qualification /cost	High technical abilities	Helpful and accessible	Not yet defined in the image of the brand
4.3 Favourite centers	AMAT	DAPEROM	Any	Delta Plus Trading
5. Determining the buyers' attitude towards the quality of the repair work, and servicing in general				
5.1 Distribution of repair centres	Sufficient proportion to the sales	Reasonable distance in proportion to consumption	Covering in point of information	Prompt in point of image on an internal plane
5.2 Technical equipment	Efficiency as a ratio cost / profit	Upward trend as real technical solutions	It is permanently improving	Satisfactory
5.3 Satisfaction and insatisfactions in the process repairing and servicing	Costs/prices Quality in time	Promptness and duration in servicing Technical guaranty	Trust in point of impact Bureaucracy in unfolding	Average-level servicing Long waiting time
6. Identifying the profile of the Dacia Renault car buyer				
6.1 Social and demographic characteristics	State sector wage-earners, small wages in private companies	Prevailing: men having an average (minimal) technical training	Average age (30-40 years old) medium (high-school) and higher education	The modal buyer on the Romanian market
6.2 Profile of the Dacia car buyer	Economical, efficient, wishing to achieve	Energetic, on the move	Usually, a family man, equanimous, balanced	Quiet, calm, earnest, sociable.

The impact of the focus-group generated most of the issues conducive to the revising of the questionnaire. It was subsequently reevaluated in proportion to the optimization of the content and

the placement of the questions, and mainly to some essential desiderata of any marketing research, already designated, in practice, by the name of rules of structure-shaping and hierarchy-establishing, as in the classical example provided by the *5 x 20 rule* concerning the significance attributed to the first 20 seconds, 20 words, 20 gestures, 20 looks, and especially the first 20 questions, where what is more important for the research questionnaire will enter.

4. A final remark

On the stratified market of the Romanian cars, Pareto's famous law of the 20/80 ratio could be rephrased like this: a percentage of only 20% of the firms bring approximately 80% of the incomes. In the year 2009, on the Romanian market, only 6 manufacturing car companies held 80.6 % of the sales, while Automobile Dacia Renault represented the leader, which deserved a special research, it being the holder of over 31% of the whole market. The merit of the experts in the sub-groups whose opinions were tuned to account in the focus of the research is most probably special, and it becomes all the more pregnant after the final reading of the questionnaire. We believe that, very much like the Romanian market, pressed by the slow evolution of economy, it is to the experts in the first sub-group that we owe the closest investigation image shaped by the agency of questionnaires, through comparison with the car market under investigation.

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Annex no 1

Final questionnaire

We are currently conducting a study that intends to identify the opinions and attitudes of the buyers of Dacia Renault cars, with respect to that firm's capacity as leader on the domestic car market. So, we ask you to be so kind as to answer the following questions. We assure you that your answers and identity are confidential.

1. What word comes to your mind when you think of the Dacia Renault cars?.....

2. You currently own a Dacia car. Which variant is it?.....

3. What was the reason you chose a Dacia car for?.....

4. Have you previously owned another car?

No	Yes. What make?
----	-----------------

5. How long have you had a Dacia car?

For 5 years	for 4 years	for 3 years	for 2 years	under 1 year
-------------	-------------	-------------	-------------	--------------

6. Have you paid all the car's price?

No (question 7 is continued)

Yes (you go on to question 8)

7. Have you paid the whole price so far?

No	Yes
----	-----

8. Did you borrow money to purchase the car?

No

Yes, from bank

Yes, from CAR (the Mutual Aid Fund)

Yes, from other people

Yes, from other sources (mention the source).....

9. In your opinion, the price of a Dacia car is:

very high	high	Middling	low	very low
-----------	------	----------	-----	----------

10. Do you think that the cars made by Dacia are up to your expectations?

wholly	to a high extent	Middling	to a low extent	at all
--------	------------------	----------	-----------------	--------

11. Do you consider that owning a Dacia car:

Confers a certain social status?

Gives the possibility of fast and secure travel?

Entails considerable costs?

Is an additional concern?

Is a necessity?

12. If you were to purchase one of the versions below, would you arrange them, marking one box according to your preference. Place at the top the choice that best matches your preferences.

	1	2	3	4	5	6
Logan Pick-up						
Logan coupé						
Logan MCV						
Logan Van						
Sandero						
Sandero Stepway						

13. Which do you think the main advantages of the Dacia car? Would you please enumerate and note the order of their importance, starting with 1 for the most important, then 2 for the next, etc.

Advantage	Importance
-----------	------------

14. Which do you think are the main disadvantages of the Dacia car? Would you please enumerate and note the order of their importance, starting with 1 for the most important, then 2 for the next, etc.

Disadvantage	Importance
--------------	------------

15. In general, what improvements do you think should be added to the Dacia cars.....?

16. What are your preferences concerning the engine?

Type of engine	Preference level					
	Very high	High	Middling	Little	Very little	No opinion
Petrol type K7J (1.4 MPI)						
Petrol type K7M (1.6 MPI)						
Petrol type K4M (1.616V)						
Petrol and LPG type K7M 718 MP						
Diesel type K9K (1.5 dCi 70CP)						
Diesel type K9K (1.5 dCi 85CP)						

17. What do you think a Dacia-Renault car is like?

18. The versions of the Dacia-Renault car have more facilities, out of which some are optional (air conditioning, electrically operated windows, ABS, aluminum rims, etc.). Do you consider these cover all the buyers' preferences?

- No (question 19 is continued)
 Yes (you go on to question 20)

19. What special facilities should be added?.....

20. Do you think the Dacia cars are adapted to the requirements of Romanian roads?

Totally agree	Agree	Neither nor	Disagree	Totally disagree
---------------	-------	-------------	----------	------------------

21. Do you feel secure inside a Dacia car?

Totally agree	Agree	Neither nor	Disagree	Totally disagree
---------------	-------	-------------	----------	------------------

the maintenance costs for a Dacia car are:

Very high	High	Moderate	Low	Very low
-----------	------	----------	-----	----------

23. Do you consider that the price of the spare parts is:

Very high	High	Moderate	Low	Very low
-----------	------	----------	-----	----------

24. SC Automobile Dacia SA has a vast distribution network. Do you think it is sufficiently developed?

- No (question 25 is continued)
 Yes (you go on to question 26)

25. What other areas should be covered?.....

26. Automobile Dacia has several distribution centres and showrooms staffed by qualified people. Would you say your opinion concerning the following statements:

Statement	Total agreement	Agreement	Neither-nor	Disagreement	Total disagreement
Purchasing a car is easy					
Exhibiting the models is up to expectations					
The staff is kind and helpful					
The staff is proficient					

27. The Dacia cars made at Mioveni are destined for both the domestic market, and export. Do you think that Dacia is praised on the foreign markets?

No		Yes	
----	--	-----	--

28. The Dacia models are also manufactured in Russia, Iran, Morocco, Brazil. Do you think the cars made at Dacia are:

Much better	Better	Same	A little worse	Much worse
-------------	--------	------	----------------	------------

29. Automobile Dacia is part of Renault Group. Do you think that the cars made at Mioveni, if compared with the similar Renault cars, are:

Much better	Better	Same	A little worse	Much worse
-------------	--------	------	----------------	------------

developed?

No (question 31 is continued)

Yes (you go on to question 32)

31. What other areas should be covered?.....

32. Have you had recourse to the Service Dacia network?

No		Yes	
----	--	-----	--

33. Starting from your own experience, would you say your opinion of the following statements:

Statement	Total agreement	Agreement	Neither-nor	Disagreement	Total disagreement
The quality of the work is at top level					
The equipment of the workshops is at a high technological level					
The duration of the repairs is short					
The costs of the repairs are calculated correctly					

34. The manufacturer gives 36 months' guarantee. Do you consider that period sufficient?

Yes		No	
-----	--	----	--

35. Do you think the variants of the Dacia car are sufficiently well known?

Yes		No	
-----	--	----	--

Characteristics	Extreme (1)	Foarte (2)	Suficient (3)	Nici/mici (4)	Suficient (5)	Foarte (6)	Extrem (7)	Characteristics
Non-polluting								Polluting
Spacious								Lacking room
Low consumption								High consumption
Modern design								Outmoded design
Close to the public								Distant from the public

22. In your opinion,

36. The information on the performance and technical data of the Dacia versions comes from many different sources. Grade each source, starting from 5 points – for the source that wholly identifies your option.

	5	4	3	2	1
Press materials					
Radio					
Television					
Brochures, folders					
Internet					
Other					

37. Dacia is manufactured in five versions. Do you think those cover all the buyers' expectations?

No (is continued by question 38)

Yes (you go to question 39)

38. What other versions do you think should be manufactured to cover the buyers' needs?.....

39. A general grade for the Dacia car should be:

1(min)	2	3	4	5	6	7	8	9	10(max)

40. Part of the components needed for making the Logan model in foreign works are made by Automobile Dacia, and exported to those destinations. Do you think that brings further prestige to the Dacia brand?

Totally agree	Agree	Neither-nor	Disagree	Totally disagree

41. The "Dacia Assistance" service is available on a 24h basis. Have you had recourse to the service?

No	Yes

42. Do you consider that service useful?

Totally agree	Agree	Neither-nor	Disagree	Totally disagree

43. If someone asked your opinion, would you recommend them to buy a car made by Dacia?

No	Yes

Questions for identifying the subjects of the interview

44. Sex:

Male	
------	--

Female	
--------	--

45. Which is the most recent type of formal training you concluded?

- Elementary school
- Vocational school
- High school
- Post-high school training
- Higher education
- Post-graduate training.

46. Your occupation:

- Unskilled worker
- Skilled worker / craftsman
- Service operator / commercial worker
- Technician/foreman/primary school teacher/clerk
- Military /policeman/guard agent
- Businessman/Executive / Manager / Middle medical staff
- Specialist / high education staff
- Student Unemployed Pensioner
- Different. Which one?

47. Your monthly income in lei is comprised between:

600-1500	1501-2500	2501-3500	Over 3500

48. Your age lies in the interval:

18-29 years	30-39 years	40-49 years	50-59 years	Over 60

49. You live...

In a town	In the country

Thank you for your cooperation

DIRECT SALES IN THE CONTEXT OF ROMANIA'S UE INTEGRATION

Gherman Cristina

"Transilvania" University of Braşov

Faculty of Economic Sciences

More recently, direct sales business is stimulated by the difficult market conditions. While retailers hardly bear fixed costs such as rent, administrative costs and tend to raise prices, customers fall back to products offered by direct sale. In addition, labour market conditions made more and more Romanians (who were left without incomes) to move towards this system. On the other hand, the direct sales field doesn't concern only those who remained without a job, but rather those who want to round their incomes.

Keywords: direct sales, strategy, crisis, costs.

JEL code: M31

Introduction

Direct sales mean selling goods and services directly to consumers through an explanation and/or demonstration, at their home or in the others' house, at work or elsewhere, far from the retail sales location. In many countries the term of "home sale" is used instead of "direct sale".

Usually, direct sales companies operate in two modes:

- From person to person: usually a person who sells makes a presentation to the client and/or his family, after he set an appointment in advance in a certain place and at a certain time.

- Group sales: a customer invites his friends at home, where he makes a presentation for guests.

Direct selling can be defined as a form of communication from one person to another, in which a seller tries to convince potential buyers to buy the products and the services of his firm.⁸⁰⁸

It is therefore a process in which salesmen try to inform and persuade the customers to purchase a product or a service. Direct sales provide the fastest feedback of all promotional activities because of the direct negotiation.

The advantages of direct sales are:⁸⁰⁹

- the ensuring of a more effective individual communication, due to its high flexibility in the communication process, regarding the needs of individual consumers;

- the possibility of minimization of the promotional effort; in most cases sales staff effort materialized in an effective sale of goods or services;

- the ensuring of relevant marketing information for the company management.

Because the direct sales force is the largest expense in the marketing communications it needs proper management; it should have another type of management than other areas of promotion.⁸¹⁰

Direct sales force management should consider the following requirements:⁸¹¹

- sets targets to be achieved in a given period, in a precise, measurable manner: the sales volume, the market share, the obtained profits etc.;

- determines the optimal sales force size and its correction in time;

- organizes sales staff training programs based on various categories of staff;

- motivates the sales staff in order to increase the efficiency of its business;

- controls and evaluates the performance of sales staff.

⁸⁰⁸ Shimp T.A., Lozier M. W. – *"Promotion Management & Marketing Communications"*, Dryden Press, New York, 1996, p. 271.

⁸⁰⁹ Adăscăliţei V. – *"Promotional Techniques. Fundamentals"*, "Transilvania" University of Braşov, 1994, p. 98.

⁸¹⁰ Lefter C., Brătucu G. – *"Marketing"*, vol. II, "Transilvania" University of Braşov, 2000, p. 174.

⁸¹¹ Pride M. V., Ferrell C. O. – *"Marketing"*, 8th Edition, Houghton Mifflin, 1993, p. 550 – 558.

In many Western countries, through this type of sales, unlike the retail, the customer has a period of 7 days called "cool-of period". During this period, he has the opportunity to consider his decision and compare the quality and the price of goods or services provided by the sales people, having the right to cancel this agreement or to return the product purchased. This aspect makes the customer to have a high confidence in the method of direct selling. In addition, by extending the term of "cool off", by establishing the ethical principles that limit the actions of its members and through cooperation and continuous communication with Consumer Associations, direct sales companies protect the customers. Direct Selling is successfully used for many products: cosmetics, tools, home fitness products and dietary supplements, textiles, alcohol, jewelry etc.

Direct sales industry is rapidly growing as the preferred method of sale and purchase.

As a result of global development, in 1978 World Federation of Direct Selling Associations (World Federation of Direct Selling Association) was founded. The headquarter is in Washington DC, USA and its members are Direct Sales Associations from 52 countries representing a total of 1,300 companies worldwide.

Direct Selling is a proven practical method of purchase for millions of consumers worldwide. First, direct sales offers quality and diversified products to consumers while on the other hand they provides an opportunity to earn income for people from all social classes, without distinction of race, gender, religion, education or experience. Most of the people involved in direct selling business deals with only part-time and temporary.

A special study conducted in the U.S.A., to consider direct sales, shows that the 5 reasons to become a direct selling person are:

Table 1: 5 reasons to become a direct selling person

I like to test product	90.7%
I'm my own boss and I choose my work program	73.1%
I contribute to family income or I obtain additional income for me	63.7%
The more I work, the more I earn	54.3%
I like to sell	48.5%

Direct sales provide an opportunity of business for the person who sells, on the one hand, and offers quality, value, personal and practical service for the consumer, on the other hand. The practice of direct sales gives the opportunity of an extensive selection providing various products and services to customers, continuously increasing worldwide.

The evolution of direct sales in Romania in the period 1999 – 2009

At the end of 1990, after the fall of communist dictatorship, network marketing systems have emerged by entering the local market of individual life insurance agents from Austria (collaborators of Safe Invest Holding), as insurance brokers, in MLM system.

Poor economic conditions, lack of appropriate legislation, the reluctance of people to the responsibility of a business on their own, have greatly hampered the official start of such companies. For 4 to 5 years have entered the market, rather shy, collaborators from Italy, the Netherlands, Austria, Hungary, Germany and the U.S., which tried to build their own networks for various companies (Herbalife, Amway, etc.) distributing cosmetics, cleanliness products, nutrition and health maintenance products. Most of these activities took place at the boundary of law, because none of the supplying companies was registered in Romania.

In 1994 were recorded the first officially MLM companies in Romania (Safe Invest Romania, Romania Saveco, GWC), and several years later also appeared major network marketing companies (Oriflame, California Fitness, Amway, Golden NeoLife Diamonds, Carion, Forever Living Products, AVON, Eurolife etc.). Meanwhile, were set up some local MLM companies, which tried to imitate the success of the those well - known, but without notable results due to lack of capital and management

experience. If in 1998 the number of collaborators was estimated at about 60,000 at the end of 1999 there were approximately 125,000 people directly involved in the system. Only those active persons in the system were taken into account, then MLM distributors.

Currently, more than 10 Network Marketing companies try to develop their market in the context of an economy in full reform, always offering what no other industry in Romania can offer: jobs.

Each collaborator who entered the system had a major opportunity to become master of his own business, to have a secure job and earn money by honest means. Also it has to be noted the media indifference for the promotion of these systems, which can be explained by the ignorance of the truth about Network Marketing and the confusion generated by illegal pyramid selling (as the famous Caritas). If the above information is likely to be inaccurate, this is due to a false understanding of free market competition of the management teams of Network Marketing companies.

The last decade has shown a significant increase of population in Romania who was drawn to the idea of having its own direct sales business. The reason for this dramatic increase is not only the alternative to a job or an additional way of earnings, but the satisfaction of becoming an individual entrepreneur who wins on a profitable activity, in collaboration with partners in its network.

Most of the worldwide suppliers of consumer goods and services, now prefer to present their offer directly to consumers. Precisely this facility is a feature of the direct sales industry, so that over 70 companies are now operating in direct sales and MLM schemes in Romania. In Romania the turnover exceeded 270 million USD in 2007 and the number of the active distributors reached 300,000. These opportunities are designed to be embraced by men, women and families of any social class. One of the advantages of such opportunities is that personal commitment can be partially (outside office hours) or full, being fully flexible in terms of organizing working time. A day, a week or a whole month can be assigned to run an MLM business, according to the wish of every person to earn from the opportunity. The main statistics on the industry of direct sales and MLM systems in Romania refer to:⁸¹²

- **Turnover** – in 2008 reached the value of € 300,041,307, an increase of 15% compared to 2007 when it reached € 275,285,253. According to the RODSA statistics (The Romanian Direct Selling Association) in 2009, turnover increased by 10% compared to 2008 due to current financial crisis. Cumulative 10 years, from 1999 to 2008, the turnover exceeded EUR 1.496 million.

Table 2: Turnover in the direct sales industry in Romania in the period 1999 – 2008 (mil. €)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Turnover	35,6	49,84	70,31	92,56	109,47	170	169	228	275, 28	300,04

(Source: <http://www.rodso.ro/rapoarte.htm>)

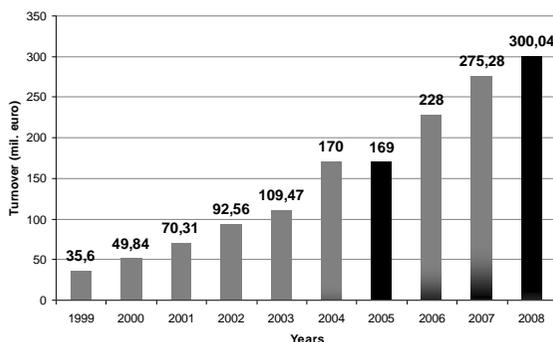


Fig. 1. Turnover in the direct sales industry in Romania during 1999 – 2008 (million €)

(Source: <http://www.rodso.ro/rapoarte.htm>)

- The structure of **direct sales** and **MLM** distributors in Romania:

⁸¹² <http://www.rodso.ro/rapoarte.htm>

Table 3: The number of direct sales and MLM distributors in Romania in the period 2003 – 2008

	2003	2004	2005	2006	2007	2008
The number of direct sales and MLM distributors, of which:	200.000	225.000	250.000	250.000	300.000	340.000
- employees	452	452	590	1.176	1.282	1.107

(Source: <http://www.rodso.ro/rapoarte.htm>)

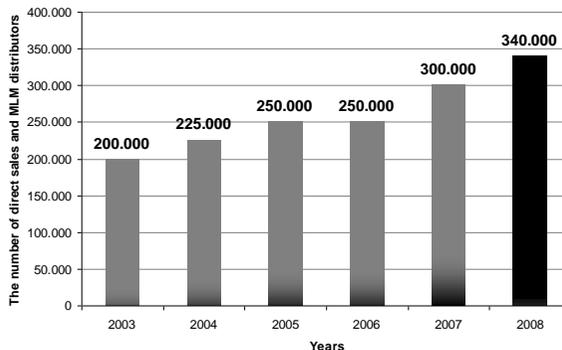


Fig. 2: The number of direct sales and MLM distributors in Romania in the period 2003 – 2008

(Source: <http://www.rodso.ro/rapoarte.htm>)

The range of products distributed in the direct sales industry and MLM systems in Romania in 2007:

- 3% – technical products, machinery, books, etc.;
- 9% – life insurance;
- 11% – household goods;
- 37% – cosmetics;
- 40% – nutritional supplements.

The structure of distributors and customers:

- 30% – active distributors;
- 70% – occasional customers and distributors.

Distributors work:

- 31% – full – time;
- 69% – in part (outside office – hours).

Working method:

- 61% – from person to person;
- 39% – group presentation.

The gender of the distributors who work on the Internet:

- female – 40%;
- male – 60%.

The age structure of distributors:

- 18 to 30 years: 37%;
- 31 to 40 years: 27%;
- 41 to 50 years: 24%;
- over 50 years: 12%.

Conclusions:

Direct selling industry has registered in 11 years of activity a spectacular growth. If in 1999 the total turnover in this sector just passed 35 million in 2009 - the peak year of economic crisis - companies

operating in multi-level-marketing had a total turnover of over 330 million. Between 1999 and 2009, the area has managed to make "the move" of over 1.8 billion euros. For these money work only 1,107 employees the rest of 350,000 being collaborators.

Last year, when the crisis has trampled on the local economy, the direct sales industry grew with 10% compared with 2008, reaching a total turnover that exceeded 330 million. This rising trend has a logical explanation, given that many Romanian have lost their jobs and were forced to look for a way of earnings. For them, the Multi-Level Marketing (MLM) system was a chance to make some revenue. In Romania today, where job hunting has become a real problem, many people had to look for opportunities of earnings. This was enough to increase the number of collaborators, which led to the increase of the turnover. According to data held by RODSA (Romanian Direct Selling Association), today this MLM system has a network of 350,000 direct distributors and more than one million consumers. Three quarters of those involved in this system made gains equal to the monthly minimum wage. There were also people who made performance, gaining \$ 15,000 each month.

The expansion of this type of services on the Romanian market made the major companies in the world to open offices here. If at first were few sellers "from door to door", the products distributed being designed especially for life insurance, now the range has extended, around 70 of such companies working in our country.

Turnover conducted by the industry shows that there is big money spinning: last year, the top three players - Avon, Oriflame and Amway - had total revenues of over 150 million. According to data from RODSA, Avon has managed to achieve in 2008 the performance of a net profit of 18,162,599 euros with only 311 employees, while Amway has reported a profit of 3,434,119 euros, the company's personnel plan showing only 38 work card employees. Ranked in the top three of the earnings achieved in 2008, Oriflame Company had a profit of 3,116,389 euros and a total of 127 workers.

With relatively small initial investment, direct sales companies have growing profits as more consumers turn to vendors for products to increase their income. Moreover, some of them created networks to grow their sales volume and thus increase revenues. There must be made the specification that the money is earned only when they sell products and not promises.

Another reason for the growth of this business is the improvement of legislation. As for Romania, even now the law is unclear, but becoming a European Union member has simplified things somewhat. For example, several years ago were banned the pyramid schemes. This is a good thing, because the MLM companies don't risk anymore to be associated with such practices.

The major problem of companies during the current period is the economic crisis, because it has a negative influence on all activities. The application of innovation in all areas, reducing costs and risks by contracting a franchise or improving the speed and the efficiency through direct sales are the most viable solutions.

The crisis is the forerunner of change.

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ON-LINE COMMUNICATION BY SOCIALIZATION SITES

Cristian Moroza

*"Constantin Brâncoveanu" University from Pitești, Faculty of Management-Marketing
in Economic Affairs Brăila*

Elena Enache

*"Constantin Brâncoveanu" University from Pitești, Faculty of Management-Marketing
in Economic Affairs Brăila*

Carmen Marin

*"Constantin Brâncoveanu" University from Pitești, Faculty of Management-Marketing
in Economic Affairs Brăila*

Socialization online sites have become important landmarks for people all around the world and of all ages, especially for youth. Users of such services can socialize with people they know or with unknown, people located in the vicinity or at different distances, even on different continents.

In other words, social online sites help people to interact with others of their kind, to know people who have the same passions as they have. The access to such sites is free and the members can build profiles (which include data on name, age, hobbies or favorite books and movies) and can share photos, music or videos with the others. A friend is, in the language of the socialization sites, any user who has a link to his/her profile page. Users can send messages or can leave comments on other profiles. In some cases, people who meet on such sites decide to meet also in the real life.

Keywords: internet, on-line, socialization sites, privacy

JEL code: L86

1. Developing online marketing through Web 2.0

During the current period of time there are organizing software and procedures that control the interpersonal exchange of information in socialization networking sites, text messaging, instant messaging, blogs, role-play online games and online education. All these applications can be grouped under the term "social media", a concept that describes the social interaction software based on Web 2.0 - seen more as a software platform, where the user controls / create his own data, information, usually offering them to others through collaborative tools.

Web 2.0 is nothing but the web today, which changes daily grows and includes services and people. The most important features are: achieving common networks (MySpace, Facebook and others), the presence of many small businesses, online search for partners, making new friends⁸¹³. Blogs, wikis, podcasts, and text comments are the most important forms through which the web content has evolved a lot. Basically, it has become accessible for anyone to reveal his thoughts on the Internet. Blogs have also spread to the companies and today there appeared not only the personal and business agendas but also the political blogs. On the list of news, the blog is one of them, other services addressed to the community occurring also: the sharing of images (Flickr), joint news pages (Digg), social networking market (iWiW, myVIP) and the list is constantly expanding. Moreover, there are discussions about the next generation of web - 3.0, already. It involves the transforming of the Web into a huge database, the artificial intelligence development and the creating of a new-human web, the creating of semantic networking computers connected to the Internet which can combine information based on logical connections⁸¹⁴.

⁸¹³ <http://aseweb20.wetpaint.com>

⁸¹⁴ <http://www.blogcity.ro>

Turning to the current stage, we can say that the single direction and traditional media was changed step by step as the result of some activities: in addition to horizontal, general search engines, there also appeared vertical search engines (engines specialized in certain areas search information), and Google has brought the both together (Universal Search).

A description of Web 2.0 might be the following⁸¹⁵:

- includes a very wide range of applications and services using the web as a unitary organized platform for communication;
- is built on an architecture that encourages the active participation of users;
- allows easy interaction between users who have similar interests;
- enables users to generate content, share it with others, meaning a greater interactivity;
- facilitates the public access to databases;
- has the ability to connect various applications or services and to aggregate data from various sources - RSS, blogs;
- “talks” about: the socialization of information - a concept about applications and people, the emergence of collaborative tools like wikis, social networking platforms like MySpace, Hi5, LinkedIn and Second Life, blogs, data structures and communication documents, collections of bookmarks (like del.icio.us or digg), videos (YouTube) or images (flickr) etc.;
- syndication - RSS and tags structures: tree-classification removal and the application of labels, so that something is not strictly a descendant of another, but may belong to several categories;
- the improving of the users’ experience;
- democratization of content and distribution (user-created content and freely distributed);
- uses the power of Internet communities.

Video and Web 2.0 technologies help to improve collaboration between people and companies in the current context of increasing interactivity and globalization of labor. Most of the companies plan to prepare networks for implementation of video applications and innovative online collaboration. With the adoption of more wide-scale video and Web 2.0 technologies, companies are becoming increasingly interested in using video communications for the expansion of commercial activities, attracting more customers, improving collaboration between employees and implementation of environmental media.

Technologies such as blogs, wikis, telepresence and web conferencing, help companies to keep pace with the very dynamic changes in the field of IT applications and services. The main issue for investment in commercial video and Web 2.0 tools is to address growing customer demand for innovative products and services. Another factor considered for installing the video is, as pointed out above, the concern for the environmental issues.

In the current era of dynamic employees, informed and collaborative interaction characterized by increasing global importance, the horizontalizing of the organizational structures and interactivity, companies must use communication tools in an innovative way for increasing the degree of adaptability to dynamic change market.

Equally interesting is the fact that the U.S. companies which wish to use, in the next few years, videoconferencing technology are, in the same time, according to assessments of profitability during a fiscal year - companies with the greatest potential for development fast. Moreover, it is estimated that in the coming years, the fast-growing companies in Europe and in countries with emerging economies will implement Web 2.0 technology-based tools.

2. Concept and evolution of the socialization sites

Socialization networking sites are web-based services that allow individuals to construct a public or semi-public profile within a limited system, to devise a list of other users who are connected to their friends list and see what others in the system do. Nature and typology of these connections may vary from one site to another, but what makes the socialization sites unique is not that they allow individuals to know strangers, but that they allow users to compile and make public their network socialization (friends). The results may

⁸¹⁵ idem

be the links between individuals which, in other circumstances, would not occur. Also, on many socialization sites, the participants are not looking, in particular, to become acquainted with others, but to connect with people they already know.

After recording on a socialization networking site, users are asked to identify those they are related to in the system. Labeling depends on the site: “friends”, “contacts”, “fans”, most socialization networking sites requiring bidirectional confirmation of friendship. Public display of friendship is a crucial component of these types of sites. Friends’ lists contain links to each profile, allowing users to navigate the network structure by clicking the lists of friends. Most sites offer users a social mechanism by which they can leave messages on friends’ profiles also. Moreover, these sites usually have a feature of “Private Messaging” similar to the webmail.

Experts believe that the history of these sites began with the advent SixDegrees.com. It was auto characterized as a means of knowledge and communication, but despite the success enjoyed (million users), it was closed in 2000. As its creators say, the time for such services hasn’t come yet⁸¹⁶.

The next milestone was in 2002, Friendster - a site that initially proposed itself to help users to know, in the event of love affairs, their friends’ friends, who would be some more suitable pairs than the strangers. Friendster enjoyed a very big successful, quickly attracting hundreds of thousands of users, but technical problems, and the ease with which administrators were wiping fake accounts (for example, parodies of celebrities) led to a mass withdrawal of users. Friendster however remains very popular in countries like Philippines and Indonesia. Instead, former Friendster users have shifted to other similar services; MySpace is among the main beneficiaries.

On Hi5 (founded in 2002), users can create an online profile, which can show information such as interests, age and hometown and upload user pictures where other users can post (submit) comments. Hi5 also allows you to create personal photo albums and set up a music player in the profile.

In 2004, “The Facebook” was founded, originally as an academic network with the name “thefacebook.com” being later extended to companies like Apple and Microsoft⁸¹⁷. In May 2007, Facebook launched a platform to interact with other websites. Likewise, there were released many applications by means of which users can send different messages. In a few months, after the launch of Facebook, there had been initiated an application against spam also.

The growing user-generated content sites focused on media sharing and have started to implement features of “social networking” becoming, in turn, socialization sites. There are Flickr (for photos), Last.FM (music listening), YouTube (video sharing) as examples⁸¹⁸.

The idea of development of communication systems based on socialization sites is, also, operated by the U.S. emergency management (FEMA) which wants to use the Twitter microblog network sites or the Facebook socialization networking site in order to communicate in case of emergency (when the conventional communication networks will be broken), so that people can send information to the authorities, and may correspond better with those in areas at risk or already affected by various disasters or catastrophes⁸¹⁹.

3. Extending socialization sites worldwide and in Romania

According to www.wall-street.ro the worldwide number of users of socialization networking sites has grown explosively in 2009, and their influence has been confirmed at every big event, benefiting from continuous Internet access through smart phones⁸²⁰. For example, Facebook announced in early April 2010, that he crossed the threshold of 400 million users, after six years of existence (a year ago with

⁸¹⁶ Ana Soviany, www.revista22.ro, November 2008

⁸¹⁷ <http://ro.wikipedia.org/wiki>

⁸¹⁸ <http://aseweb20.wetpaint.com>

⁸¹⁹ <http://neomania.ro>, November 2009

⁸²⁰ Cristina Negraru, www.wall-street.ro, December 2009

record 200 million visitors), and Twitter has a number of users increased from 5.57 million in September 2008 to over 58 million people in early 2010⁸²¹.

Moreover, Google recently competes with the social networks by adding to its email service, Gmail, functions that allow the users to change the status of their friends and share content online. These sites status updates may include content provided by the users' contacts on other Google sites, such as YouTube and Picasa. Currently, email service users can post short messages similar to those on Facebook or Twitter attached through Gmail's chat. Along with the status update feature sites, Gmail has a number of elements which together could provide an alternative to Facebook⁸²².

In terms of age of users, according to a report by research company Pew Research Center released in autumn 2009⁸²³, approximately three quarters (73%) of adolescents (12-17 years) and an almost equal number (72%) of young adults (18-29 years) use socialization networking sites like Facebook or MySpace. Among socialization networking sites, the study shows that Facebook is the leading destination for adults older than 18 years (73%). MySpace is on the second position with 48%, followed by LinkedIn, with 14%. The results also show that young people aged between 18 and 29 years use connectivity and mobile terminals, 66% of whom being users of laptops.

In our country, according to a November 2009 study by market research company Mercury Research, of the 44% of Internet users in urban areas, which states that are members of social networks, more than one third (36%) use Hi5. This is followed by Facebook with 16% and remotely Flixter (6%), LinkedIn (2%) and Twitter (2%)⁸²⁴.

Young Internet users, aged between 18 and 24, are most active, both as membership in social networks and the frequency of access to personal accounts. Only 20% of young people between 18 and 24 have at least one account in socializing networks, the opposite being represented by the people over 45 years, 80% of them not belonging to any communities.

Unlike members of other social networks, Hi5 members are more open to new friends or groups, the average number of "friends" network being over 140, while 17% belong to a group of this network.

As frequency of access, over half of Hi5 and Facebook members access their personal account at least once a week, the young people being the most active numbers. For example, 70% of hi5 members aged between 18 and 24 connects at least once a week, unlike the third of those between 25 and 34 that connect with the same frequency. A similar situation is encountered on Facebook as well, where 74% of young people between 18 and 24 access their account at least once a week, unlike 45% people aged between 25 and 34 years.

4. European initiatives for the privacy on socialization networking sites

Sites for socialization networking are an emerging social and economic phenomenon, attracting 41.7 million users in Europe and changing the way we interact with others on the web. The using of socialization networks increased last year by 35% in Europe and is expected to increase by over 100% to 107.4 million users by 2012⁸²⁵.

According to an EU study, 50% of young Europeans internet broadcast personal information may remain permanently online and be viewed by anyone⁸²⁶. For the socialization networks to continue to grow young users must feel safe when expanding their networks or sharing any personal information but sometimes, they risk to be blackmailed and harassed. In most cases, the cause is the lack of information on the availability of personal data: users do not know who can see data on personal profiles published or how they may limit access.

⁸²¹ idem

⁸²² www.zf.ro, February 2010

⁸²³ George Varban, www.wall-street.ro, February 2010

⁸²⁴ The Center for Innovation in Education, *Hi5: The Most Popular Socialization Network in Romania*, 2009, Bucharest: TEHNE – The Center for Development and Innovation in Education, www.elearning.ro

⁸²⁵ European Consumers Center Romania, <http://www.eccromania.ro/noutati>

⁸²⁶ www.euractiv.ro/uniunea-europeana/articles, February 2010

For this reason, the European Commission imposed the 23 companies that joined in 2009 to document “Principles for safer social networking” measures to ensure the protection of children using socialization sites in the network⁸²⁷. Their objective is to improve child safety and combat online harassment; so that most of the companies have given them the chance to protect themselves against risks by facilitating online transactions for changing privacy settings, blocking access to certain users or to delete comments and undesirable content.

The companies involved intend to limit these risks by⁸²⁸:

- providing a button to “report abuse” usable and accessible, enabling users to report any inappropriate contact or behavior of another user by the push of a button;
- ensuring that all profiles and online contact lists of the website users who are registered as minors are automatically set to “private.” This will make it more difficult to contact the young person with bad intentions;
- ensuring that profiles of the users under 18 years can not be searched (on the Web sites or search engines);
- ensuring that the privacy options are clear and accessible at all times, so that users can easily realize whether everyone or only their friends can see what they post online;
- preventing minors from using their services. If a socialization networking site is addressed to the teenagers over 13 years, it would be difficult for anyone under that age to register on that site.

Earlier this year, the Commission published a report on the implementation of the “Principles for social networks more secure”⁸²⁹. The report concludes that, of the 23 sites, 19 offer safety advice and information specifically directed to children and/or adolescents. The report also shows that most companies give the children the opportunity to protect themselves against possible risks of being online and to use a safe approach to confidentiality.

However, the European Commission believes that there are more to be done in order to protect online privacy. Less than half of companies that manage social networking (40%) prepared profiles of users under 18 to be visible, by default, only to their friends and only one third of them have unmet requests for help from users.

Changes towards improving the use of socialization networking sites are taking place because of the initiative of independent organizations such as the Electronic Privacy Information Center, Electronic Frontier Foundation and American Civil Liberties Union as well⁸³⁰.

Also, companies like Facebook (one of the largest socialization networking sites) have implemented changes based on user settings, which cause the publication of more of their personal information. The effect was the one of making complaints by those organizations that have expressed their concern about the possibility of people to express their personal data or pictures without intending to do so. Although Facebook said it had changed the settings to help users be more precise about how and where their information is published, after complaints, the site’s officials said they would simplify the process of restriction of information for the friends list outwardly.

Conclusions:

Social networking sites which are addressed primarily at young audiences are well positioned in the Internet industry through the use of technologies that help companies keep pace with change very dynamic field of software and IT services. But, as many would benefit these means of communication, we can not overlook the risks, of which the largest is even endangering someone’s life.

⁸²⁷ European Parliament, <http://www.europarl.europa.eu/news/public>, February 2010

⁸²⁸ European Consumers Center Romania, <http://www.eccromania.ro/noutati>

⁸²⁹ <http://www.euractiv.ro/uniunea-europeana/articles>, February 2010

⁸³⁰ <http://www.zf.ro>, December 2009

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THE IMPACT OF THE ECONOMIC CRISIS UPON ROMANIAN CONSUMER BEHAVIOUR

Niculae Sabin Mihai

*Academy of Economic Studies, Bucharest
Faculty of Marketing*

Paul Marinescu

*University of Bucharest
Faculty of Business and Administration*

Sorin Toma

*University of Bucharest
Faculty of Business and Administration*

Article examines changes in consumer behaviour occurred due to economic crisis. The article explores the changes that have occurred between late 2008 and early 2010 compared with the period from 2003 to 2008 and try to show new patterns developed by consumers arising from the crisis and developing in this context of ways of adapting for the Romanian retailers. The article also brings into attention strategies developed by shoppers for adapting to the crisis and opportunities for growing within the crisis context for the retail sector.

Keywords: Consumer behaviour, economic crises, retail, Consumers attitudes.

JEL Classification: M31.

Introduction

In 2008, Romanians state of mind could be characterized by effervescence, growth, more optimism, initiative, consumption. At present, we can speak of uncertainty, frustration, disorientation, vulnerability, stagnation, reserve, a wait-and-see attitude.

This psychological shock was largely generated by the “first-time” crisis, which took the Romanians by surprise, as they had no similar experience after 1990. The shock was even greater since the crisis followed a period of growth and enthusiasm, characterized by high consumption appetite. Moreover, the media “buzz” stimulated and maintained the “crisis psychosis”. Up until last year everything was going well: the economy was growing, laws had been passed that encouraged growth, and therefore, there was a basis, which, at present, is no longer available.

The experience of the crisis in Romania

The way Romanians experience and perceive the effects of the crisis is strongly influenced by the *line of business, the income level and age*.

On the one hand, regarding the *middle and upper income segments*, the effects of the crisis are felt much more on emotional level. The changes in the consumption and buying behaviour are not major yet and not strongly perceivable in concrete terms. Romanians are much more careful, aware, prepared to take measures. On the other hand, concerning the middle to low income segments, the crisis is quite strongly felt, including in the family budget, inducing major changes in the buying and consumption behavior. Their frame of mind could be described as including fear, insecurity, anxiety, stress, powerlessness

Employees in the *private sector* are more aware of and closer to the effects of the crisis, and sense greater psychological pressure and stronger adverse effects on their finances. *Government employees* are slightly more relaxed, on account of not being in close contact with clearly defined business

indicators, hence not perceiving so strongly the impact of failure to achieve them, they don't feel "directly" responsible for the effects of their work. Moreover, most of them don't perceive clearly as yet the danger of bankruptcies or of dramatic salary cuts, staff cuts etc.

The crisis has provided *stagnation or reduction of income* (primarily bonuses, commissions that added to the family budget), *delayed salary payments*, *devaluation of the national currency in relation to the EUR and increase of prices* of many basic products (e.g. utilities, FMCG) and *lock-down of the loans market* (banks have stopped granting loans, the new loans are expensive and with rigid conditions). People work more for poorer results than last year and face expense cuts policy (phone calls, company car, other consumables) and staff restructuring.

Especially concerning the low income segment, difficulties in paying their debts of any kind have significantly grown (loan repayments, utility bills). Also, there have been an increase in loan repayment values. Daily basket is more expensive than last year. The crisis has blocked investments, as people have given up projects for which they required financing by the bank (purchase of a home / land / home renovation / buying a car etc.). They avoid to make plans - typical for Romanians is short term vision, "here and now", which has become more apparent than in the previous years (they plan only from one month to the next). They envisage ADAPTING "ON THE FLY" to the new challenges, rather than planning and forecasting (on account of the uncertainty regarding the future). Moreover, there is increased pressure and stress at work *especially regarding the middle to upper income segment*.

Crisis perception

The presence of the crisis is a certainty for all, though the intensity with which its effects are felt differently between income categories, activity line and age. *Romanians with medium-high and high income* feel the crisis more on emotional level - "on the lookout", more mindful of what happens with their money - rather than in their consumption behavior, while *the medium to low income segment* was visibly affected by the crisis, which has reduced their financial stability and the comfort of everyday life.

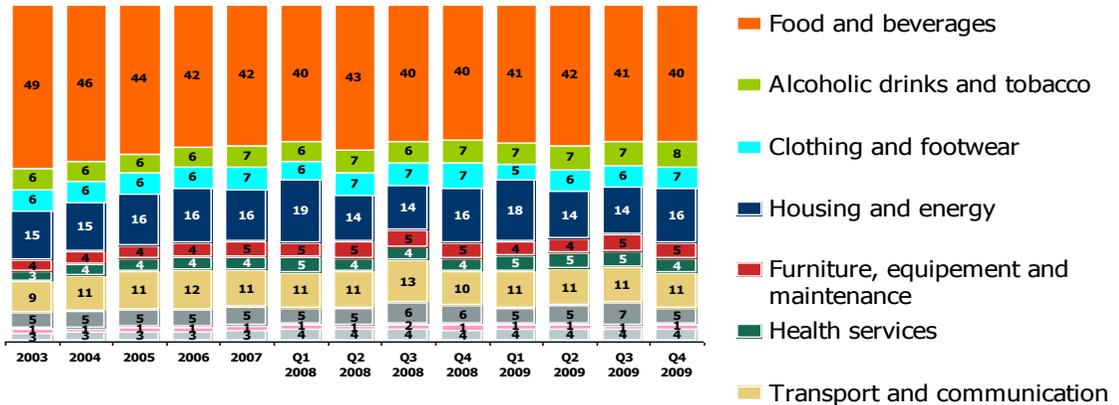
A significant part of the working people have had their financial situation affected by the crisis, primarily as a result of a drop in additional income (bonuses, commissions etc.) and secondarily due to delays in salary payments.

The consumers' attitude regarding the evolution of the crisis vacillates between *uncertainty and skepticism*. Most romanians believe that the crisis will last more than 2 years. Within the next 6 month they don't expect an improvement of their family's financial situation, and hope that it won't be worse than at present.

Whilst last year, without the crisis, *the main concerns* were to provide the required amounts of money for a decent living (meaning enhanced comfort) and to cover the inflation rate (which threatened their investments and earnings), this year the influence of the crisis on the quality of life is the main fear. The people's fears are much more basic, they are related to the family's stability and security: *impossibility to repay their debts and a drop in the quality of life, job loss, and price increase* (the reason for the first two fears).

In this context, *the need for security and control has become much stronger*. People are much more reluctant to take risks and the emotional connection with the family and the concern for their children have increased significantly.

Fig. 1. Distribution of households' expenditures Romania



Source: National Institute of Statistics, Household Budget Distribution

Changes In Shopping Behavior

People are not very confident in the manufacturers' ability to adapt to the crisis without impacting the consumers negatively. Many Romanians believe that, on account of the crisis, the manufacturers will increase the prices of FMCG products. This perception (strengthened by concrete examples of price increases) explains why Romanians now pay increased attention to the price when choosing the products as well as the shops.

Whilst on account of the crisis the interest for additional services provided by shops has dropped dramatically, the diversity of products is still a key selection criterion (convenience and time saving are as important as the price), which justifies the consumers' choice for modern retail.

On declarative level, Romanians are tempted by products in big packs because they are more economical or have a better price. On the other hand, the crisis represents a growth opportunity for small packs because – whilst being more expensive – they enable better control of the budget, especially for middle to low segment.

The crisis has brought about a more rigorous control of spontaneous shopping and diminished interest for "indulgence". Consequently, most Romanians stick to buying only the necessary products.

As the price has become more important, implicitly promotions have a greater influence on the buying decision regarding everyday products. Attractive promotions would determine many consumers to choose another product than their regular (switching behavior).

Consumers would be tempted to try newly launched products. On the other hand, as people have become more price sensitive and more open to promotions, a new product at an attractive price may become a tempting option especially for the medium to low segment.

In the first quarter of 2009, the FMCG market increased by 18% in value, driven by the growth of average price and higher quantities per trip. Essential Food products were the most influenced by the price increase, but with no negative impact towards household consumption – constant volume over the last period. Supermarkets and Small Traditional Stores seems to be the most affected – due to the fact that price became more important for consumers. Households living in Moldavia are more sensitive to the price growth, while families with children up to 14 years old don't modify their consumption behavior and constantly buy more volumes. Basic Hygienic categories were purchased more frequently but in higher quantities per trip – also due to increase preference for bigger economic packages.

Strategies for adapting to the crisis

Consumers' strategies for adapting to the crisis should be analyzed separately for low, middle and upper income categories.

- *Concerning middle to low and low income segments: the crisis has reduced their comfort and quality of life.* They try to cope with the crisis by adopting various strategies:

- Reduce the purchased quantities of products;
- The shopping list has become much more important, for better control of purchased products (they buy what they need and only as much as they need);
- They choose cheaper products within each category (milk);
- They change their consumption habits in order to save money (energy, laundry washing, cosmetics);
- They reduce the buying frequency or even eliminate completely some non-essential products;
- They pay more attention to the special offers presented in the hypermarkets' leaflets;
- Visits to shops are strictly functional (no leisure trips);
- Greater investments and durables - delayed projects.

- *Concerning middle to upper & upper income segments:*

- The consumption behavior has not changed significantly;
- The most affected areas are: savings (they cannot save as much money as they did last year) and holidays (they choose cheaper destinations);
- They try not to buy excessive quantities or to adjust the purchases to what they actually need but: they have not eliminated product categories and have not chosen cheaper products within each category, and the brand is still important.

Opportunities for growing within the crisis context

In the crisis context, *price has certainly become more important.* We may thus assume that modern retail, which offers good prices, will be the consumers' first choice. An *increased tendency to minimize risk* and *increased need for control* can be noticed, on the one hand, by choosing *small packs*, which enable a better budget management, and on the other, by *unconventional communication*, respectively, the increased importance of word of mouth or, in general, of messages that induce confidence and reduce uncertainty (e.g. testimonials).

Family, especially children, have become more important; children are priority no.1 and for them the parents are willing to invest even in times of crisis. Therefore, the *products for children* will be the last ones affected. Whilst the price of essential products has increased the most, the consumption of this category has been the least affected, and therefore, the *promotions for essential products* are the most attractive.

People from the medium to low and low segment are the most price sensitive. The strategies in this respect imply *undermining of brand loyalty* in the low segment, and, at the same time, *a new product with a good price* has good chances to win consumers. People with high income are still inertial in their consumption habits and then, their loyalty towards brands and products is less affected.

For the categories of products that are the first to be eliminated by the consumers in their efforts to reduce expenditures, it is necessary for the manufacturers to design strategies to prove to their consumers that they stand by them in these tough times. *The offers in the tourism sector* are an example of adaptation to crisis conditions. Their success is to be proven over the next months. Also, there is increased potential for *products that enable saving*, reduction of expenses related to utilities – e.g. detergent with increased washing power, hence requires less electricity.

Pastimes that require small investments, or in home entertainment, will grow. There is growth potential for *product categories for home entertaining* (snacks, beer), big packs for parties or picnics, etc. *In on trade* the budget allocated per visit will be reduced, resulting in the growth of budget products or brands. At the same time, the interest for *open air events* may increase, as an alternative to going to

bars, pubs or restaurants, which involve greater spending – e.g. beer festival, it is important for the producers to be there to have their products tried.

We can also mention that, on account of the crisis interest for social topics has been reduced significantly and therefore *CSR campaigns* will probably be less impacting and will attract attention to a lesser extent.

Conclusions

Romanians experience and perceive the effects of the crisis according to variables among which the income level is highly important. Romanian consumer behaviour has been analyzed accordingly. The crisis has reduced the comfort and quality of life of middle to low and low income segments, and thus they adapt using strategies like reduce the purchased quantities of products, they buy what they need and only as much as they need, they choose cheaper products within each category, etc. The consumption behavior has not changed significantly concerning middle to upper & upper income segments, the most affected areas being savings and holidays. Opportunities for growing within the crisis context should be based on the fact that In the crisis context, price has certainly become more important.

As main expectations regarding consumption over the next 6 months, we may assert that durables and car purchases have been the most affected in the first quarter of this year on account of reduced allocated budgets, while holidays, investments in leisure and clothing are the categories of purchases that will continue to be the most affected by the crisis. Utilities and food are the categories that are expected to grow the most.

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PRICING STRATEGY USED AS A TOOL FOR BUILDING CUSTOMER SATISFACTION IN THE RETAIL SECTOR

Paul Marinescu

University of Bucharest

Faculty of Business and Administration

Niculae Sabin Mihai

Academy of Economic Studies, Bucharest

Faculty of Marketing

Sorin Toma

University of Bucharest

Faculty of Business and Administration

The purpose of this article is to highlight the importance of pricing strategy in the retail sector and the power of their influence on consumer behavior. Merchants should consider the price generates perceptions and can influence consumer behavior and buying customers. They must also understand how to participate in the price of consumer satisfaction.

Keywords: Consumer behaviour, price strategy, retail, price satisfaction, price fairness.

JEL Classification: M31.

Introduction

The competition in retail trade is a complex phenomenon. Retailers are running into competition using the whole arsenal of the marketing strategies at the level of marketing mix, tempting the customer with an attractive set of products, competitive prices, suitable places and a lot of other services and promotional activities.

Therefore, the companies choose the service stocks which helps at the maximization of profits, depending on the types of consumer, they expect to attempt and their rational belief, regarding the rival's actions. Price strategy in retail trade becomes a key element in this multi-dimensional package. Price becomes one of the most important elements of the retail marketing mix. Lately, the complexity and the speed with which the merchants develop raise the influence upon the final prices of the products that they have.

Traders usually use various pricing tools and promotion policies to attract new customers and increase customer loyalty. Surprising is that pricing strategies have proved to be a fruitful research area for marketers. Marketing scientists have offered both theoretical and empirical estimates showing that for all types of consumers different price policies are likely to attract.⁸³¹ Although well known reasons why a consumer selects a store, we know relatively little about how retailers choose pricing strategies because of the complexity of such a decision should take into account both consumer preferences and current and anticipated actions of rivals.

Price strategy and retail performance

Price perception has a significant impact on consumer satisfaction⁸³², which determines performance in retail sales and consumer loyalty. Different dimensions of price perception and potentially can lead to customer satisfaction in addition to simple product price level. In a retail context, additional dimensions

⁸³¹ Rajiv Lal, Ram Rao,(1997) *Supermarket Competition: The Case of Every Day Low Pricing*, Marketing Science, 16, (1), 60-80.

⁸³² Varki, S. and Colgate, M. (2001), *The role of price perceptions in an integrated model of behavioral intentions*, Journal of Service Research, 3(3), 232-240.

include, for example, value for money and price fairness, convenience and price perception and mental processing the price⁸³³.

However, not only generally important to explore the power relationship between these dimensions and satisfaction, optimal strategy, but it is essential to identify asymmetric effects in these relationships. For example, based on opponent-process theory assumes that some dimensions of price perception, such as price fairness, are mandatory requirements. If these demands are not met, customers will become very unhappy, however, their fulfillment will not actually increase satisfaction. In contrast, a good performance in other dimensions may not come by itself.

Underperformance in these dimensions could lead to dissatisfaction, but a good performance will increase satisfaction significantly. Low performance could not lead to dissatisfaction, but a good one rise notably the satisfaction. Knowing these asymmetric effects is extremely important because it helps retail managers to allocate resources to different performance dimensions. Retailers must be aware that price requirements must be met to a basic level and that their value must be fulfilled.

A modern price policy must protect consumer perception on choosing the best place to buy for their family. Consumers face prices that's hard to pay tend to buy elsewhere. Many consumers get confused by the pricing policy without having an understanding and only reacting to competition, prices or marginal goals. Even if some consumers are capable of saying why they are confused in retail trade environmental, the study done by the Wharton Business School indicates that consumers rely on three references points when they decide what they think is a fair retail price:

1. How much does the object cost in the past?
2. How much the rivals ask for same object?
3. Their perception about selling costs of the same objects

Considering other areas for business improvement, development and implementation of strategic pricing schemes can produce higher repercussions compared with the of loss control efforts. Teachers at Wharton, Z. John Zhang and Jagmohan S. Raju had made an important statistic in a recent research paper: a 1% reduction in fixed costs improves profitability by 2.3%; a 1% increase in volume will result in a 3.3% increase in profit; a 1% reduction in variable costs will prompt a 7.8% rise in profit; but a 1% hike in pricing can boost profitability by 11%.⁸³⁴

So far, satisfaction of the retail price has not been addressed in detail in the international marketing literature. Only a few researchers have discussed issues related to service satisfaction price.⁸³⁵ Therefore a satisfaction price definition has been derived for many common projections of client's contentment.

Price satisfaction: a definition

Therefore, a definition of price satisfaction is derived from the more common projections of customer satisfaction. Satisfaction seen in the context of retail sales is an emotional reaction to his or her individual evaluation of an overall set of experiments conducted by encouraging dealer. The satisfaction is "the function of knowledge and affect". By merging the two definitions, price satisfaction can be defined as an emotional reaction resulting from the interaction of cognitive and affective mental processes that are caused and enabled by specific experiences with different dimensions of price perception. After defining the satisfaction price it is necessary to clarify the relation between this and similar constructions latent variables, especially image price and attitude price. Price satisfaction is

⁸³³ Zielke, Stephan (2006): *Dimensionality and Impact of Retail Price Images*, Proceedings of the 35th EMAC Conference, European Marketing Academy (EMAC), Athens, Greece.

⁸³⁴ Raju, Jagmohan S. and Zhang, Z. John. (2003) "Choosing the Wrong Pricing Strategy Can Be a Costly Mistake." Knowledge@Wharton.

⁸³⁵ 7 Matzler K., Renzl B. & Rothenberger S. (2006). *Measuring the Relative Importance of Service Dimensions in the Formation of Price Satisfaction and Service Satisfaction: A Case Study in the Hotel Industry*, Scandinavian Journal of Hospitality and Tourism, 6 (3), 179-196,

different from image price and attitude satisfaction price because the result is the peculiar shopping, buying or experiencing, which is not necessary to complain about an image or attitude.

However, different relationships exist between these structures. Satisfaction through a shopping trip may influence attitudes towards the store price image. But customers can derive the expected price, which is taken as a price comparison in the process of building the satisfaction.⁸³⁶

In the literature, price perception is often measured in one dimension as an antecedent of overall satisfaction. However, research on retail price image illustrates the price perception by each customer sizes. It is therefore possible to treat these dimensions of price perception as antecedents of a single dimension of price satisfaction and overall satisfaction⁸³⁷. Such multidimensional analysis is advantageous because it offers greater diagnostic potential for improvement if you have unsatisfied customers⁸³⁸.

In addition, customers often evaluate their satisfaction after shopping at an attributive level, a finding that also related to the price of satisfaction.

Consequently, the impact of different dimensions of perception of price satisfaction on price formation will be explored. International literature does not offer any tool for analyzing price retail satisfaction for a scale with more products. However, research on retail price image provides important suggestions on the dimensions of price perception are potentially relevant to price formation of satisfaction. Six dimensions of satisfaction can be derived from the image perceived in terms of consumer prices:

- Value for money is often defined as a result of price matching and quality evaluation. On a more abstract level, the result of a careful balancing trade between the utilities from product stores and stores duties. (“Reasonable prices”, ”offers good value for money”, “service or good for the price is economical”).

- The perception of price level (“low prices“). Of course, the perception of price level is somewhat correlated with value for money and some researchers even treat the perception of price as an indicator of value, “the general prices compared with competitors. However, in this study, value and price level are treated as different dimensions of price perception. A connoisseur can assess value for money in a wine shop as good, although he perceives as higher prices compared with those of supermarkets.

- Fairness price. How fair is a price or not? More precisely, price adjustment is perceived as fair? Most clients consider a price increase for snow shovels after a snowstorm, increasing the price of lamb meat and eggs in Easter or price increase during the holiday season as unfair , while price growth in wholesale trade to protect profit acceptable.

Consequently, customers can charge the same price, right or wrong, depending on the context.

- The price perceptibility is the ease with which prices are found in the store. It is strongly related to price labeling, which has a significant impact on customer satisfaction.

- The prices processability refers to the ease of processing the price, especially when comparing price with other products in the store. Shelf may have a strong influence on this dimension (eg, processability is supported if the marks are national private brands almost equivalent value for money).

- Special Offers relates to products offered at reduced prices temporarily. Special offers are important promoters of satisfaction. Customers wishing to receive information on these bids. Therefore, relevant advertising price is also a dimension of price perception.

Traditionally, the price is established depending on the cost of goods sold. Such a practice is no longer accepted in the current context of economy.

Thus, the retailers must take into consideration, in the formation of the price, other elements, such as the type of the commercialized goods, the store image, the consumer’s buying and consume behavior, the supplier’s price policy, the technical and functional quality and the legislation.

⁸³⁶ Oliver, Richard L. 1980. *A Cognitive Model of the Antecedents and Consequences of Satisfaction Decisions*. Journal of Marketing Research 17 (9): 460-469.

⁸³⁸ Mittal, V., W. T. Ross, et al. (1998). *The Asymmetric Impact of Negative and Positive Attribute-Level Performance on Overall Satisfaction and Repurchase Intentions*., Journal of Marketing 62(1), 33-47.

The commercialized goods, either alimentary or not, can be divided into four categories according to the effort consumers make in order to obtain them and according to the frequency in which they do it.⁸³⁹

There will be obtained categories, such as:

- a) Household goods;
- b) Tradable goods;
- c) Specialties
- d) Goods without interest on / Unwanted goods

Household goods are goods with a high buying frequency and for which the consumers make a minimum effort. Thanks to the frequency in which these products are found in the market and magazines, the consumer doesn't have to assign a very long period of time to purchase them.

The consumer is not involved too much in the search for price offers for this type of product, the price not being a very important element for them. Therefore, the price for these products is similar in all stores.

The negotiable goods are those goods for which the consumer has to compare price offers, taking into consideration the quality, the presentation of the product, the services attached to the product and also the assistance that is given through the acquisition. These products ask for a higher implication and effort from the consumer, being products that are purchased not so often and for which a higher price can be established.

The retailer must get involved into activities that can add value to these products, such as the packing or presentation mode, technical assistance etc to justify a higher price and to win the consumer.

The specialties are products for which the consumer is willing to make a higher effort in the search for it and also to pay a higher price. The price for these products isn't mainly important for the client, the retailer having more liberty in choosing the price, but has to choose wisely the products that he commercializes and to put effort in their sustain.

Unwanted goods are products whose existence is known or not, but consumers don't want to purchase. For these products, a sustained marketing effort is required, especially from the promotional part. The price established by the retailer must be attractive enough to push the product towards the consumer.

The image of the store influences directly the price asked by the retailers. The stores that want to transmit and maintain the image of a superior quality will practice higher prices that are meant to preserve the image and financially support it, the higher prices covering the costs for image investments.

The merchants who want to create an image of the small prices have to closely define their product categories and client flow to be able to maintain the profit margin.

The intensity of the competition is also another factor that influences the price strategy that retailers choose. When the competition is powerful, merchants only have a small liberty margin in the price establishment. Also, in the situation of a powerful competition, the retailer must perceive and understand quickly the changes made in the competitor's price strategies and react promptly.

The retailer establishes the price and depending on other objectives or strategies that he already has established. Thus, the price can support the company's image, can help at the entrance on new markets or reaching a target market share, the fast turnover of a category of products or the obtain of an established profit margin.

Legislation is a very important factor in the price establishment policy. The state can exert a powerful influence over the merchants through the ban of agreements over the price made by distributors, through the establishment of a minimum or maximum price for certain products, through the ban of loss sales, etc.

This year it is being tried to introduce a code of good practices in the retail agroalimentary industry. Through the implementation of this code, in the product price there will be no longer included the 15

⁸³⁹ Vrănceanu, Diana Maria 2005 *Strategii de preț în comerțul cu amănuntul*, Revista de comerț, 6, (8), 21-28

taxes imposed by the retailers, such as shelf tax. The Government hopes that in this way, the Romanian products will be more „present” in stores, and expects a decrease in prices between 20% and 30%.

Price strategies and price tactics

There are many outside influences that affect profitability and even survival of the retailer. Pricing correctly is a crucial step to achieve and maximize profit and to ensure consumer loyalty and repurchase. Many pricing strategies are used and each is based on a special set of circumstances and criteria. These are some of the more popular pricing strategies.

Strategies used by retailers depending on the price evolution:

a) Fixed prices strategy for a long period of time that presumes the implementation on a long term of constant prices. This strategy bets on economies created through the simplification of product management and also the development of a tight connection with the consumers. But in the conditions of a powerful competition it is a strategy that is tough to support and imposes over the retailer the abnegation of some services offered at the sale's place, downsizing and the tough negotiation of contracts with the suppliers.

b) Variable price strategy presumes the regular appeal to the sales promoting strategy through sales so that in short periods of time, the price is changed. The initially prices, before the discount are bigger than those established in the fixed prices strategy for a long period of time, but those obtained after the discount are smaller. Among the benefits of this strategy are: approach of different sectors of consumers, consumer's attracted with a grown sensitivity to price, the intensification of the in-store consumer flow and the consumer's loyalty strengthening.

Price strategies depending on the competition:

a) The low price strategy is practiced by stores who don't have other advantages or competitive instruments apart from the other competitors, who don't offer post-sale services, who have a small range of sentiments, the accent being put on products with a high turnover.

b) The same level prices with the competition strategy imply the practice of prices at a similar level with that of the competitors. The retailers who practice such a strategy are differenced from their competitors through the sentiments, in store and post-sale services.

c) The high price strategy is practiced by the merchants when either there isn't a high competition or when they have powerful advantages over their competitors, such as a very good position, a high variety of sentiments, in store and post-sale services or a very good image. Such a strategy is adopted by merchants that aim the top of Maslow's pyramid towards the consumers who aren't so sensitive to price, but to quality, stile, prestige, self accomplishment.

Retailer's strategies depending on the structure of the assortments:

a) The unitary price strategy. The retailer establishes a price for each product and next to it is being shown the price of a standard unit. This strategy can be used only for products that can be measured using standard measurement units.

b) The brand level strategy. This strategy implies the establishment of prices at the level of each brand, the profit margin being established depending on the power of the brand and the contribution that that can bring to the profit.

c) The product price-leveled strategy. This strategy implies the fact that the retailer has to establish a very low number of prices for the products from the same category and the classification of those below those prices. Thus, it can be established a price for a category that can cover the profit margin for all or two or three price levels depending on the quality and marginal cost of the products in that category.

Conclusions

Globalization and free development of economies and industries of all kinds enable new ways for retailers to develop, but born as many problems. Social pressures and new competition and extremely sophisticated traders, are forcing merchants of any size to develop and to implement proactive pricing strategies.

As a mechanism, which generates strategies like the ones treated in this paper needs more than an organizational commitment and a purchase order, it needs a consultative approach to create a comprehensive pricing strategy made for the unique needs and objectives of each dealer.

Constant measurement should be in place with a long-term pricing strategy that incorporates feedbacks from the consumers. Over time, as you learn the system and exploit the opportunities to build an system that creates value for the customers and, consequently, satisfaction, profits will explode.

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THE ROLE OF MARKETING IN THE EDUCATION'S PROCESS

Magdalena Platis

University of Bucharest

Faculty of Business and Administration

Eleonora Gabriela Baban

University of Bucharest

Faculty of Business and Administration

Over time, marketing has become a propelling factor in any field of human activity, being also a primary tool in achieving the objectives of an organization. Identifying the main strategies in correlation with the marketing mix and its application on easy terms is a premise for each organization to achieve their targets. The essential objectives of the study are: 1). presenting the main functions of education, the role of marketing in education, 2) highlighting the main features of the education market in Romania; 3). presentation of the main strategies used by educational institutions in Romania; 4). application of marketing mix in education.

Keywords: marketing, marketing mix, education, strategy.

Cod JEL lucrare: M31

The functions and the role of educational marketing

Philip Kotler, regarded by many specialists in this field, “the father of modern marketing”, believes that, in general terms, marketing must be seen as “human activity orientated in the direction of satisfy the needs and wishes through exchange processes.”⁸⁴⁰ The single term, "marketing" means a combination of methods, techniques and tools which analyze the market, explores the market's factors in order to adapt supply and it can represents a new optic regarding the reality of life, the practice, is more precisely a new way of life. Based on the variety of definitions of marketing concept and extend it in areas of activity is emerging the concept of “non-profit marketing.” Non-profit marketing concerns different fields, so that, together with social marketing, green marketing, health marketing, cultural and sports marketing can be also the educational marketing. The educational marketing aims “the marketing application service”⁸⁴¹ and enjoys the attention of regarding the individual training objectives.

The role of educational marketing is to:

- investigate the market, its definition and understanding and identifying potential consumers of goods and services;
- providing appropriate products and services to customer's needs at the time, place and right price;
- providing customers with optimal, quality and reputation educational services;
- attracting consumers by targeting their needs and aspirations intuition.

The educational marketing has several functions, namely:

- research of the market by trying to find the main consumers of education;
- marketing's policies linking the main requirements of the education market;
- adapting education's services to the needs, expectations and demands of consumers for products and educational services;
- promoting optimal efficient management, using materials and information resources in order to achieve the main objectives set.

The education market in Romania has the following characteristics:

⁸⁴⁰ vezi Philip Kotler, „Principles of Marketing”, Third Edition, Prentice Hall Inc. Englewood Cliffs, N.J. 1986, p.4.

⁸⁴¹ A. Novak, „Marketingul educațional –Cercetări de marketing privind satisfacerea cererii de educație”, Teză de doctorat, ASE, București,p.20.

- Is a complex market which is facing two distinct segments, such as supplying and demand.
- The offer is unique (a place in the classroom, a teacher, a certain hour of the day, etc.).
- The demand of products and educational services may be small or too high, or vary irregularly.
- Education-services market depends on the number of consumers of information, which may be, on the one hand, environmental agents in the economy, and secondly those who attend educational training.

Concrete marketing strategies for educational institutions

Strategy is a plan that an organization should use to successfully meet the objectives and proper use of elements of a marketing strategy enables long-term development of organization's business environment. A firm, and hence an educational institution can develop activities that take one or more of the following policy options⁸⁴²: it can penetrate existing markets with existing services, they can develop services through the introduction of services on existing markets, can expand the market by attracting new customer segments, or it can diversify their activity by offering new products in new markets.

The educational marketing mix

A reputed educational specialist, MJ Baker appreciated that the marketing mix "is one of the oldest and most useful marketing concepts"⁸⁴³. The concept of "marketing mix" occupies the central place in the concerns of an organization and it is able to successfully meet market objectives pursued. Marketing mix is an effective tool in guiding the work of an organization, more specifically, is the key "to open all the gates of success."

There is some controversy about the number of typical components that make up the marketing mix: product, price, promotion and placement. They are often called the four P, which correspond to the four C's customer: the call, its cost, convenience in purchasing and communication. Although interesting, these proposals come from prestigious personalities of the field: Valerie Zeithmal, Mary Jo Bitner, Adrian Payne, Christopher Lovelock, Peter Eiglier, etc. and they are not yet sufficiently convincing. They reflect the efforts by each author in part towards highlighting features of the area. Thus, for a better knowledge and understanding of marketing education we have used the model, "4P" because it gives the most important tool for marketing mix analysis in education.

Product policy

We all wonder about the product and try to find out what is a product. Ph. Kotler defines the product as, "something that can be offered to the market for attention, acquisition, use or consumption in order to satisfy a desire or a need"⁸⁴⁴. This product category includes intangible items, services, people, places, organizations and ideas. Product policy in the field of education includes many actions and through them the educational institutions makes their goals, performs their activities that are based on choosing effective strategies used to adopt the necessary measures in education.

Defining educational product can be viewed from two viewpoints. First, the product can be represented by pupils or students who are actually "placed" to the traders on the labor market. Secondly, the product can be described as a wide range of services provided by schools, colleges or universities, to the pupils or students. The services provided are lectures, seminars, applied activities, specifically, may include all activities carried out by teachers in the education process.

In all the fields are new trends and changes occurring. And also can occur new knowledge in education, the new generations of students, emphasizing the idea that nothing disappears, everything turns and evolves. "The life" of a product in education is not limited, and it enriches and develops gradually. The consumers want products that can offer certain quality standards, which have an absolute or relative novelty, and which are performing. For this reason, the organizations should work towards continuous improvement of the product.

Price policy

⁸⁴² Vezi Valerică Olteanu, „Marketingul serviciilor. Ediția aII-a”, Capitolul 6, p.159.

⁸⁴³ Vezi Michael J. Baker, „Marketing”, Ed. S.C. Știință și Tehnică S.A., București, 1996, p.64.

⁸⁴⁴ Philip Kotler, „Principiile Marketingului”, Editura Teora, București, 1998, p.653.

In the economic literature, the price is the sum of all the values that “the consumers” offered in exchange to have or use the product or service.⁸⁴⁵ The price is a complex variable, and is influencing the variable of product, promotion and placement. In education "price" means the students or school fees that they must pay. According to the definition of DEX, the fee is the amount of money payable to an institution in exchange for services rendered or of certain rights. The issue of training fees in education services has led a number of concerns of specialists in the field.

In the literature review are outlined six steps, that should be should by covered by an educational institution when sets the fees:

- carefully determining market targets;
- to analyze the structure and dynamics of demand;
- to identify the costs and services;
- to identify and analyze major competitors' prices;
- to use a method for defining and determining the prices;
- establish the final price efficiently and correctly.

A series of internal and external factors, are guiding decisions of educational institutions in setting fees (tariffs). The key factors are: marketing objectives, marketing strategy, costs, organization-setting fees, demand, the prices and offers of competitors, economic conditions, legal framework, the government measures, etc.

The student is the one, who pays a fee in order to acquire knowledge and information provided by any educational institution. He changes the value (money) to another value (benefits of using the product). The claim, “Essential is the value, not the price” (Robert T. Lindgren), explains, metaphorically, that what is valuable is invaluable. The value is observed best in education. The school forms people with great potential, with special moral capacity. To pay a price for being a true man is impossible. Indeed, “Essential is the value, not the price.”

Distribution policy

In the field of education the distribution process refers to:

- the information offices, where the messages are received and where the student gets explicit information. These information offices are even the secretariats schools;
- placing graduates in enterprises. According to some polls, due to economic instability and weaknesses of the educational system, about 40% of graduates are intending to leave the country to achieve professional. Of course, immigration would bring them the salary that in Romania would probably never have.

Is urgently needed an in-depth reform of the entire education system. The Romanian education should be oriented towards the organization, a process that may trigger mechanisms such modern Romanian society to move towards modernization and a rising trend.

Promotion Policy

Promotion, as part of the marketing mix, expresses “the combination of action and media that attracts potential buyers to the selling points in order to meet their needs and desires and thus increasing the efficiency of economic activity of the producing company.”⁸⁴⁶ Promotion has a primary role, namely, in informing the market and the consumer. An effective promotion can create a prestigious image of the company in the minds of potential consumers. For this reason, to convince customers that the products or services offered by an organization are of a superior quality than the competitive products and services, are used promotional instruments in conjunction with an effective communication between manufacturer and customer.

In field of education are identified three major types of promotion:

- advertising, using television, radio, press;

⁸⁴⁵ Philip Kotler, „Principiile Marketingului”, Editura Teora, București, 1998, p. 773.

⁸⁴⁶ D. Patriche, „Marketing industrial”, Editura Expert, București, 1994, p.215.

-public relations: outdoor events, organizing exhibitions, symposiums, scientific communication sessions;

-A special place occupies the printed publicity like: brochures, letters, Christmas cards. There are also objects like: pens, pencils, bags, key rings, badges, garments which have printed the name and emblem of the educational institution.

To highlight the role of education in the life of a student from a Romanian University was made a questionnaire that was distributed to students of that institution.

Analysis and interpretation of questionnaire results led to the following conclusions:

-The image is formed and we can say it tends to be favorable. The students of this university appreciate the fact that the university's labs are equipped with powerful computers and they agree with the interior of the university.

-In this study, the activity of teachers is generally favorable. The University's professors show their interest in both the educational process and the students' problems.

-On classroom conduct, summarizes information received from students, is a clear fact that the documentation is determined to be favorable.

-Is very important the work of university teaching staff, and also the work of non-teaching staff. The university's information office, specifically the university secretariat provides clear and timely information required by students.

In the future, this university has to adopt a strategy to attract potential students. Students should be aware of the benefits brought by instruction and educational activities of university in their life.

"Everybody as "consumers" of science (or technical) should be aware not only with what is new and effective in this area, but also with what is valid and beneficial to a man"⁸⁴⁷. The school of tomorrow doesn't want to be a school of intelligences, or technology. The future school will teach the pupil or the student how to cope with various demands of life. The teachers should continuously contribute to educating and training young generation in the spirit of passion for everything new and valuable in science, culture, education, technique.

Conclusion

Today marketing is often present around us. Throughout this paper we have tried to emphasize the main aspects that refer to the application of marketing in education, in relation to the marketing mix. Educational marketing mix is a combination of four variables (product, price, distribution and promotion) that are also presented in the paper, with clear connections highlighting the role of marketing in education. Using marketing mix elements can accurately determine and implement the main objectives of the organization. Location and function of each component in all marketing mix clearly stand out the main practical issues relating to educational marketing.

The education, seen as a complex way of actions made and applied in a continuous way by educational managers is focusing on modeling communication skills of the consumers of educational services, training and promoting them.

The quality of education depends to a large extent to the quality teaching education conditions, to the quality of teachers involved in this continuous and complex process like education.

Education's consumers are represented in education by students or pupils. They want to satisfy their various needs of knowledge, information, affirmation, and for that they must take part to the education process. The pupils or students motivated by the feeling of creativity are "buying" educational products offered by schools. The teachers wine the needs of pupils or students with information that are offered throw teaching.

An important aspect that must be mentioned is the one relating to marketing policy which has a decisive role in education. The marketing policy adopted in the general education system is trying to adapt education to the work of economic dynamism in the contemporary context. An education reform should

⁸⁴⁷ vezi Constatntin Cucos, „Pedagogie. Ediția aII-a revăzută și adăugită”, Editura Polirom, București, 2006, p. 215.

take into account both the requirements outlined as internal marketing as well as the external marketing in education.

Student-teacher relationship in the learning process is a prerequisite of interactive marketing education. The teachers who have teaching skills, pedagogical tact and the receptive, attentive students with a capacity to assimilate new and valuable knowledge are the two basic ingredients of educational marketing. The lack of education makes it impossible to conduct the process. In conclusion, the process of education should be regarded as an essential factor for economic and social development.

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DOES POSITIONING HAVE A PLACE IN THE MINDS OF OUR STUDENTS?

Popescu Andrei

*The Academy of Economic Studies Bucharest
Faculty of Marketing*

Brandabur Raluca Ecaterina

*The Academy of Economic Studies Bucharest
Faculty of Marketing*

Tatu Cristian Ionut

*The Academy of Economic Studies Bucharest
Faculty of Marketing*

Positioning is one of the most powerful marketing concepts. At the beginning, the meaning of positioning was rather limited, focusing on the concept of reputation. Then it became "the place a brand occupies in the mind of its target audience". Under this meaning, many companies have implemented the concept of positioning as a part of their everyday marketing activities. Nowadays, positioning is being used as a tool for explaining how consumers relate to foreign countries. The concept of positioning is simply too important to be ignored, but does it have a place in our students minds? This paper aims to determine whether we have an evolution or an involution in this matter.

Keywords: marketing, positioning, marketing research.

Cod JEL: M3

Conceptual framework

The concept of positioning is strongly linked with the process of trade. The exchange of goods and/or services between two or more merchants has taken place since the beginnings of civilization, as opposed to marketing which is considered to be a 20th century science. The explanation of this paradox is rather simple. Positioning was one of the marketing elements that had been used since the early days of trade. However, back then its meaning was rather limited, focusing on the concept of "reputation". All the merchants wanted to have a good reputation and to stand out with something: the best products, the widest range of goods, the most famous/important clients. Nevertheless, it's impossible to conclude that the ancient merchants were using the concept of positioning, as those actions were not part of a thoroughly planned and constantly implemented marketing activity.

Further on, at the beginning of the 20th century, marketing emerged as a science due to the accumulated social and economic progress generated by 19 centuries of turmoil. However, we can clearly conclude that this isn't the birthday of positioning. This concept is not typical of the first two stages in marketing's evolution, namely the orientation towards production (1900-1930) and the orientation towards sales (1930-1950). This is due to the fact that the concept of positioning cannot support a theory who's doesn't put the consumer on the first place. Therefore, the concept of positioning is typical of the orientation towards marketing (1950-1990), thus setting its birthday in the second half of the 20th century.

The word "positioning" was introduced by Jack Trout, an advertising executive, in his 1969 article published by "Industrial Marketing" and "Advertising Age". A few years later, in 1972, he teamed up with Al Ries, another advertising executive, in order to write an article called "Positioning cuts through chaos in marketplace", also published by "Advertising Age"⁸⁴⁸. This was only the beginning of their lifelong struggle aimed at establishing positioning as one of the most important concepts in marketing.

⁸⁴⁸ Enis, Ben, Cox, Keith - "Marketing classics: a selection of influential articles", Ed. Allyn and Bacon Inc., U.S.A., 1988, pages 410 & 420.

Their first struggle was about the meaning of positioning. Usually, when a new concept appears, there is more than one opinion about its content.

For instance, Alpert and Gatty considered that positioning is the differentiation of brands by studying the ways in which their consumers differ as well as how consumer perceptions of various brands differ⁸⁴⁹. Their approach is wrong because positioning is not presented as a process which unfurls in the mind of the consumer and its result is a classification of brands. Further on, Houston and Haneski thought that positioning can be most easily described as a promotional strategy which attempts to place a brand along one or a number of dimensions relative to other brands in the same generic class. No matter what dimensions are employed, positioning is essentially a strategy used by the marketer in an attempt to find a niche for his brand⁸⁵⁰. This is clearly a narrow definition concerning positioning. This concept has a strong influence on every P in the marketing mix, which means that it's much more than just a promotional strategy. Positioning is a key element not only when looking for a market niche, but especially when confronted with strong competition. From the management standpoint, Biggadike believed that positioning is a decision to serve a particular segment with a program tailored to those specific customer needs⁸⁵¹. Unfortunately, we can identify here a confusion between targeting and positioning.

Nevertheless, after a few decades of debate the Ries & Trout definition of positioning was unanimously accepted. The story goes like this: a company identifies a set of different needs in the marketplace, targets those needs that it can satisfy in a superior way, and then selects and communicates a position which is relevant, effective and consistent with the company's offering and image. Positioning is the act of designing the company's offering and image to occupy a distinctive place in the mind of the target market. The result of positioning is the successful creation of a "customer-focused value proposition", a cogent reason why the target market should consider buying the product⁸⁵². If a company does a poor job of positioning, the unavoidable result will be a generalized confusion. On the other hand, if a company does an excellent job of positioning, then the rest of its marketing planning should come along smoothly.

Their second struggle was about implementing the concept of positioning in the daily business practices of every organization. This is yet to be realized. Nowadays, there are still organizations which go straight from identifying the need to marketing mix, without considering and choosing from the number of positioning alternatives. There is also the other side of the coin. There are already many organizations which use positioning as a weapon to undermine the competition and hypnotize the consumers. All the successes and failures that were recorded on the business stage can be easily explained using the positioning paradigm. Even the fact that many authors have written books about positioning using plenty of practical examples is, in my opinion, enough of a reason to be optimistic about the future of positioning. There is still work to be done in order to clarify the role and ease the implementation of positioning in every organization. There is also a need for improved marketing research methodology for positioning studies. A good progress in this area has been made by Marco Vriens and Frenkel Ter Hofstede⁸⁵³.

Nowadays, positioning is being used as a tool for explaining how consumers relate to foreign countries. Before even considering this, we must ask ourselves: is really positioning a concept that can be applied

⁸⁴⁹ Alpert, Lewis, Gatty, Ronald – "Product positioning by behavioral life-styles", published in "Journal of Marketing", U.S.A., 1969, page 65.

⁸⁵⁰ Houston, Franklin S., Haneski, John F. - "Pooled Marketing and Positioning", published in "Journal of Advertising", U.S.A., 1976, page 38.

⁸⁵¹ Biggadike, Ralph E. - "The contributions of Marketing to Strategic Management", published in "The Academy of Management Review", U.S.A., 1981, page 624.

⁸⁵² Kotler, Philip, Keller, Kevin – "Marketing management", Pearson Prentice Hall, Upper Saddle River, New Jersey, 2006, page 310.

⁸⁵³ Vriens, Marco, Ter Hofstede, Frenkel - „Linking attributes, benefits, and consumer values", published in "Marketing Research", U.S.A., 2000, page 4-10.

to nations? Not only that the answer is yes, but it's very important for any country to make a coordinated effort regarding its position in the public's mind. The international image of a country is the central element which determines the position it occupies in the mind of the public. A country acquires a position in the mind of a person very much like any other product does. During its life, a person uses a multitude of sources in order to accumulate information about a country. Upon interpreting this information flow, a person builds and constantly updates the image of that country. This position is very important, as it will determine the person's future attitude towards that country and everything related to it⁸⁵⁴.

My research

We undertake this research for the second year in a row. One could ask which is the force that drive us to start this research series? The answer is quite simple: it is our opinion that the Marketing Faculty's syllabus should incorporate positioning and give it a place worthy of its importance. Unfortunately, at the moment positioning is barely mentioned throughout the core marketing courses. Our goal is to measure the results of this situation and to analyze them from a multiannual perspective. In order to guarantee the validity of our findings, we chose a full research. Thus, all the 3rd year students were asked to fill in a questionnaire concerning the positioning concept.

First of all, we wanted to see whether our students know the meaning of positioning or not. We're not doing that by accident. Previous research have shown a lack of knowledge on this matter. Besides that, if all the students would know what positioning means, there would be no need for further study regarding this concept. Thus, we discovered that only 23% of the students don't know the meaning of positioning. We believe this result to be encouraging, having in mind that an impressive 77% are familiar with the concept. We are further encouraged by the slight improvement of the results, when compared with the 2009 percentages. Still, the results show the need for an in depth study regarding positioning.

Second of all, we wanted to see whether our students know how to measure positioning or not. If a student knows what positioning means and how to measure it, there is no need to further study this concept. The results are surprising, to say the least. Thus, we discovered that 83% of the students are unaware of the fact that we can do this by using a positioning map. Is it possible for someone to know the meaning of a concept, without knowing how to measure it? We believe this is possible only when students receive less than the minimum amount of information about a concept. This paradox will be eliminated when students will undertake a thorough study concerning positioning. An additional concern is that the results are poorer than the 2009 percentages.

Third of all, we wanted to see whether the students know which is the positioning's place in the strategic marketing planning process or not. If a student knows what a concept means, how to measure it and where to insert it in the overall picture, there is no need to further study that concept. Unfortunately, the results are disastrous. Only 16% of the students know the correct answer to this question. Equally disastrous is the fact that the results are poorer than the 2009 percentages. This situation is a more than enough reason to accept the need for a distinct place for positioning in the marketing faculty's syllabus.

Last but not least, we wanted to see whether the students themselves perceive the need to further study the concept of positioning or not. When students receive less than the minimum amount of information about a concept, most of them become aware of their lack of knowledge. Thus, we discovered that only 5% of the students think they don't need further training on this subject. 44% of the students want to know more about positioning, by making it a chapter in the marketing introductory course. The rest of 51% believe that the presence of a "Positioning" course in the marketing faculty's syllabus is highly

⁸⁵⁴ Popescu, Andrei - "Re-positioning Russia towards the Eastern European countries", published in "Proceedings of the 6th International Interuniversity Scientific Conference: Russia and modern world, problems of political development", Russia, 2010, page 119.

desirable. We believe that these percentages speak for themselves. More than half of the students are aware of their lack of knowledge and are seeking additional training concerning positioning.

Based on this research, we conclude that students need to further study the concept of positioning. It is our belief that this need should be addressed sooner rather than later in order to fulfill our main objective of delivering skilled practitioners.

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IMPROVING COMMUNICATION BETWEEN DOCTORS AND PATIENTS

Radoviciu Ruxandra

*University „1 Decembrie 1918” of Alba Iulia
Faculty of science*

Stremțan Filimon

*University „1 Decembrie 1918” of Alba Iulia
Faculty of science*

Communication is the key factor necessary to improve the relation between doctors and patients. The communication is the method used to transmit or collect information using different types of channels. The communication process should provide useful information for doctors and patients. In order to establish a good communication system, both parts must fulfil some obligations. The present paper presents direct communication methods and indirect methods of communication.

Keywords: communication, direct communication, indirect communication, doctors, patients

JEL codes: M 310;

Richard Weiner⁸⁵⁵ defines communication as “transmitting or exchanging information, signals, messages or data using different ways – verbal communication, written communication, or by telephone, radio or other channels, within a group or orientated to specific people or specific groups.” Communication is a process which involves the existence of two parts: the sender – the person who initializes the communication and the receiver - the person who receives the message. Between these two parts of the communication system we find the message, the channel, the codification, the decodification and the feedback.

The communication between doctors and patients must fulfil the following:

- doctors must establish a relationship based on trust;
- doctors must continuously provide information about the correct methods that can be accessed by the population in order to benefit from correct health care services;
- doctors must know and apply the rights and obligations provided by the status of the insured person;
- to inform the patient about the risks that the incorrect dosage of a treatment may involve;

The communication between doctors and patients has the following roles:

- exchanging of information;
- creating the bases of a relationship;
- building a relationship based on trust;
- maintaining the relationship for a long time period;

In order to establish a good communication system between doctors and patients, both parts must fulfil some obligations:

The doctor’s obligations:

- the doctors must concentrate their full attention on the patients;
- confidentiality must be respected;
- permanent preoccupation with the patients;
- the doctors must treat their patients with respect;

⁸⁵⁵ Weiner, R., „Webster’s new world dictionary of media and communications”, Editura Simon & Schuster Inc., New York,1990, p.104.

The patient's obligations:

- the patients must establish a list of questions that they want to address to the doctors;
- when needed, the patients can assign a family member or a trustworthy person to; represent them in the discussions with the doctors;
- to keep an open dialog with the doctor;

Methods of communication

Direct communication – implies a direct dialog between two or more persons.

Types of direct communication:

1. Face to face communication occurs when the patient and the doctor are present in the same location, at the same time. This type of communication must be differentiated taking into account the different segments of patients. Taking into consideration the segmentation criteria based on the age of the patients we can identify the following:

- Children age between 3-10 years – must be considered as being the target segment to develop a good communication process. The health education must be presented as a story avoiding specialized terms and the results should be concluded with the help of a contest. For example, every child should have a table with daily hygiene rules in which he must mark with an X the respected tasks. Every week the doctors should check the accomplishment of those tasks.
- Children age between 10-14 years – the school doctor should organize and participate in open discussion in order to inform the children about the factors that causes the appearance of diseases and methods of prevention. When we talk about an epidemic, beside the explanation about the disease the doctor should display the methods of prevention of the disease in every classroom. The doctors should also initialize a contest in which to challenge the children to create prints about the disease and methods of prevention. The school doctor will select the most representative prints and will organize an exhibition in public places.
- Teenagers age between 15-19 years – the doctors should organize open discussions and project movies that explain the disease and also present the effects over the human body. When we talk about an epidemic the doctor could organize a forum of discussion on the web page of the high school, should transmit daily information about preventing the disease on the high school radio and should involve the teenagers in information campaigns about the epidemic among their young colleagues.
- Young population age between 20-35 years – the doctors should organize seminars on different themes in order to make them realize the risks of living a non-healthy life. For example, the school doctor should organize a seminary on the risks of consuming different types of drugs, alcohol and tobacco. Moreover, the doctors should create different accounts on socialization networks such as Facebook, Hi5 in order to communicate more easily with this segment of population. The doctors should additionally use e-mail communication in order to establish a meeting with the patients.
- Mature population and elderly population – the doctors should inform them about various modalities that they can use to reinforce their immune system, new methods of investigation and treatments discovered for each disease.

2. Communication by phone can be used for all types of patients and can occur when the doctor telephones the patient. This type of communication can be done in order to inform the patient about changes in the schedules. It can also appear when the doctor receives the blood results of a patient. When those indicate the appearance of a disease that requires immediate treatment or seeing a specialized doctor. In the case of communicating an incurable disease the doctor should contact a family member assigned by the patient to inform him about the disease and the proper method of informing the patient. For the segments between age 18-55, the doctor can modify the issues previously announced using the SMS service.

3. Communicating by mail can be used to inform the patients between 18-55 and can occur when the doctor announces the vaccination campaigns for babies, young children and the rest of population for

the prevention of new diseases. The doctors can send e-mails to patients in order to inform them about the opening of new medical clinics and services offered by those.

4. Communicating on an Internet forum. This type of communication can occur when the doctor creates a blog or an Internet page where the patients can address their questions. It is indicated for the doctor to have a schedule in which he will present the time and dates when he will be available for on-line communication.

Indirect communication is characterized by the possibility to send messages without a personal contact. The main forms of indirect communications are: printed media – newspapers, magazines; the broadcasting media – radio, television.

1. Communication using newspapers can be used when the doctors announce the vaccine campaigns for the patients. When a new disease appears, the newspaper can be used to inform the patients about the symptoms, effects over the human body and also about the methods of preventing it. The newspaper can even be used to inform the patients about the increasing of number of patients that have a contagious disease and the measures that must be taken. In the case of natural disasters that can influence the health status of the patients the doctors must communicate the measures that need to be taken into account.

2. Communication using specialized magazines in order to inform the patients about new discoveries in medical treatments and medical equipments.

3. Communication using radio and television as methods of sending the messages. The doctors must send messages in case of an epidemic explaining people the causes and effects of that epidemic and also the indicated medical measures that need to be taken into consideration. The doctors can participate in live transmissions on the radio or television where they can discuss current health issues.

Recommendations:

The health ministry must create a web page with the most competent specialized doctors for each medical domain. This page can be accessed by all patients from all over Romania. The site must provide a chat section and a forum where the patients can send analyses, X-rays, MRI analyses and treatments they themselves used in the process of treating a disease in order for the specialized doctors to get another confirmation about the diagnosis and the treatment. Also by using this site they must be able to obtain a medical appointment. This way, every patient will benefit from access to specialized doctors from every part of Romania.

The patients must be informed daily using the printed media and radio about the pharmacies that have the funds for compensated prescriptions.

The results of medical analyses and medical investigations must be delivered directly to the GPs (General Practitioners).

The patients must have the possibility to schedule to state clinics using the Internet site from where they can obtain the number of order.

If a person is medically insured and because of a lack of funds he/she has to pay for a medical analysis, he/she should benefit from a deduction to the sum paid for the medical insurance or the amount of money paid for that analysis must be returned to him.

Information campaigns about health issues conducted in schools should be conducted directly not by using only printed posters.

The communication campaigns using the Internet should increase the usage of Internet banners and interactive windows on the most accessed web sites.

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ASPECTS REGARDING THE DIFFICULT PROCESS OF BUILDING A ROMANIAN TOURISM BRAND

Sasu Dinu Vlad
Universitatea din Oradea
Facultatea de Științe Economice

Băgăian Nicula Iulia Andrea
Universitatea din Oradea
Facultatea de Științe Economice

The image we have about a country has a huge impact on how we view it as a tourist destination, a place to invest in, or a place to buy the brands we love from. In today's globalised market the battle for tourism, exports, and inward investment is extremely intense as brands have become more and more the vehicles for communicating national identity.

Keywords: brand, tourism brand, image, country image, tourism.

M31 - Marketing

1. Defining the key concepts of the paper

As an introduction, the key concepts of the paper are briefly defined.

Brand

The American Marketing Association defines the term “brand” as followed: “A name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers. The legal term for brand is trademark. A brand may identify one item, a family of items, or all items of that seller. If used for the firm as a whole, the preferred term is trade name”.

We find it necessary to mention that the Romanian theoretical concepts of “brand” and “trademark” have spawned controversy, regarding the differences and similarities between the ways they are used. Most of the times the ones responsible for this “conceptual war” are the same unspecialized translators that also marked the beginning of yet another linguistic controversy between the terms “commercial” and “publicity”⁸⁵⁶. Without insisting on the issue, we would like to mention that the following paper considers the two theoretical concepts as being synonyms.

Country Brand

A **nation brand** or **country brand** is believed to be a country's identity that has been proactively distilled, interpreted, internalized and projected internationally in order to gain recognition and to construct a favorable national image. A country brand strategy therefore is a plan for defining the most realistic, most competitive and most compelling strategic vision for the country.

Country branding harmonizes national policies as varied as acts and policies of government, the values and behaviors of citizenry, education, culture, sports, health, taxation, public diplomacy, the look and feel of settlements, export and investment promotion, and infrastructure development.

Image⁸⁵⁷

In terms of marketing, an **image** is a mental representation, on an individual or group level, as a result of perceiving and organizing information about a product, person, group, organization, political party or country.

Country Image

⁸⁵⁶ Sasu D V. Diferențe și similitudini între marcă și brand in The Journal of the Faculty of Economics - Economic Science Series, TOM XIII, Oradea, 2004, p.332.

⁸⁵⁷ Bucur-Sabo M in Florescu C, Mălcomeț P, Pop N A. Marketing – Dicționar explicativ, București, Ed. Economică, 2003, p.291.

There are many definitions surrounding this concept, but reviewing them we could say that “**country image**” represents a set of beliefs and perceptions that people have about a given country. Further on, we can make the assumption that country image is constituted of history, geography, art, music, citizens, events and a diverse package of variables and auxiliary factors.

2. Assessing the situation

We are witnessing a paradox. On one hand, Romania’s tourism potential indicates that it can compete with surrounding countries; therefore it has been chosen, by the government, as a strategic orientation for Romania’s Sustainable Development Strategy⁸⁵⁸, where the most important measures aim for sustainable capitalization of the cultural heritage and natural resources with tourism potential and also the improvement of tourist recreation and housing infrastructure. On the other hand, foreign tourism demand for Romania as a tourist destination is recording a downfall trend (not only compared to previous years, but also compared to other neighbourly countries – Annex 1) due to a complex number of factors ever so diverse. Curiously domestic tourism demand has had a constant accession in the last 6 years

Table 1: Arrival of tourists that check in at a hotel or similar establishment⁸⁵⁹

	Year	2003	2004	2005	2006	2007	2008
Number of tourists (x1000)	Non-residents	1.104	1.359	1.429	1.379	1.550	1.465
	Residents	3.951	4.279	4.375	4.836	5.420	5.659

Romania’s problem regarding tourism and the attempts to identify the main weaknesses in this field are not recent issues. The relative novelty for this subject is considering the lack and need of a strong tourism brand, part of a general country brand, as one of the main causes for Romania’s tourism problems.

Building a county brand, a tourism brand or a regional brand is a difficult task, but it is not impossible. Creating a brand involves developing a brand program, which underlies the brand identity and positioning. Thus the brand’s reason for being, its vision, core values, and know-how must be clearly defined, internalized and communicated. Country branding plans should exhibit the clear, simple, differentiating propositions often built around emotional qualities expressing some kind of superiority, which can be readily symbolized both verbally and visually. Therefore, in principle the product, service, corporate or country branding are the same. However, the methods differ.

As Simon Anholt, a reputable advisor for the British government, specializing in the field of nation branding, states on numerous articles on his personal web-site⁸⁶⁰, one of the most critical challenges facing nation branding is finding a strategy which is believable, relevant to the consumer audience, true to reality, and the aspirations of the country. The fact that products can be de-listed or modified, re-launched and re-positioned, or replaced by improved products is yet another difficulty encountered by country branding, one that product branding does not have to face. Countries, however, do not have many of these choices and their image problems may be founded in structural handicaps that take years to fix. For example, even The European Union finds it hard to build a coherent regional brand, as Wally Olins, also known as “The Branding Guru”, President of “Saffron Brand Consultants” states his opinion during an interview for IqAds: “Europe has not been able to build something like this [meaning a

⁸⁵⁸ “ The National Strategy for Sustainable Development of Romania - Horizon 2013-2020-2030”, The Romanian Government, Ministry of Environment and Sustainable Development, The United Nations Program for Development, The National Center for Sustainable Development, 2008, p.116 at <http://strategia.ncsd.ro/>

⁸⁵⁹ <https://statistici.insse.ro/shop/>

⁸⁶⁰ <http://www.simonanholt.com>

regional brand] yet, but it will probably succeed in time. We can find models in the past. Going as far back in time as The Austrian Empire, The Austro-Hungarian Empire or if we take a look at the Ottoman Empire, [...], we will discover that it is possible for such an entity to exist, one that reunites different cultures and tongues, joint together by identity⁸⁶¹.” Although exaggerating a bit, we can agree that there are inspirational resources for brand building that date as far back as the Old Continent goes.

As regarding tourist country brand, the recipe for success is out there. Here are a few examples of countries that have a strong tourist country brand:

*Top 10 Country Brand Index*⁸⁶² (CBI⁸⁶³) by FutureBrand

1.USA; 2.Canada; 3.Australia; 4.New Zealand; 5.France; 6.Italy; 7.Japan; 8.United Kingdom; 9.Germany; 10.Spain – Romania ranks number 81 in 102 countries.

Or countries that have active country branding programs: South Africa – Alive with possibility; Spain – San Siro; India – Incredible India; Thailand – Amazing Thailand; Malaysia – Truly Asia; Iceland – Iceland naturally; Egypt – Destination Egypt; Estonia – Positively Transforming.

Building a strong brand creates equity which is „a set of characteristics that make a brand seem different and better to both consumer and businesses⁸⁶⁴”. But in order to do that, „a branding program needs all its involved participants to take on the resulting responsibilities, in the same way if we are talking about a corporation, a church, a store or a country⁸⁶⁵” and it also needs to be based on concrete and tangible characteristics.

Philip Kotler says that „in order to avoid the failure trap of an undifferentiated brand, marketers need to start from the belief that anything can be differentiated⁸⁶⁶”. So he frames 4 differentiation strategies: 1.Product, 2. Personnel, 3. Distribution channel and 4.**Image** differentiation.

When choosing image differentiation, one needs to take into consideration the fact that an image, in order to serve its goals has to be⁸⁶⁷: 1.Valid (anchored into reality), 2. Credible, 3.Simple, 4.Appealing, and 5. Distinctive.

The questions for Romania are: “What differentiates our country from all the other countries? And are those characteristics relevant enough to build a strong tourism brand?”

3. Romania’s options and what is being done

Since Kotler encourages us to think that anything can be differentiated, maybe that’s where we have to start. Of course Romania can differentiate itself from other countries; we only have to choose the right way to do that and we cannot make the unpardonable mistake of trying to appeal to everyone. The answer to that is positioning, the process by which marketers try to create an image or identity in the minds of their target markets for their product, brand, or organization. The next logical step is to establish your target markets and focus on them. And that is yet another chapter at which Romania’s tourism fails, because it targets everyone. Romania wants to be “The land of choice”, but unfortunately not even we can say whose choice Romania is supposed to be.

When the target markets are set, one needs to bear in mind that advertising targets need to also be set. The advertising target has a wider range than the target market, and includes consumers, but also other individuals that can influence the target market. In terms of volume, the advertising target is superior to the target market, unless a selective policy is established⁸⁶⁸.

⁸⁶¹http://www.iqads.ro/interviul_12129/wally_olins_sintagma_land_of_choice_nu_mi_spune_absolut_nimic.html

⁸⁶²<http://www.futurebrand.com/think/reports-studies/cbi/2009/rankings>

⁸⁶³CBI features expert opinions, statistics and proprietary global quantitative data to create the largest study of its kind. Assessing 102 countries across 29 image attributes and seven measures of brand strength.

⁸⁶⁴Clow E K, Baack D. Integrated advertising, promotion and marketing communications, New Jersey, Pearson, Prentice Hall, 2007, p.5.

⁸⁶⁵Ries A, Trout J. Poziționarea: Lupta pentru un loc în mintea ta, București, Ed. Brandbuilders, 2004, p.195.

⁸⁶⁶Kotler P, Keller K L. Managementul Marketingului—ediția V, București, Ed. Teora, 2008, p.465.

⁸⁶⁷Kotler P, Haider H D, Rein I. Marketingul locurilor, București, Ed. Teora, 2001, p.159.

⁸⁶⁸Marcenac L, Milon A, Saint Michel S H. Strategii publicitare, București, Ed.Polirom, 2006, p. 86.

After doing that, instead of trying to “*push*” new destinations, new offers, new experiences towards tourists, why not “*pull*” the tourists towards destinations that established themselves as attractive to foreigners. “New” is not always the best approach. The destinations foreign tourists are *already* interested in can become premises for building our tourism brand.

Table 2: Favorite Romanian destinations for foreign tourists

Country of origin	Favorite destinations
Japan	Maramureş County, the monasteries of Bucovina, Sighişoara, Braşov, Bucharest
USA	Transylvania’s medieval cities, Bucharest, the monasteries of Bucovina, traditional villages
Germany	The Black Sea shore, balneary resorts
Italy	Northern Moldavia, Bucovina, Bucharest, The Danube Delta, Prahova Valley
Sweden, Norway and Denmark	The Black Sea shore, balneary resorts
Poland	The Black Sea shore, skiing resorts, Bucovina
Hungary	The Black Sea shore
Holland and Israel	balneary resorts

Some of these destinations cannot compete with similar ones abroad. For example, if we are being practical about it, the Romanian Black Sea shore cannot compete with the beaches in Greece, nor can Prahova Valley compete with similar mountain resorts in Austria or Germany simply because nature is just different. *But* other destinations like Sighişoara, Bucovina, the old fortresses in The Orăştie Mountains, are a gold mine. According to Jean-Claude Baumgarten, president of the World Travel&Tourism Council, Romania has been gifted with a seventh of the worlds total cultural heritage⁸⁶⁹. Maybe, taking all this into consideration, we need to reassess our priorities.

The Ministry of Tourism has initiated a program called “Tourist in Romania”, promoting the destinations mentioned above, but the program only targets Romanian tourists. The <http://turistinromania.com> web-site is not even available in any foreign language and it is poorly designed, with scarce information.

Another issue revolves around the fact that not much has been done when it comes to finding the country an *up-to-date identity*. Romania’s country brand also depends on how the country is perceived in terms of its popular and high culture: ranging from films, TV, sport, and music to history, art and literature, even popular local products, and including not just elevated cultural achievements, but also popular celebrities. Romania’s identity and image hangs on the notable figures of the past, but these are not enough to be brand ambassadors in *today’s world*. Romanian “products”(including people) need to make their mark. Sadly, there are very few truly prominent people identifiable as Romanians and with whom outsiders can relate to.

A campaign that promotes our country as a tourist destination was launched following a collaboration protocol between the Ministry of Tourism and BRD Societe Generale. Headed by the key line “Romania.Land of Choice,” the campaign has at its forefront three Romanian sports legends- gymnast Nadia Comăneci, soccer player Gheorghe Hagi and tennisman Ilie Năstase. According to the Tourism Minister, the entire campaign will cost several million euros, of which 2 million euros will be used for running the campaign on two popular international TV channels. She also made clear the distinction between this campaign and the country brand.

⁸⁶⁹Sasu D V, Coita D C. Aspecte privind opţiunile strategice de dezvoltare turistică a României in The Journal of the Faculty of Economics - Economic Science Series, vol.1, TOM XV, Oradea, 2006, p. 963.

Previous branding campaigns have failed. This is actually not the first effort to brand Romania. In 2004, a campaign was made by Ogilvy&Mather, which required 1.7 million USD and which was called "Romania, simply surprising". It was cancelled three years later by Richard Batchelor, leader of the World Tourism Organization International Consultants team, because "it did not communicate Romania's essence to potential visitors."

A second failed attempt was a campaign initiated by the Ministry of External Affairs with the slogan "Fabulous Spirit" which cost 110,000 USD. The spokesman for the Ministry of External Affairs at that time said the reason for which previous efforts have failed was because building a branding strategy was one of the most difficult communication strategy projects. The brand strategy should convey that "Romania equals the most beautiful adventure in Europe". "The symbols and people used in it should be compatible and representative for this direction", said the spokesman.

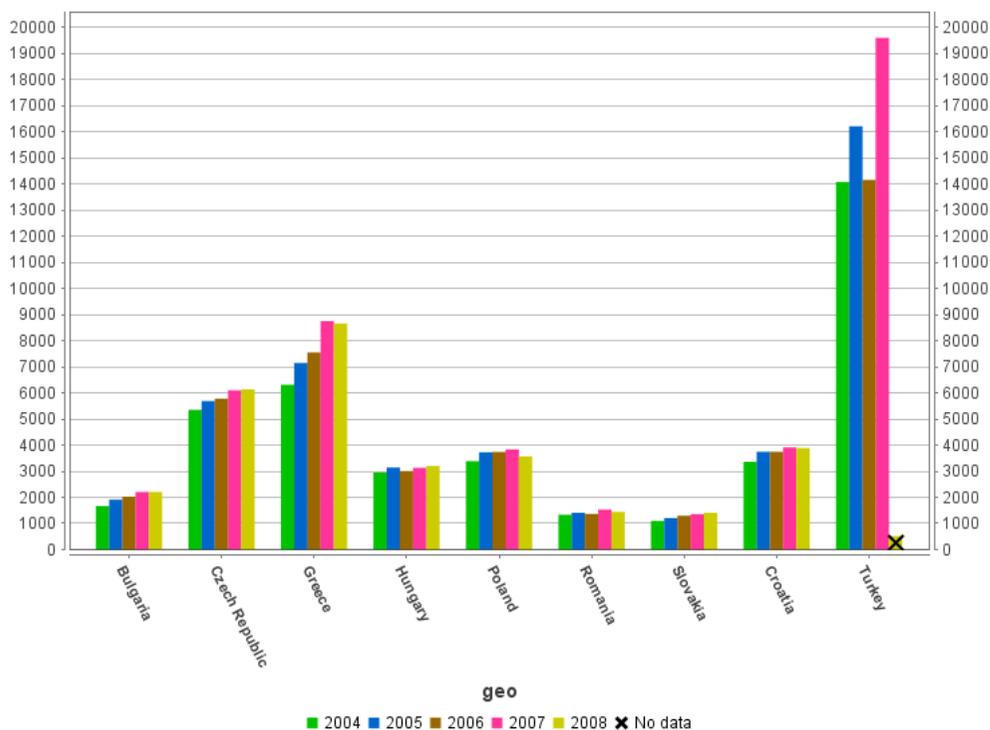
Regarding the process of Branding Romania, actions are being taken as we speak. An agency that will create the Romanian tourism brand will be selected by the Ministry of Tourism, following an international bid. Among the criteria that participants will have to meet is to have worked on at least one similar project. The creation of the brand will cost 2 million euros, while other 73 million euros, from European Union funds, will be used for implementing it.⁸⁷⁰

Only time will tell if Romania's Tourism Brand will become a successful story. But one thing is for sure, considerable efforts will be necessary in order to re-sketch our country image and build a solid, long-lasting, efficient brand.

ANNEX 1

Source: <http://epp.eurostat.ec.europa.eu/portal/page/portal/tourism/data/database>

Arrivals in hotels and similar establishments
(1 000)



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MARKETING PREDICTIONS IN ANTI-DRUG SOCIAL PROGRAMS: USE OF CAUSAL METHODS IN THE STUDY AND PREVENTION OF DRUG ABUSE

Serban Corina

*The Bucharest Academy of Economic Studies
Faculty of Marketing*

Drug use is one of the major challenges that today's society faces; its effects are felt at the level of various social, professional and age categories. Over 50 non-profit organizations are involved in the development of anti-drug social programs in Romania. Their role is to improve the degree of awareness of the target population concerning the risks associated with drug use, but also to steer consumers towards healthy areas, beneficial to their future. This paper aims to detail the issue of drug use in Romania, by making predictions based on the evolution of this phenomenon during the next five years. The obtained results have revealed the necessity to increase the number of programs preventing drug use, as well as the need to continue social programs that have proved effective in previous years.

Keywords: social marketing, non-profit organization, drug abuse, marketing forecast, drug use social program

JEL Classification: M31

Introduction

Over the past 10 years, social marketing has become an important area of analysis and research.⁸⁷¹ The number of non-profit organizations that are currently carrying on social activities has increased considerably, and so has the efficiency of social programs undertaken. Nowadays, non-profit organizations are a means to sustain the solving of major society problems: drug use, smoking, cancer, road safety or sedentariness. Drug use is one of the most troublesome phenomenon that humanity faces. Preventing and limiting access to drugs is a necessity, both on behalf of the consumers, and for society in general. The article tries to provide an overview concerning the matter of drug use in Romania. By studying the connections between illicit drug addiction and various factors that influence the consumer decision process, this article wishes to extend research in this area, starting with the practical aspects. Thus, based on information provided by the *National Anti-Drug Agency* and the *General Inspectorate of Romanian Police* in the *National Report on the drug situation in 2009*, the article estimates the evolution of drug problems in Romania on a given period of five years. Causal prediction methods are used in the information analysis, and data evaluation is achieved based on the multi-factor regression model.

Trends concerning drug use in the society background

Drugs are a global problem causing major imbalances in the normal functioning of societies. According to the 2009 report of the European Monitoring Centre for Drugs and Drug Addiction regarding the drug use situation in Europe, about 13 million Europeans aged 15-64 have tried cocaine at least once, 74 million Europeans have tried cannabis at least once and 2.5% young Europeans use cannabis on a daily basis. These statistics become more alarming each year. Research shows that illicite drug abuse *in Romania* is lower than in other EU countries, but there is a growing trend for consumption in most of them.⁸⁷² Most illicitly traded drugs in Romania are cannabis, heroin and ecstasy tablets, with cocaine ranking fourth place because it is a more expensive and harder to obtain drug. According to the Eurostat

⁸⁷¹ Ranchodd, A. and Marandi, E., 2006, *Strategic Marketing in Practice*, Butterworth-Heineman, page 106.

⁸⁷² European Monitoring Center for Drugs and Drug Addiction 2009, EMCDDA, accessed on the 17th of April 2010, www.emcdda.europa.eu.

report (Statistical Office of the European Communities) of 2008, the most widely consumed drug in Romania is *cannabis*. Most people begin using drugs at an early age of 15 to 19 years old - about 34% of the total in 2008. The next risk-subjected group is tat of 20 to 24 years, the age at which about one in four of them became drug users.⁸⁷³ According to research, the main drug consumers are young people in large cities. Bucharest still remains the most important center for drug trafficking and consumption in Romania, placed at the top of heroin consumption. The following districts are Timis and Cluj.

With regard to the evolution of treatment admissions, according to National Anti-Drug Agency (NAA) of 2009, the main drug for which assistance was requested remained heroin, both at the level of centers from the Ministry of Health network (66%) and, locally, at the level of prevention, evaluation and counseling drug centers (CPECA).

The prevalence of infectious diseases among drug injection users (DIUs) shows a worrying increase in the hepatitis C virus, the presence of antibodies (HCV) mounting to 72.59% in 2008, exceeding the European average value. Low levels of HIV prevalence (1.09%) can be explained by the decreased number of individuals who members of the DIUs community.

Number of drug consumption has reached 33 people in 2008, over 50% more than in 2007. Off the record, forensic sources said that their number ranges somewhere between 100 and 200 people each year.

Involving the National Anti-Drug Agency (NAA) in social programs

The National Anti-Drug Agency is the main institution involved in developing programs to prevent drug abuse in Romania. Established in December 2002 by the Romanian Government, the NAA is a public organization, under the coordination of The Ministry of Administration and Interior, whose main attribution is to *design general strategies to prevent drug use and traffic* in accordance with national anti-drug legislation in Romania. Also, the agency coordinates public authorities, state institutions and non-government organizations (NGOs) specializing in fighting drugs. NAA owns **47 assessment, drug prevention and counseling centers**, of which six are found in Bucharest, one for for each sector, and and 41 in the country - one for each district.

The National Anti-Drug Agency, along with the National Institute of Health Research and Development, are the main research institutions regarding drug traffic and consumption for these Romania. Together with the Ministry of Health, NAA is an important source of funding on such researches. The dissemination of information obtained from research is achieved by specialized websites and by holding national conferences.

According to the National Report on the drug situation in 2009, programs initiated by the NAA included the following areas: prevention in the domestic life, in the community and in recreational areas. Of these, the most important was the *"Fred goes Net - early intervention for drug users identified for the first time" project*. This project was initiated in Germany in 2002, Romania being one of the nine countries that took over, as pioneer partner, the project implementation. Another project was *"A one time means always!"* which was achieved in close collaboration with Rotary International. The project consisted in distributing information on DVD and CD-based information materials concerning drug prevention in recreational areas.

Non-profit organizations drug programs

One of the main tasks of the *National Anti-Drug Agency* is to coordinate the activities of non-profit organizations, so as to improve the efficiency of national anti-drug programs.⁸⁷⁴ The main purpose of these programs initiated by nonprofit organizations is to promote the rights of young people against drug abuse, by improving the degree of efficiency of the collaboration between specialized public institutions and family environment.

⁸⁷³ National Anti-Drug Agency, EMCDDA and General Inspectorate of Romanian Police, 2009, *National Report on the Drug Situation*, page 7.

⁸⁷⁴ Romanian Government 2005, *National Anti-drug Strategy 2005-2012*, Bucuresti, page 3.

One can notice ***a trend of increasing non-profit organizations' concern*** to increase the awareness of drug-consumption associated risks in society. Research conducted by them have provided valuable information on the prevalence of drug use among vulnerable groups. These projects were financed by international organizations such as *UNAIDS, UNICEF, UNODC* and the *Global Fund to Fight AIDS, Tuberculosis and Malaria*.

The more recent studies on traffic and drug consumption mentioned in the 2009 National Report emphasized aspects and concerning the consequences of drug use and the main ways of preventing it among youth.

The National Anti-Drug Agency has led and implemented many social programs in collaboration with non-profit organizations. The most important non-profit organization involved in drug prevention programs is ***“Save the Children”***. In the year 1998, “Save the Children” initiated the "Education towards Health" program, through which media drug campaigns were organized, as well as youth interaction campaigns, courses and extra-curricular activities designed for scholars and students.⁸⁷⁵

Along with the ***National Anti-Drug Agency***, ***“Save the Children” organization*** has developed the following projects:

- the ***“Feel Free”*** campaign, in 2003, organized together with the Romanian Monitoring Centre for Drugs and Drug Addiction, which aimed to reduce the number of young drug users and to promote a healthy lifestyle.

- ***“The sea is our only addiction”*** campaign, in 2005 - a project initiated in partnership with the National Anti-Drug Agency, which takes place annually at the Black Sea seaside and is mainly intended to inform young people about the risks associated with drug use.

- The project ***“RIIA”*** – or Inter-Institutional Anti-Drug Network⁸⁷⁶, in 2008 - project funded by the EU PHARE 2005 program, which took place between December 2007 - September 2008 and aimed to promote youth rights and protect them against drug abuse.

Other ***non-profit organizations that collaborated with the National Anti-Drug Agency*** in their programs were:

- ***International Drugs Brigade***, NAA's non-profit organization partner, which has developed the ***“Get him close to you”*** project in 2007. The campaign created public awareness about the fact that drug users' place is within society, together with their family, friends and colleagues.

- ***“Support for Life” Association***, through projects like: ***“Protego Project”*** in 2007 which aimed to inform parents about drug use among children, or the ***“Drug use and violence in schools”*** project in 2008, as well as the ***“Choose Life”*** (2008 project).

- ***Rotary International Association*** through the ***“Friends, help children say YES to Life”*** in 2009, intended to prevent drug use among youth.

- ***Soul to Soul XXI Association***, in partnership with the Romanian Patriarchy and “Light” newspaper, which initiated the ***“The world of drugs is not my world”*** project in March 2010, whose main purpose was to increase readers' awareness of the inherent danger of drug consumption in society.

Studying issues of using and illicite drug trading in Romania

In studying the main issues of using and trading drugs in Romania, we examined correlations between these variables: **1) Number of persons detected as drug users:** dependent variable.

2) The quantities of drugs seized: independent variable. **3) Number of people caught red-handed:** independent variable. **4) Number of persons convicted for crimes:** independent variable.

Hypothesis: The number of persons detected as drug users directly depends on the quantities of drugs seized, the number of people caught red-handed and the number of persons convicted.

<i>Years</i>	<i>Evolution of the number of</i>	<i>Dynamic of drugs seized</i>	<i>Dynamic of the number of</i>	<i>Evolution of the number of</i>
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⁸⁷⁵ Salvati Copiii 2010, Bucharest, accessed on the 17th of April 2010, www.salvaticopiii.ro.

⁸⁷⁶ Inter-Institutional Anti-Drug Network 2010, Bucharest, accessed on the 17th of April 2010, www.riia.ro.

	<i>persons detected as drug users</i>	<i>quantities (kg)</i>	<i>people caught red-handed</i>	<i>people convicted for drug offenses</i>
2001	2134	33.45	605	268
2002	1905	202.18	1035	432
2003	2070	320.70	1139	439
2004	1502	65.40	1219	508
2005	1538	285.07	1489	632
2006	1350	32.63	1921	659
2007	1891	129.90	1695	521
2008	1962	385.23	2158	454

Table 1. Aspects of drug use in Romania between 2001 and 2008,

Source: National Report on Drugs in 2009

Dependent Variable: PERSOANE_DEPISTATE				
Method: Least Squares				
Date: 04/17/10 Time: 14:09				
Sample: 2001 2008				
Included observations: 8				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2664.313	222.8331	11.95654	0.0003
CANTITATI_CONFISCATE	0.692377	0.420726	1.645673	0.1752
PERSOANE_IN_FLAGRANT	0.049855	0.151774	0.328478	0.7590
PERSOANE_CONDAMNATE	-2.180175	0.588175	-3.706680	0.0207
R-squared	0.870531	Mean dependent var	1794.000	
Adjusted R-squared	0.773430	S.D. dependent var	290.2378	
S.E. of regression	138.1514	Akaike info criterion	13.00143	
Sum squared resid	76343.21	Schwarz criterion	13.04115	
Log likelihood	-48.00572	F-statistic	8.965178	
Durbin-Watson stat	2.600595	Prob(F-statistic)	0.030038	

Table 2. Multiple regression model characteristics

Model was considered valid because the probability associated with the Fisher test, Prob(F-statistic) was 0.03, a value less than 0.05. Since the regression line slope shows a negative sign (-2.18) it is safe to say that there is an inverse relationship between “persoane_depistate”(drug users) and “persoane_condamnate” (persons convicted for drug offenses).

	<i>Persoane_ depistate</i>	<i>Cantitati_ confiscate</i>	<i>Persoane_ in_flagrant</i>	<i>Persoane_ condamnate</i>
<i>Persoane_depistate</i>	1,00			
<i>Cantitati_confiscate</i>	0,33	1,00		
<i>Persoane_in_flagrant</i>	0,41	0,33	1,00	
<i>Persoane_condamnate</i>	0,86	0,02	0,66	1,00

Table 3. Simple correlations between the variables considered

Because the correlations were too weak, most of them located below 0.5, we can say that there were no independent variables strongly correlated. Comparing t-Statistic values with t-theoretic (for 4 degrees

of freedom and a confidence level of 80%), we notice a low correlation between the dependent variable and the independent variables.

Prediction issues regarding the usage and traffic of drugs in Romania

Starting with National Report data on the drug situation in 2009, one has estimated the number of persons to be detected by drug use during 2009-2013.

Regression model obtained was considered valid because the value of Prob(F-statistic) was less than 0.05.

Dependent Variable: PERSOANE_DEPISTATE				
Method: Least Squares				
Date: 04/17/10 Time: 14:38				
Sample: 2001 2013				
Included observations: 13				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2691.534	226.3018	11.89356	0.0000
CANTITATI_CONFISCATE	0.520127	0.394574	1.318200	0.2200
PERSOANE_IN_FLAGRANT	0.252094	0.118024	2.135958	0.0614
PERSOANE_CONDAMNATE	-2.676599	0.532957	-5.022163	0.0007
R-squared	0.787692	Mean dependent var	1860.154	
Adjusted R-squared	0.716922	S.D. dependent var	265.5833	
S.E. of regression	141.3037	Akaike info criterion	12.98736	
Sum squared resid	179700.6	Schwarz criterion	13.16119	
Log likelihood	-80.41784	F-statistic	11.13040	
Durbin-Watson stat	2.824638	Prob(F-statistic)	0.002201	

Table 4. Features of multi-factor regression model after projection

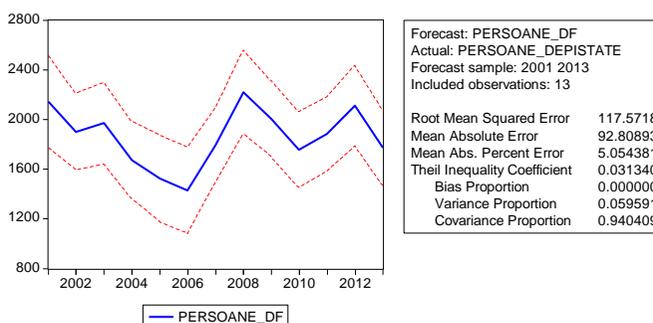


Chart 1. Predictions regarding the number of people detected as drug users during the period 2008-2013

The evolution of the number of persons detected as drug users in the next five years shows fluctuations, the values ranging between 1800 and 2200 people. Compared to the previous period, one can observe a slight increase concerning the number of people, which points, in a positive sense, to the development of ways to detect drug users on behalf of the authorities or, as a negative effect, points to an increasing number of persons using drugs.

Conclusions

Throughout this article, the author tried to present some of the aspects of drug issues in Romania. The main trends of drug use in Europe and in Romania were highlighted, as well as the connections between

The National Anti-Drug Agency and non-profit organizations, which were analyzed from the point of reducing the demand for narcotics. In the applied section of this paper, projections have shown that the number of tracked drug users will increase. This will cause many non-profit organizations to adopt a firmer position in communicating with vulnerable groups. The need to develop social programs is even greater, as the incidence of sexually transmitted infections and number of drug related crime are increasing. The main restrictions of this article relegate to the absence of data on drug users in Romania, NAA presenting only the evolution in the number of consumers discovered by treatment centers. Other restrictions concern the small number of research papers in this field, as well as the small scale of the implemented social programs, the majority of projects having a local character.

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ACCESSIBLE TOURISM – THE IGNORED OPPORTUNITY

Souca Maria Luiza

Babes-Bolyai University Cluj Napoca, Faculty of Economics and Business Administration

To create a positive visitor experience, a key factor in obtaining economic benefits, the tourism industry must pay attention to all the elements that contribute to it, especially to accessibility. Visitor accessibility encompasses all tourism markets including seniors and people with disabilities, who have been defined through accessible tourism. This article offers a short presentation of the term accessible tourism, the existing research in the field and the main reasons why the worldwide tourism industry is seemingly unaware of this particular market.

Keywords: accessible tourism, disabilities, market potential, research

The article's JEL classification: M31

Introduction

There is a large and profitable market out there that the tourism industry has been largely ignoring for a long time. This market is as big as over 650 million people worldwide and it's estimated that by the end of 2020 it will reach an approximated 1.2 billion people (Darcy, 2008). It has a huge potential for growth and what's more, research shows its members are more easily converted into regular costumers and on average they spend more per trip than the usual tourist. So who is this market? They are the ones that "accessible tourism" – a rather new concept – primarily targets.

What is "accessible tourism"?

Definition

Accessible tourism enables people with access requirements including mobility, vision, hearing and cognitive dimensions of access, to function independently and with equity and dignity through the delivery of universally designed products, services and environments. This definition is inclusive of all people including those travelling with children in prams, people with disabilities and seniors.(Darcy and Dickson, 2009, p.34). Therefore it can be said that accessible tourism targets any segment of the market that prefers accessing a tourism experience with ease, whether is the seniors that may prefer walking up a gentle ramp than going up a large number of steep stairs or those with any type of disability, who will appreciate more tourism facilities with continuous pathways, tactile surfaces and clear and bright signage.

According to **ENAT**, the European Network for Accessible Tourism, accessible tourism includes:

- Barrier-free destinations:** infrastructures and facilities.
- Transport:** by air, land and sea, suitable for all users.
- High quality services:** delivered by trained staff.
- Activities, exhibits, attractions:** allowing participation in tourism by everyone.
- Marketing, booking systems, Web sites and services:** information accessible to all.

Situation Overview

Is the tourism industry worldwide adapted to the needs of those requiring accessible tourism? Despite the fact that modern society is increasingly aware of the need to integrate people with any type of disabilities the answer is a resounding "no". And while it can be argued that in order to function many tourism facilities comply with legislative requirements like accessible parking space and accessible toilets, clearly a step in the right direction, unfortunately that can't be called true accessible tourism as there are no further developments to include requirements like: professional staff capable of dealing

with accessibility issues, wheelchair accessible vehicles, adapted hotel rooms and many more. The reasons to that are numerous and stem from two directions:

-there is very little research that shows how the tourism industry can benefit from making changes in the tourism product development and delivery so that it can become more accessible. Only recently the European Union has commissioned research that shows insight into the complexities of accessible tourism (Buhalis et al., 2005) and in 2007 The UN Convention on the Rights of People with Disabilities and the International Day for People with Disabilities has internationally reinforced the language of disability thus helping define concepts like: accessible destination experiences, accessible tourism, access precincts, continuous (accessible) pathways and disability. Another important contributor to the accessible tourism research is the Australian Sustainable Tourism Cooperative Research Center which funded an Accessible Tourism Research Agenda that sought to create a sound research base on which the tourism industry and government marketing authorities can make more informed decisions. (Darcy, 2008)

-there is a perception that accessible tourism is “low yield” due to the stereotype that people with disabilities have significantly less disposable income and are more likely to be dependent on a pension. This argument has been used in the past as a deterrent to investment in accessible tourism and as long as there are too few case studies that can be given as examples of successful tourism enterprises offering accessible tourism experiences, it will continue to carry weight. Yet, according to the latest statistics the market for accessible tourism is continuously growing making it clear that to ignore its potential is to actually ignore fruitful business opportunities, a fact that several companies in Europe and US have counted on when designing offers clearly meant for this market niche. These pioneers can show through their example that accessible tourism can become a competitive edge, just like the case of Divi Hotels Resort on Bonaire Island, in the Caribbean Sea, which became “famous for being completely accessible”, their presentation brochures including images with the access ramp for those who need a wheelchair.

Market size and Economic value

In 1983 E. D Mills noted that “provisions for the disabled in any type of holiday situation can no longer be regarded as an optional extra” (Mills, 1983, p.81). Yet, several decades later researchers (Darcy, 2006) have noted that despite the large numbers of people with disabilities living independently, their growing financial wealth and their desire to travel, this segment continues to be largely ignored by the tourism industry worldwide.

What are the exact numbers? In Australia, for example, 20% of the population, or 4 million people, identify as having a disability. Of these people 520,000 have a mobility disability, 480,000 are blind or vision impaired, and 1 million are deaf or hearing impaired (Australian Bureau of Statistics, 2003). Still Darcy’s research (2008) estimates that in the 2003-2004 period the tourists with disabilities spent in Australia between \$8034.68 million and \$11980.272 million, contributed between \$ 3075.5243 million and \$4580.219 million to Tourism Gross Value Added (12.27%–15.60% of total tourism GVA), contributed between \$ 3885.168 million and \$5787.435 million to Tourism Gross Domestic Product (11.02%–16.41% of total) and sustained between 51 820 and 77 495 direct jobs in the tourism industry (11.6%–17.3% of direct tourism employment). And Australia is not an isolated case.

In the US alone there are more than 54 million people with disabilities, a market larger than that of African American or the Hispanics, representing almost 1 billion dollars in buying power (Kotler, 2009), while the European Union countries’ OSSATE research (Buhalis et al.,2005) estimates that tourists with disabilities contribute €80 billion to the economy using gross demand estimates. Globally there are over 650 million people with disabilities (Fujiura and Rutkowskikmitta, 2001; Mercer and MacDonald, 2007), equating to about 10% of humanity.

And this isn’t all of it. There is a direct link between aging and disability as a person is 14 times more likely to have a disability by the time they reach 65 years old than a four-year-old(Darcy, 2008), a trend shared by all western developed countries with a noticeable difference in Asian countries where the

ageing is occurring at a faster rate. (World Health Organization, 2007). What's more, this generation of seniors, unlike past generations of older people, is seeking an active and adventurous experience for their post work lives, and tourism is seen as an important component of their quest of life experiences. Yet, the tourism industry continues to ignore this market as shown by the results of a study involving senior travelers which has proven that despite the fact that seniors greatly value security and support elements in the bathrooms, visible signage in the halls, restaurants menus with big readable fonts and extra heating sources (more blankets available per bed), this type of information is not generally included in the advertising materials used by tourism enterprise, making it harder for them to choose old-age friendly destinations.(Howey et al., 1992).

Accessible tourism consumer behavior

People with disabilities are very appreciative of products that are adapted to their needs. According to Jim Tobias, the president of Inclusive Technologies, a consulting company specialized in "accessible products", "people with disabilities have the tendency to become **brand evangelists** for the brand they love; if usually a consumer would tell another 10 people about their favorite product, people with disabilities could tell 10 times more people." (Hsu, C.H.C., Powers, T., 2002).

This point of view is also shared by the Department for Culture, Media and Sport, DCMS for short, of the British Government, who has taken active steps for changing the British tourism industry in preparation for the Olympics and Paralympics Games of 2012. According to their statistics (DCMS, 2010), disabled people:

- **become regular clients** after finding a tourism facility that suits their needs;
- **tend to take longer holiday breaks** than the average – 4 days as opposed to the average length of stay of 3 days – therefore spending more money per trip (£216 as opposed to £197 overall);
- **tend not to travel alone**, as they are often accompanied by caregivers, family and friends: over 50% travel with a partner, 20 % with a child and between 21-25% with a companion.

Combining these behavior characteristics with the great potential for growth, presented in the chapter before, makes the market containing senior and persons with disabilities a very attractive one. That's why the mystery remains of why the tourism industry is still largely ignoring it. Fortunately, there are more and more case studies that show the fact that accessible tourism can be profitable: for example Holiday Inn and their specially targeted offer for hearing impaired people. According to their data the hearing impaired people segment includes from people with no hearing to people with different hearing problems, a number that in the US means 21 million persons. To approach this market Holiday Inn promoted their message through special magazines designed for those hearing impaired. And their strategy has paid off, in the first year after making the special offer Holiday Inn gained between 40000 to 50000 travelers staying the night, from this segment alone. (Hsu, C.H.C., Powers, T., 2002)

Conclusion

Is ignoring the opportunity presented by accessible tourism a mistake? One quick look at the facts should show that the obvious answer is "yes". The only fact that still remains uncertain is how the situation can be remediated. There are several things that can be done:

1. **Doing more research in the field.** While the statistics presented in this article are relevant to the developed western countries, there almost none regarding the situation in the developing countries, such as Romania, who could benefit very much from identifying a tourism niche. Unfortunately, in the case of Romania, there is also a lack of official information regarding the situation of disabled people: by 2003, there were 414.620 people with disabilities in the official statistics, or 1.97% of the population, far lower the average 10% for the EU countries, as estimated by UN statistics. (CNDR, 2004).
2. **Creating a business model** that can be successfully put into practice.
3. **Involving the tourism industry.** No matter how great the theoretical model is, until it's put into practice and it has proven its efficiency, it won't become a good argument. That's why tourism industry

needs to be involved in the research, and only by seeing actual numbers and successful case studies, they will change their attitude and give accessible tourism the place it rightfully deserves.

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SOME ASPECTS OF THE ROLE OF VISUAL IDENTITY IN THE SUCCESSFUL IMPLEMENTATION OF THE PROMOTIONAL STRATEGY

Tarcza Teodora
University of Oradea
Faculty of Economics

This paper wishes to emphasize the necessity and importance of the communicational capital of a business, in the midst of fierce competition and 'bombarding' of all clients with a great deal of data through classical methods of advertising. The overcrowding of media channels with information about different products, the excessive advertising through classical methods (e.g. TV, radio, media) has led to a negative attitude of potential clients towards such items. Hence, a boomerang effect has occurred as a result of the above-mentioned excess of advertising products and services. Furthermore, marketing specialists have come to the conclusion that the single promoting of a product through TV, radio, media will not make the consumer choose a certain product / service or a brand. But the integrated concept of communication will...

Keywords: communicational capital, promotional strategies, visual identity, identity manual

Code Jel:M31

1. Context

Given these circumstances, the question „Why to communicate ?” is considered out-of-date. The importance of communication between organizations and different categories of public was emphasized and demonstrated a long time ago. Nowadays, the real question, which is an issue for most marketers who understand the importance of communication is: „How to communicate ?”

Communication is closely linked to the marketing activity and, mainly, to the promotion concept. Not once or twice the two notions have been confused or dealt with as a single identity. There are authors who treat the concept communication – promotion as a whole – part type.

Philip Kotler, the famous American professor, defines marketing communication with the help of the total communicational mix of a company. According to him, it consists of „*a specific combination of advertising, distribution channel, sales promoting and public relations, which a business utilizes in order to meet its advertising and marketing goals.*”⁸⁷⁷

Corporate communication has *the mission of determining the position of a given company, of building itself an acknowledged personality and a distinct identity from its competitors*. Communication within a company defines its characteristics relative to other enterprises. This communication is of two different types:

- *external communication*, namely the relations of a business to the market, its business partners, distributors, banks, financial community, media, etc.,
- *internal communication*, which grows among the human resources department: employees, managers, share-holders, etc.

The marketing strategy is the path a company chooses to take in order to reach its marketing objectives.⁸⁷⁸ It is represented by the whole of the concrete objectives an organization is bound to reach in a given period of time, of the means and methods by which these objectives are practically made use of, in accordance with the tendencies and requirements of the throughput, which is measured with the help of economic indicators such as: stock market, sales, profit.

⁸⁷⁷ Kotler, Ph., Armstrong, G. – „Principiile Marketingului”, Ediția Europeană, Editura Teora, București, 2000.

⁸⁷⁸ Botezat, Elena- „Bazele marketingului”, Ed. Universității din Oradea, Oradea, 2006.

In the light of the current situation of the market, at a time when, for the majority of products and services, supply exceeds demand, it is a must for companies to communicate with their present or potential clients. Most companies have the tendency to approach promotional strategies such as „pull strategy” (sales promotions). Such strategies involve marketing activities, especially advertising and promoting on the consumer market, aimed at the final user and meant to make him / her ask intermediaries to provide additional products, and determine the latter to order those specific products from the producers.

As to the external communication, apart from promotional activities, one must take into account a series of supporting communicational elements, such as: brand, image, marking and packing of a product / service, employees’ attitude and behaviour, the aspect and the environment of workplaces (registered or head offices, shops, warehouses, etc.) All these elements have brought about the building up of communicational capital.

The communicational capital of an organization is the total amount information disseminated within and outside the company, to different categories of public.

Global image of a business results from the totality of its expressions: corporate (institutional), commercial (company reports about products or brands) and internal (communication with people from within).

There are two distinguishable types of marketing communication:

- promotional communication (namely, communication techniques used in an temporary advertising campaigns);
- continuous communication (around the clock communication with the target public).

Due to the large number of companies, marks, products lingering on the market and to their advertising campaigns, customers often feel confused or even have the tendency of ignoring and rejecting from the very beginning any new piece of information in the field. It is for this very reason that marketing specialists have started to become more and more aware of the importance of a continuous communication and to concentrate all their efforts in this direction.

2. Visual identity

In close relation to the concept of communicational capital, we may refer to the **visual communication** of a company. The succes on the market of any given company relies on the way in which it manages to distinguish itself from its competitors and to mark a particular spot in the mind of the target market. Hence, the creation and development of a suggestive and steadfast visual identity are essential. The instrument which deals with all the information about the **visual identity** of a business is the **identity manual**.

Talking about visual communication, Marie - Helene Westphalen mentions three elements:

- a) A logo and a system of visual identification (Logo or „specific mark” represents the association of a graphic image with its symbolism and colours).
- b) Visual communication applied to the product itself (industrial design and communication through package designs).
- c) Communication through environment or environmental design (devising work spaces, commercial and exhibition areas)⁸⁷⁹.

Visual identity gives us information about the values and principles of a organization, about its quality and domain of activity. All these information are perceived in a matter of moments. The creation of a coherent and strong visual identity represents the turning point of a successful brand. Visual identity of good quality must accurately reflect the business and its founders, render credibility and trust to the brand customers.

Creating a visual identity is not an easy task. It has to follow a few basic steps:

- to reflect its domain of activity, its personality or a definite characteristic of the business;

⁸⁷⁹ Westphalen, Marie- Helene- Comunicarea externă a firmei, Ed. C.H. Beck, București, 2008.

- to be able to hold good in the long run (altering its visual identity would result in a series of material and emotional costs) ;
- its logo must be clean-cut, easy to understand and to tell the story of the company;
- to be able to adapt itself to various graphic supports and to evolution, as well;
- its slogan has the purpose of deriving benefits for the client.

“On a competition market, where one must struggle with experienced companies and corporations, you must always be a step ahead. Unlike a few years ago, when only a few companies understood the importance of visual identity, at present it is absolutely necessary to understand and make a profit out of this issue”, thinks Georgiana Radu, managing partner and co-founder of full service [Brandaffair Advertising](#).⁸⁸⁰

Promotional communication

Freidmann Schulz von Thun, a German psychologist and specialist in communication sciences, has worked up a communication model which devises all messages in four groups: fact, self-revealing, relationship and appeal. This model can be applied to promotional communication as well. We may think that a piece of news is the promotional message.

a) The content of the promotional message: offers an answer to the question: „What do I give information about ?” A promotional message keeps us informed about a particular product / service, shop, special offer. Its content may be as well: „We have launched on the market the new product X”.

b) Self-revelation (self-exposure) is related to the information about the speaker, what s/he actually means through his / her words. In the case of the promotional message the company / organization who launches a product / service is the sender. We could say such things about the company: „Who are they ?”, „Have I heard about it or its products ?” „It tries to adapt itself to the customers’ needs”, „This company is struggling to develop itself”, „This service is useful to me”.

c) The relationship – the sender expresses what s/he thinks about the receiver and how s/he gets along with him / her. A certain company wants to sell its product / service to customers. Its target is to convince the receiver (potential clients) to make the decision of buying. In other words, the company wants to tell the receiver: „You need the product I am offering you”.

d) The appeal – the sender wants to influence the receiver, to cause a change in the latter’s attitude or behaviour. The companies which communicate have the desire to influence the buying or consumption behaviour of the target market (consumers) and cause changes in making decisions. In the case of the promotional message the appeal of the companies is as follows: „Buy! My product is the ideal solution for you!” „You must buy this product!”, „This is the product you have been looking for and we are offering it to you!”

For the consumer (i.e. the receiver of the promotional message), the task of receiving and proper understanding of a message with so many meanings is not at all an easy one, all the more so as s/he is daily confronted with tens or even hundreds of such challenges.

Each and every day, we all are subject to a series of messages, new pieces information, often very inconsistent. Because of this excess of messages we have the tendency to filter the information, consciously or not, in terms of their sender. Nothing new when it comes to promotional messages: we pay attention and receive only those messages that come from people we know, who have a certain identity and whom we trust.

Up to the present at the base of the pyramid of the promotional mix lied advertising, in which most part of the marketing budget used to be invested. Then, we had sales promotion and personal selling. Public relations used to play a minor part. However, things have taken a reversed turn lately. At present, many of the companies must be aware that, prior to investing money in advertising through the classical media means, they have to introduce themselves to the target public. But, in order to do so, they must be „someone”, they must have an identity of their own. Only after they become „someone” they will have

⁸⁸⁰ http://antreprenor.money.ro/cum_se_construieste_identitatea_vizuala_a_unui_start_up-84084.html.

an identity clearly stated, only then they will be able to send promotional messages on the classical channels.

3. Identity manual

The identity manual is a tool of utmost importance for a company's identity and especially for a brand. It provides all the visual guidelines of the company and the rules for applying them, with both negative and positive examples.

The necessity of centralization of all the elements the visual identity of a company embodies has sprung from the idea that the people who have initially drawn it and taken care of it launch are not the only ones who are responsible for its promotion. It may happen that a customer changes his / her agency or that the agency itself externalizes its services and is bound, therefore, to send its coworkers the exact technical details of the customers' brand.

As a result, in the contents of an identity manual, there are enlisted such aspects as acceptable and unacceptable elements of a logo, multimedia, map colour guide, dress codes, formatting for stationery, acceptable and unacceptable photos. Through this instrument a company manages to implement and keep the consistency, unity and coherence of a brand, from its logo to leaflets, from its web sites to TV commercials.

Components of the identity manual:

1. Logo is the milestone, the basic element of the identity of any given company and, at the same time, the starting point of the creation of the brand, „its signature'. In order to get off on the right foot in creating an identity one must pay close attention to the logo, which must be, first of all, a suggestive symbol for the target of the company, unique and easy to identify. This logo consists of graphic symbols (images), texts (letters) and specific colours. The result of this association must be clear, concise, identifiable and recognizable. As well as the targets of a corporation it has to follow the KISS rule: Keep it short and simple!

When choosing a logo one must take heed to its flexibility, to the implementing possibilities on different promotional materials.

2. Business cards – bear business information about an individual and enhance interhuman relationships. By way of them people formally introduce themselves and make the premises of starting anew, rescheduling or developing of an established relationship. In order to fulfill their intermediary role, business cards must reflect in a sincere, clear and convincing way the image of the individual or the legal entity it represents.⁸⁸¹ A business card must include:

- identity: name and surname
- job, professional degree, scientific titles
- company affiliation
- contact address: address, phone number, email, website.

In addition to these, one can include other pieces of information such as: personal information (phone and address), domain/s of activity of the corporation, services his / her company offers, features of the organization or institutio. It is not advisable to add other types of information. But, when it is absolutely necessary, one must make much of the established rules in the identity manual and of the open-minded nature of a business card. A lot of useless information might lead to the loss of essence of this instrument.

The design of a business card must be inspired, original, in perfect key with the organization personality, must stick to the requirements of the identity manual of the corporation, namely its logo, keeping to the approved space, utilization of the specific colour scheme of the brand, the ordering of materials in the space given, supporting typography and letter sizes, utilization of other graphic elements apart from a customized setting of the name.

The type of paper chosen for printing the card may give them a distinctive feature. In terms of the domain of activity of the organization, of its prestige and reputation, one can choose a common type of

⁸⁸¹ Graur, Evelina – „Tehnici de comunicare”, Ed. Mediamira, Cluj-Napoca, 2001.

paper or stock, with or without a glossy coat. Business cards in a company may be different depending on whom they are imprinted for (e.g. managers, client service personnel, PR, etc.). They can be either in Romanian or another foreign language (e.g. English, French, German), but never in both languages on the same card.

3. Stationery: letterhead design, envelopes, portfolios, catalogues – are all important factors in communicating with business partners (clients, distributors, share-holders, financial distributors, governmental organisms). Using such tools is a proof of professionalism, coherence and unity of communication and helps in strengthening the brand.

4. Dress codes – a personalized attire supports both internal communication (employees feel they are members of the same family, building up a sense of affiliation and mutual respect) and external communication (clients associate the employee with the company s/he stands for). Moreover, a particular business attire is another form of promoting the image of the brand.

5. Promotional materials (pens, caps, T-shirts, keyrings, etc.) are offered on special occasions or events to coworkers. The right materials must be carefully chosen. They can have a big contribution to the image of the company. The quality of these products must reflect the image the company wants the others to picture. Furthermore, they must be carefully chosen when it comes to special days and events: Christian feasts, national celebrations (e.g. Women's Day, the 1st of May, the 9th of May, etc.), launch of a new product or the company's anniversary, signing of an important contract, the successful completion of a project, a press conference, etc. Special attention must be rendered both to the colour scheme of these materials (which must illustrate the brand) and to the personalization methods: imprinting, inscribing, engraving, etc., in perfect accordance with the 'flexibility' of the logo.

7. Cars imprinting - Similar to dress codes, it has two objectives: internal communication among employees and external communication, a form of promoting. The selection of the cars has an important contribution to the improvement of the brand image. The association of the company with the brand image of an acknowledged motor vehicle manufacturer will urge respect and will be a sign of security and financial performance. Likewise, the colours must assent to the brand colours or, at least, to allow the logo to be used in its simple form.

8. Website and CD presentations – Nowadays, the development of technology, of the communication system has led to an overall digitizing of the world (including the economic relations). The era of communication on the internet has brought about the development of many interhuman and business relationships. The selection of a particular product / service is usually preceded by a more or less comprehensive research on the company's website, on different search engines or chatting with former or potential clients interested in the same product / service. Thus, we can say that, unless we are on the Internet, we do not exist!

A website with the most important and viable information for the clients and business partners may lead to a better company image, may be a proof of professionalism and especially of being up-to-date with technical evolution.

The website graphics and design require knowledge and careful usage of the company's identity manual. Unpleasant situations might arise: e.g. the usage of another colour or image or font might create a sense of confusion in the client, who may not be able to recognize the brand s/he is looking for or even worse, mistake a particular brand for a similar one.

4. A model identity manual of a private kindergarten („Cheerful little angels”)

The launch onto the market of a private kindergarten requires a lot of research work and preparation, including the right choice of its name.

The services, as well as the products offered to the children, have names inspired from fairytales or little animals. The nouns usually are used as diminutives. Besides nouns, in the name of the company we might have a number which bears a certain meaning in our literature (2, 3, 5, 7), or an adjective (small, tiny, cheerful, strong, hardworking, happy).

The logo we choose for such a company is illustrative of the services we offer to the children, but those who are responsible for their buying are the parents (especially mothers). Hence, the new logo must be

attractive, as colourful and cheerful and playful and friendly as it can possibly be for the little ones, but, at the same time, it must give a sense of trust, security, reliability, care and affection to the buyers, namely to the parents.

The logo components: graphic elements: three little angels (two boys and a girl, the idea of friendship) and a little cloud (innocence, dreams, ideals, childhood games).

The text: the name of the company was carefully chosen. The font is cheerful, playful, and the size of the letters highlights it. This font type is not grave, austere or formal. It suggests security, reliability, a long term investment, though.

The colours: the background colour is light blue and white. The little angels and their dresses have various colours, in soft pastels to enrich the palette colours and to attract the children's attention.

Business cards design. We need only typical business cards (with information about the kindergarten and manager). The background is pale blue, the text is white to enhance a light, not at all crowded imagery. The logo is placed at the top right corner, according to the rules in the manual.

Stationery elements (leaflets, posters and flyers): in harmony with the business cards serve the purpose of drawing children's attention and provide additional information. For each and every child we have prepared personalized labels with their names which have been stuck unto the hall stands. The portfolios, envelopes, letterhead sheets of papers stand for professionalism towards our coworkers: distributors, financial institutions, governmental organisms, etc.

Dress code: within an educational institution a decent, but comfortable attire is a must. The teaching stuff must be allowed flexibility when playing with children. Hereby, we have chosen comfortable cotton collar-embroidered shirts for the teachers and personalized, unicoloured logo-imprinted T-shirts for the children.

Custom - imprinted vehicle: in which the children are safely driven. Its design has drawn the attention and affection of both the children who see it every day and of potential clients (a personalized vehicle = a promotion vehicle). We have selected a light blue Mercedes Vito van, ideal for our logo.

Website: provides information for those interested in our offer service, photo galleries, contact details, etc. The parents of the children enlisted in our facility have the possibility of choosing the daily menu for their child and of watching their children through the video surveillance cameras installed in classes, bedrooms, dining halls, yard, etc.

5. Conclusion

The communicational capital, as well as the other types of capital (financial, technological, human) requires financial resources and time in order to continuously develop and improve. Drafting an identity manual is not a cheap financial investment. The bare concept may cost between 1.000- 5.000 EUR, plus the production and personalization costs. But such an investment is to be yearly made up for with every new client. The initial target, of 30 children at the beginning of the school year, has been exceeded. We have 42 children in three different age groups. Once the identity of the company is firmly stated, the manager can think of other effective methods of promoting the kindergarten services. Until then the gained trust and recommendations are the best method of promotion.

In conclusion, the relevance of the communicational capital for organizations may be expressed by their capacity of issuing and capitalizing this capital both on corporative and commercial level, in order to reach the marketing objectives of the organization.

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CONCEPT AND EVOLUTION OF BANK MARKETING

Turkes (Vînt) Mirela Catalina
Transylvania University of Brasov
Faculty of Economic Sciences

The bank marketing, a specialized field of the marketing, has emerged following the extensive development of the general marketing and following the appearance, separation and development of services marketing. The article shows the appearance, development and delimitation of the bank marketing concept following the increase of the financial-banking sector in all world countries due to the appearance of new competitors and the competition intensification. The research consisted in presenting the evolution stages of the bank marketing and the manner in which the concept has been approached and perceived, in time, by various Romanian and foreign specialists. Through analysis, I have shown the importance of including the bank marketing concept into the assembly of tactical and strategic decisions of the banking companies.

Keywords: marketing, bank marketing, concept, evolution.

Code JEL: M31, G21

Introduction

Following the extensive development of the marketing field, the consumer-goods marketing and the services marketing have resulted. The services marketing, as a distinct field, is characterized by a peculiar content where elements can be found similar to material goods (properly adapted) and other elements common to all services. It developed in two ways: one approaching the sector as a whole and another one specific to various categories of services, which underlies the appearance of some of its branches: *bank marketing*, *tourism marketing*, etc.

The marketing-specific applications within the activities performed by the banking institutions that offer their products and services, realized in the banking sector, to companies or organizations, government, other financial institutions and population as well, designate the *bank marketing*.

Bank marketing concept

The bank marketing is a specialized field of the marketing and it has emerged following the extensive development of the general marketing and following the appearance, development, separation, delimitation, deepening and specialization of services marketing. The bank marketing concept evolved following the significant increase in the developed countries of the financial sector and implicitly the banking sector due to the appearance of new competitors, the market overcapacity and the competition intensification.

The bank marketing is "the marketing that applies in the *universal banks'* field (commercial banks as: savings and cooperative banks) and in the *specialized banks'* field (actual credit institutions, investment companies, etc.). Besides the insurance companies and savings institutions for constructions, the banks are the most important offerers on the market of financial services. Today, on the market of bank services, there is a powerful competition, the transparency is more pronounced and the customers have become more critical and less fastidious, being better informed about the monetary and financial issues, but also better advised for this purpose. Therefore, many banks admitted the need to develop and implement professional and efficient **bank marketing** in the relationship with their own private customers".

In the specialty literature, the **bank marketing** is also called marketing for *services* or for immaterial goods. Compared to other services, the banking products are distinguished by the fact that they are *complex and abstract*. Most of the customers do not easily understand what the financial services

consist in, what benefit they bring and how they can be distinguished from one another. To this we can add the fact that the benefit of a banking service, for example a consultancy for the acquisition of a mortgage loan, for the placement of some shares or a funding for the execution of a construction, is exposed to an *external insecurity*, more than the other goods. The factors that influence these situations are the following: the evolution of national and world economy and the evolution of banking, monetary and capital markets. The exogenous insecurity and the immateriality generate a very high *qualitative insecurity* of the banking products for customers. Most of the banking products are mainly *integrating*, meaning that the customer takes part, more or less actively, in their realization.

For banking services, the specialist Kaas K.P. emphasizes the importance of the customers giving some information about the standard financial *data* (income and patrimony), about their financial *objectives* for life planning, about their attitude towards *risk*, about the intended period of the commitment, etc. in interaction with the bank employees. The immateriality and the abstractization of the banking services lead to the fact that, compared to the offerers of material goods; it is more difficult for a bank to create lasting competition advantages. The innovating products, for example a special savings contract or a chip card, cannot be protected against the competition by patents or property know-how. A bank can create competition advantages by a *high quality of the services, customer orientation and customer loyalty development*. To that effect, resources are needed which, on short term, are not available to all competitors. Examples to that effect are the customers carefully chosen, formed and motivated to serve the customers in an exceptional manner and also the information systems which allow the bank to optimally adapt its services to customer needs and restrictions⁸⁸².

The contemporary specialty literature shows numerous definitions of the *bank marketing*, more or less different, on the one hand due to the development level of the banking market and of the economy in the author's origin country and on the other hand due to the viewpoint in which the concept has been approached and perceived.

The English specialists C. Ennew, T. Watkins and M. Wright, in their writing "Marketing Financial Services", considered that the *bank marketing concept* implies "*the achievement of the bank objectives by establishing the needs and wishes of the target customers and the supply of the needed satisfaction in a more efficient manner than their competitors*"⁸⁸³.

Another Belgian specialist Claessens R., in his writing "Marketing of retail banking products" stated that "*The banks should identify the future needs and wishes of the customers and should use their own services and distribution channels in order to efficiently develop the integrated marketing concept on long term*"⁸⁸⁴.

In a brief formulation, the Romanian specialist Ionescu Lucian, in his writing "Bank marketing elements" states that the *bank marketing* represents "*the management of the processes leading to the satisfaction of the customer financial needs, in a manner profitable to the bank*"⁸⁸⁵.

Another Romanian specialist, Dedu V. considered that "*the bank marketing refers to the actions taken through banks in order to satisfy the customer needs – private and companies*"⁸⁸⁶.

The specialist Odobescu E., in his writing "Modern bank marketing", stated that "*the adaptation of the bank marketing concept, as an assembly of strategic and tactical decisions adopted in the management process and the bank existence, implies the consideration of the following elements: satisfaction of customer needs, increasing the bank profitability, employees' involvement thus ensuring the cost*

⁸⁸² Florescu C., Malcomete P., POP N. Al.: *Marketing, Dictionar Explicativ*, Editura Economică, București, 2004, p.394.

⁸⁸³ Ennew C., Watkins T., Wright M.: *Marketing Financial Services*, Butterworth-Heinemann, Oxford, UK 1991, p.19.

⁸⁸⁴ Claessens R.: *Marketing of retail banking products-From "Theory" to Practice & Strategic planning implementation*, U.B.I. Brussels, 2004, p 16.

⁸⁸⁵ Ionescu L.: *Elemente de marketing bancar*, Romanian Banking Institute, București, 2001, p.17.

⁸⁸⁶ Dedu V., *Gestiune și audit bancar-editia a doua*, Ed. Economică, București, 2008, p.278.

control and the income maximization, social responsibility, the bank needing to have a responsible behavior"⁸⁸⁷.

The bank marketing considers that the bank institutions must involve themselves to a great extent in the complex study of the customers (income level, lifestyle, financial situations, market positions, market shares, etc), they must try to influence their behavior and to keep a permanent and efficient communication in order to know better their preferences and demands, offering to them new and diversified products, constantly improved in quality, using a highly qualified personnel and in the same time efficiently using their own resources, thus ensuring their profitability increase.

Bank marketing evolution

The stages of the bank marketing evolution are the following:

-*during the 70s*, many banks did not use the marketing in their activity, their management being market-oriented. Once the competition intensified, some of the banks have started to use the marketing, launching some extremely expensive advertising campaigns. The banks were counting on the fact that they could fool the customers by various promotional activities, by which they could hide the negative aspects related to their own banking services. The first failures of the advertising campaigns proved to the banks that on the one hand these campaigns could ruin them, and on the other hand that the main problem did not consist in attracting new customers, but in keeping them. During this period, the advertisement was the most important marketing activity performed by the banks;

-*during the 80s*, the banks developed programs to support the business, they promoted the bank marketing on a large scale, engaging all its constituent aspects: establishing and organizing the offer of products/services to satisfy the existing needs; promoting and orientating the products/services towards responding to the considered requirements of the business. It is a time when the banks no longer accentuate the trade, the short term sale of banking products, their volume increase; instead they focus on the perennial value of the customer, pursuing the winning of new customers.

-*during the 90s*, the banks focused their efforts in order to create some superior banking products/services, on the one hand following the assurance of the customer needs' satisfaction, and on the other hand establishing lasting relationships with them. During this period, the financial sector and implicitly the banking sector experiences a significant growth in the developed countries.

-*during the 21st century*, the banks act in a dynamic environment, where the market and the other factors (components of the political, economical, social, juridical, cultural, demographical and technological environment) frequently raise problems, forcing them to additional efforts or offering them opportunities that need to be fructified as well as possible; they need to integrate their current actions to their long term objectives which were previously determined by the bank marketing policy. Adapting the banking institution's activity to the environment requires a continuous tracking of the structural quantity and quality changes which the environment registers or will register⁸⁸⁸.

In conclusion, in order to successfully achieve the purpose of the marketing process, *the banks* should:

-perform analyses in order to know the bank customers to the highest possible extent, so that the offered banking products/services match their needs and the sale is ensured. That is why the bank needs to involve as actively as possible in their customers' activities, by financial and logistical support, specialty consultancy and assistance.

-perform studies, systematical analyses of the financial market identifying the profitable markets, the new capital flows on the financial markets, the new agencies, intermediaries and entrepreneurs (sellers) acting on these markets, their operations and performances.

-define and apply their strategies in their relation with the market, efficiently using their own resources in order to create new banking products/services and to diversify them according to the consumers' wishes and expectations.

⁸⁸⁷ Odobescu E., *Marketingul bancar modern*, Ed. Sigma, București 2007, p.17.

⁸⁸⁸ Dedu V.: *Gestiune bancară*, Ed. Didactică și Pedagogică, București, 1999, p.9.

- try to obtain a lasting competition advantage by promoting high quality products/services, by customer orientation and by customer loyalty development.
- establish clear communication strategies for the customers, shareholders and employees.
- influence the customers' behavior since the profitability ratio of the banks is connected to their customers' profitability.
- determine certain specific indicators with the help of the financial – banking marketing, such as liquidity, solvency, interest rate and amount, the size of the production and investment expenditure estimates (especially within the credit banking product), bank capital adequacy ratio, the quality of credits portfolio by which to eliminate or to reduce the financial risk and to increase the profitability.

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SUB-SECTION: ECONOMIC INFORMATICS

ASPECTS REGARDING THE INTEGRATION OF THE MODERN INFORMATION SYSTEMS

Botezatu Cezar

The Romanian-American University, Faculty of Internal and International Commercial and Financial-Banking Relations

Carutasu George

The Romanian-American University, Faculty of Computer Science in Business Management

Botezatu Cornelia Paulina

The Romanian-American University, Faculty of Computer Science in Business Management

Developing an information system integration strategy, at enterprise level is one of the most difficult issues that the information systems managers must solve, within the present conditions. When settling the integration strategy, two aspects must mainly be taken into account: assuring a complete integration solution of the information systems and building an integration infrastructure of the applications.

The present paper aims at presenting few aspects regarding the integration of the information systems at organizational level and describing a specifically developed IBM architecture.

information systems integration, software modelling, Model Driven Architecture (MDA), Model Driven Development (MDD)

M15

1. The necessity to integrate the present information systems

The success of the business depends, mostly, on the quality and quantity of the information that it relies on. The internet is a new form of environment, which modifies both the nature of the business and the market, transforming the relations between the two. Technically, all long-term business in the real world is nowadays actively present on Web. Many of them have entirely transferred their operations on Internet. The information systems have become more and more complex; therefore it is compulsory to integrate them within the already existing software applications and to adjust them to the new actual conditions. The IT solutions were rapidly created, the attention of the software producers focusing on the development of high quality instruments for the integration of the information systems. Therefore, presently, in most of the companies, the process of developing the software solutions is no longer a unique process, based on costs, but it became a part of the company global strategy, also requiring the integration of the existing applications.

A viable solution for integrating the information systems within an environment which is continually developing must be based on the informational architecture at enterprise level, or most of the time, department level. This is how the information system integration can be accomplished, not only at technical infrastructure level, but also at the level of business concept, which are more stable in time [1].

OMG Group (Object Management Group) has been pursuing, for 12 years, the integration of the new developed applications, within the already implemented ones. Taking into account the dynamic transformation of the IT technologies, the growing demand of soft application integration, the new information online systems and new e-business patterns, a new standard based on integration and interoperability is required. Presently there are several operation systems, different programming languages, multiple networks architectures, which are rapidly developing and in order to keep up with them, they must resort to the modeling process and the increase of the abstracting degree within the software development process.

Each system was based exclusively on accomplishing the functions it was designed for. Nowadays, when transferring data from one system to another, the users have to re-enter the data or to manually transfer the information.

2. Integration solutions

One of the used solutions was settling some connections between some specific systems, which prove to be connected. This connection though, cannot be easily achieved and maintained for a great number of systems, at enterprise level. The purpose of the integration is to make these systems work within one single logic system. The integration of the applications within different departments or enterprises can be achieved on three directions: vertical, horizontal, mixed.

The vertical integration consists in accomplishing adaptive services that would connect the present applications and existing data, with new applications, new platforms or services; for instance, connecting an existing insurance system, to Web services.

The horizontal integration consists in building adaptive services that would connect already existing applications and data among them. For instance, integrating an on-line acquire system, with an accounting system. The integration can be achieved by using application integration instruments at enterprise level. (Enterprise Application Integration – EAI)

The mixed integration consists in integrating both existing and new applications.

The integration consists in integrating the applications and also data, by using adequate security standards and methods.

The integration of data represents the integration at the level of database, either by migration of the data from one system to another, or by creating common data warehouses which would be used by several systems. The integration consists in extraction, transportation, transformation and validation of the data from the source systems and loading the data in the destination systems or data common warehouses.

The integration of applications represents a strategic approach in order to unify several systems, at the level of both services and data. The user's way of interacting with the systems and the integrated application is important in this case. These architectures also include Web parts, the Internet access being already well known, they contain connections with the data warehouses and relations with other enterprises.

3. Software modeling – integration technology focused on models

Presently, most of the software developers are facing the problem of integrating a great number of software applications, written in different programming languages. These applications are designed to run on different software platforms, operating systems, to use different databases, being adapted to different network protocols or middleware platforms. This is the reason why OMG Group has been trying to simplify the issue of applications integration, by developing the new MDA architecture – based on patterns - and which lays the foundation of UML language.

By modeling the information systems, the software developers can create the system models before engaging additional resources; they can design software applications starting from requests and can apply the iterative development, where the obtained models have a high abstracting level. Modeling complex software applications implies therefore a number of benefits, but it only represents a part of the software development and integration process. The models oriented approach of the software development process was possible due to adopting some standards such as UML language, models representation language. Considering that the applications development process has become more and more complex, the solution based on increasing its abstracting level was compulsory.

4. Model Driven Architecture (MDA) – the methodology of modern software applications integration and interoperability

The new MDA approach is focused on integrating the software applications belonging to the beneficiary companies; by using the UML, the soft developers can model interface and connections between applications, irrespective of the software/hardware platform, programming language or

network type. The new MDA approach is based on the UML language and works at a high abstracting level, in order to provide a universal valid software applications integration mode.

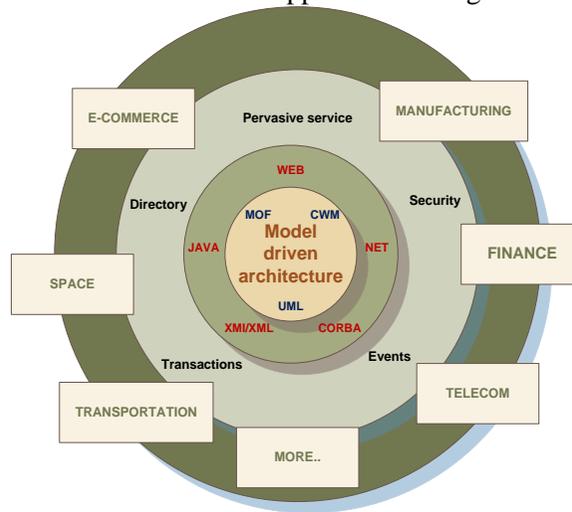


Figure 1. Model Driven Architecture [2]

This architecture can be graphically represented by a number of concentric circles (figure 1), in the middle of which lay the UML language and the MOF models (Meta-Object Facility). The purpose is creating a central, fully integrated model, based on which different applicants would be generated, in different programming languages, in order to run on different hardware or software platforms. It can be therefore obtained the integration of all software applications already existing in the beneficiary company and the clients and the fulfillment of the demands regarding the simplification of the developed IT system infrastructure. The MDA is not just another CASE instrument of generating a complete application, starting from the UML diagrams, but it consists in generating complete connections, for integrating software applications through UML diagrams. It is like a UML integration model, at high level, that could generate: connection bridges, protocols, relations, etc., necessary for the integration of a new application, with the already implemented, inherited ones.

The ideas laying the foundations of this new challenge are the following:

- Software solutions at a company level are considered a collection of encapsulated services communicating through their own interfaces;

- Reiteration of the approach way takes place at all levels, during the entire software project, starting with modeling the business environment, the business processes and ending with the implementation.

Therefore, the MDA architecture separates the functional demands of the system, from the implementation method, resulting thus an independent architecture of programming language, hard/soft platform or IT producers [3]. The MDA architecture can be applied during the entire process of development of the IT systems, using open standards. It allows the modeling of the IT systems, based on the functions starting from programming languages, hard/soft platforms, IT technologies, and this means that a system created through the MDA approach can be modified or extended at any time, without modifying the core infrastructure. The MDA approach facilitates the integration process, decreases the information systems development time and preserves the company's resources, enabling the accomplishing of a greater number of IT solutions without the increase of the necessary time or of the number of people involved.

The MDA architecture has three views (figure 2):

- *Computation Independent Viewpoint – CIV* – which separates the logical modeling of the IT system from the implementation specifications;

-*Platform Independent Viewpoint – PIV* – which focuses on the operation modeling of the system, without detailing the implementation specifications;

-*Platform Specific Viewpoint – PSV* – which contains the implementation specifications (hardware platform, software platform, middleware products, used IT technologies).

The true value of the MDA approach consists in the fact that the CIM view can become PIM and the latter one can become the PSV view, which can be directly translated into a source code. Its key-elements are the mapping between the three views and the software instruments allowing these mappings.

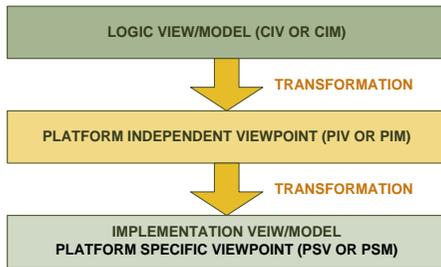


Fig.2. Views of the Model Driven Architecture (MDA) approach [4]

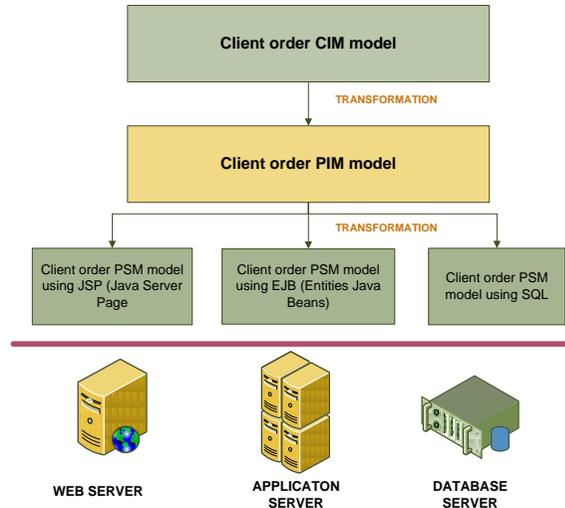


Fig.3. Transformation of CIM-PIM-PSV for the clients' orders

If integrating the clients' orders sent via Internet, within a company's information system, is being considered an issue, the CIM view shall consist in UML diagrams at a conceptual level that will show what the information system will specifically do; the PIM view is next and it describes its functions and structure through detailed UML diagrams and finally comes the PSV view, actually several such views (figure 3).

The company applications are focusing, more and more towards clients, products and services, dealing with the daily specific transactions. Considering that the business regulations are rapidly changing in a modern business environment, the information systems must be updated mostly by incorporating the new IT technologies. The MDA approach [5] is suitable for such applications, due to the benefits: portability, interoperability towards the platform, productivity, quality, fast process of developing the software applications, of integrating the modern IT technologies and the independence towards the imposed hard/soft platform, the decrease of costs and time connected to the software development process.

5. Soft instruments used with the MDA methodology

Once the new MDA standard was introduced, a new implementation instruments market was created. Considering that the MDA approach is based on the separation of the information system architecture in three different models (CIM, PIM and PSV), the chosen instruments must put up with the same separation, and not only the generating of source-code from UML diagrams [6].

The Model Driven Development (MDD) is a new method of designing the information systems and is applicable with the MDA methodology, which allows the building of an ensemble of models of the system to be analyzed and of the new system, based on which other models or the system's source-code

are being generated. Practically, everything focuses on transforming the models of the system to be achieved, and generating the source-code. This method needs an integrated development environment (IDE) that would support: UML language, patterns, transformation of UML models and source-code generation. Rational Software Architect (RSA) is such an integrated instrument for designing and developing information systems.

By going from analyzing to designing, for instance, the analyses model becomes a design model, the documentation connected to different models is created (e.g. the instrument Rational Software Architect's Report Generator or IBM Rational SoDA - IBM Rational Software Documentation Automation), the testing models are obtained (by applying JUnit), the building and development of scripts, the application of patterns.

The next image shows how an actual problem becomes the adequate IT solution, by applying the MDD method. (figure 4).

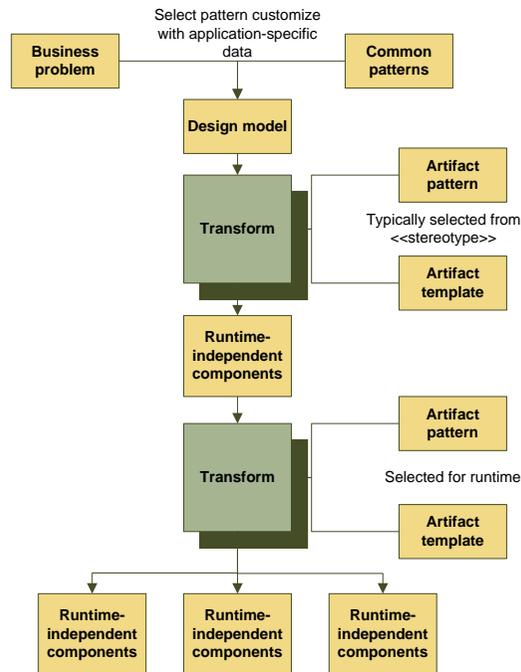


Figure 4 MDD method for transforming an actual problem, into an IT solution [7]

Starting from the clear separation between the logic models and the implementation ones, we can actually speak about a layered modeling technique, which allows the achieving of the analysis, design, and implementation model. The three models can be defined as follows: *the analysis model*—contains the utilization cases, *the design model* – includes the architecture of the system to be achieved, independently from implementation specifications, *the implementation model* – contains the implementation specifications.

Just as the architecture of a system is traditionally defined by 4+1 different perspectives (the centrally located utilization cases view, the logic view, the implementation view, the distribution and exploitation view), the *utilization cases view*, in MDD method, is also centrally located, alongside with the *implementation view*, which fits the structuring of the programs forming the system in components, *the logic view*, which describes the functional requirements of the system, *the distribution view*, which defines the space aspect of the system (hardware equipments, network nodes) and the *operational view* or the processes' one, which fits the structure of exploiting the programs and executable components. By viewing the utilization cases, the connections users-services and services-IT technologies are being accomplished.

Image 5 reveals the connection between the business processes sphere and the sphere of the IT technologies, achieved by services modeling. The beneficiaries look at the information system through the logic view and the utilization cases, while the IT specialists build and maintain the abstracting level between services and implementation IT technologies, through the implementation and distribution views [8].

The MDD method allows the logical modeling of the software applications integration, independently from the IT technologies used for their implementation [9].

Components specific to the patterns applying come in addition to the architecture of the RSA integrated environment (figure 6). We can notice the presence of a functional asset repository, obtained starting from models, applying patterns and eventually transformations, their saving into this repository, followed by their re-utilization, taking into account the demands [10].

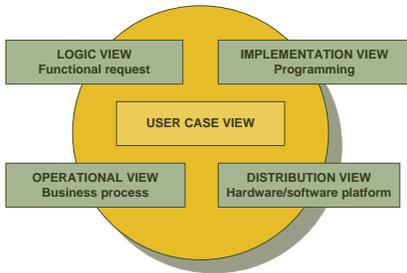


Figure 5 perspectives 4+1 of the IT system architecture in MDD method

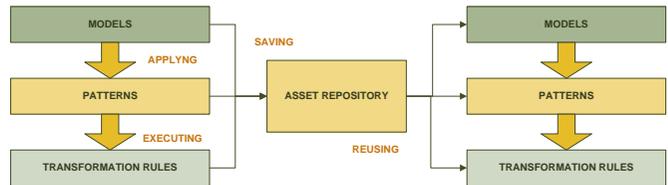


Figure 6 The components of RSA environment, specific to patterns appliance [11]

6. Conclusions:

The integration of the applications/IT systems represents a very up-to-date and complex issue, becoming a part of the global management strategy of an organization [12]. Within this context, the IT specialists are becoming more and more involved with the management process, they explore and offer solutions of software applications development and integration, the flux of the resulted data and processes providing a strategic advantage for the enterprises: the possibility to carry on a business in real time, in an environment based on events, with decreased response time, re-using the IT components under optimal conditions. This is why new specific IT techniques and technologies and new adequate Case instruments emerge. Some of these issues have been analyzed by authors and solutions have been suggested within a research project called Development and Implementation of the Integrated Management System (DI-IMS).

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BUSINESS MODELS FOR EXTENDING OF 112 EMERGENCY CALL CENTER CAPABILITIES WITH E-CALL FUNCTION INSERTION

Carutasu George

Romanian-American University, Faculty of Computer Science for Business Management

Botezatu Cezar

Romanian-American University, Faculty of Internal and International Commercial and Financial-Banking Relations

Botezatu Cornelia Paulina

Romanian-American University, Faculty of Computer Science for Business Management

Pop Dragoş Paul

Romanian-American University, Faculty of Computer Science for Business Management

The present article concerns present status of implementation in Romania and Europe of eCall service and the proposed business models regarding eCall function implementation in Romania. eCall system is used for reliable transmission in case of crash between In Vehicle System and Public Service Answering Point, via the voice channel of cellular and Public Switched Telephone Network (PSTN). eCall service could be initiated automatically or manual the driver. All data presented in this article are part of researches made by authors in the Sectorial Contract Implementation study regarding eCall system, having as partners ITS Romania and Electronic Solution, with the Romanian Ministry of Communication and Information Technology as beneficiary.

Road safety, information technology, communication, ecall, emergency call center.

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1 Introduction

1.1 Road fatalities

Since 2004, European Commission has developed an integrated plan named e-Safety, as primary pillar on Intelligent Car Solution i2010 initiative. Its objective is connected with vehicle safety, keeping in mind the excessive number of road accidents. This plan follows all phases regarding vehicle safety as *exposure, crash avoidance, injury reduction* and *post-crash* situations.

The issue of road safety, including all phases: information, support, intervention, crash and post-crash, is very severe, because of its repercussions in population health and death causes. First, we must see any effort of saving lives or limiting and preventing injuries from humanitarian reasons, where a life lost is not measured in financial terms for the family members. The second point of view, an accident has as result time of work incapacity, expenditures with treating injuries and so on. From World Health Organization published statistics we emphasize that road accidents are in 2004 estimated as 2,2 percent of death causes, being the ninth as percent and for 2030 to 3,6 percent of total deaths, rising on fifth place as cause of death, being estimated on 2,4 million fatalities around the world ([1]). In the same report is clearly revealed the connection between funds invested in prevention policies and number of accident, the cost of road traffic injury being estimated at 518 billion USD world-wide, for countries with poor economic settings, losses being bigger than fund invested in development of prevention measures. In Europe road traffic injury fatality rates (per 100 000 population) is 12,9 with 19,3 rate for middle-income countries (e.g. Romania), being lower for high-income states (7,9) and even for low-income countries (12,2).

For Romania, reported road traffic fatalities (2007) is 2712 (86 percent males, 14 percent females) and non-fatal road traffic injuries (2007) 29832, with total registered vehicles 4,6 million (2008). In 2008, from Romanian Police data are registered 10472 severe road accidents with 2999 fatalities, 9260

persons with severe injuries and other 3125 persons injured (non-severe), with 23,7 percent increase for number of severe road accidents compared with the year 2007. The same report also emphasize the increasing of road accident without injuries with 16,3 percent comparing with 2007 (full data [2]). As primary conclusion, for Romania, with 6150USD/habitant income (in 2007), estimated as being middle comparatively with other countries, with 81693 km (2008) of national roads the road safety became a serious issue.

1.2 Implementing IT technologies in safety measures

Starting from this situation where both humanitarian and economic reasons are important, on 2004 a number of discussions were held between the Commission for the European Communities (CEC), the automotive industry, the telecommunication industry and European Telecommunications Standards Institute (ETSI) regarding the development of various safety systems, covering all phases mentioned above on European level, called e-Safety [3]. This initiative has promote the concept of Intelligent Transport Systems (ITS) [4], where new and advanced information and communication technologies (ICTs) is incorporated on-board in order to help preventing or avoiding traffic accidents, limiting the accidents consequences, provide real-time information for drivers about local traffic, optimizing the cruise by avoiding road congestion roads, assistance in post-crash situations [5]. To a better understanding, we emphasize the phase of intervention and related technologies. First phase is *Information* with related technologies: *Dynamic traffic management, Extended environmental information, Real time traffic information and SpeedAlert*. Second phase, *Support*, with *Adaptive Head Lights, Blind spot monitoring, Extended environmental information, Lane departure warning, Local danger warning and Obstacle and collision avoidance*, followed by *Intervention* phase with *Electronic stability control, Lane keeping assistant and Longitudinal support and collision warning, Crush* with *Obstacle and collision warning and Post-crash* with *e-Call* technology. Most of these technologies are implemented by i2010 Intelligent Car initiative. As part of this initiative, eCall is defined as a specific item in the scope of the e-Safety initiative. eCall is seen as an extensio of current E112 capabilities, enabling the automatically transfer of eCall data between the Vehicle and the Public Safety Answering Points (PSAPs) in case of crush, supposing that the passengers are wounded or unaware to make the call to 112. This should rely on existing E 112 network architecture.

2. 112 and eCall Function Insertion Status

Part of e-Safety plan is to extend 112 Emergency Call Center capabilities with eCall function insertion, to enable the transferring of eCall data between the vehicle and the Public Safety Answering Points (PSAPs), relying on existing 112 network architecture.

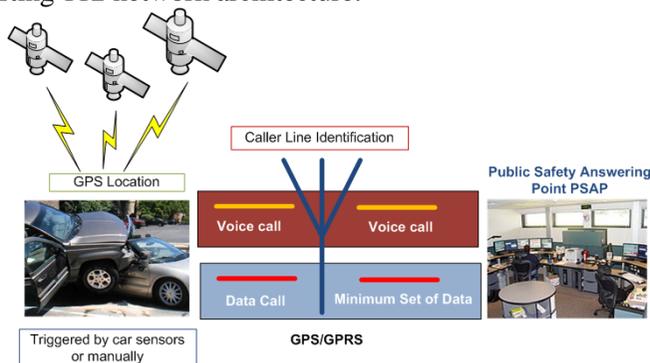


Figure 1 eCall system service chain

As it shown in Figure 1, eCall system use existing E112 networks to communicate between a vehicle and a public emergency service center, providing reliable full-duplex data communications between IVS and PSAP in addition to emergency voice call (E112) via the cellular network, and can be initiated either automatically or manually. If an accident occurs, the device will call the emergency services and

will communicate the exact location of the vehicle. Thus, emergency response time will be reducing, and the wounded will be treated more quickly and more lives will be saved. Advanced communication and information technologies have great potential to improve safety on roads.

The eCall objective is to reduce the number of roadway fatalities by minimizing the response time when an accident has occurred, being estimated by EC on 2500 person each year as fatalities because of non-intervention or long intervention time.

Location-enhanced emergency calls like in-vehicle e-Call have their primary benefit to society of saving lives and in offering an increased sense of security. eCall is a combination of an In Vehicle System (IVS), a device with a GSM cell phone and GPS location capability, and a corresponding infrastructure of PSAPs [6].

Under the Action Plan, automobile manufacturers and technology companies to be as up in late 2005 to agree on standards and technical specifications necessary to complete the tests, because in 2010 a part of new vehicles are equipped with this technology, as European Commission has announced, major implementation phase being expected to 2020. Main advantage of eCall implementation is that 112 intervention procedures are set in all European countries, with few exceptions.

In Romania, the 112 has one PSAP to each county, organized under Special Telecommunication Service, who is developing the modules needed to introduce the new service. What is missing is the Memorandum of Understanding between national MNOs and STS and as a result one of next possibilities of implementation:

- Mandatory for new cars, that having a result a critical mass of vehicle in 2020;
- Mandatory for cars insurance (CASCO or RCA), where the insurance company will install eCall IVS to prevent thefts to finance damages from unreal accidents, critical mass of vehicle being expected immediately (with limitation of car age caused by lack of sensors);
- Optional for car insurance, with discount insurance (20 percent in France), with the same idea of preventing thefts.

3. Business models for eCall function insertion

To establish the possible business model we have to define the cost and incomes for the eCall service. Basic, are two models for implementing eCall service. First, one is based on private PSAP, the Minimum Set of Data [7] being received by a PSAP [8], managed by insurance companies or car manufacturers. After receiving data about the crush, the PSAP operator decides if a live is putted in danger situation. In this case, the operator, accordingly with the Law No. 160/2008 regarding the implementation of the Single National Emergency Call System (SNECS), transfers the call to Special Telecommunications Service, who is the unique administrator. STS, announce, depending on the crush details and severity, the competent authorities such Ambulance, Police or Emergency Situation Inspectorate (Fire/Rescue). Accordingly with the procedure, those authorities must close the emergency case (after it is solved) and report to PSAP. The closing data are reported from STS to private PSAP, who initiate the procedure. The private PSAP could make capital out of selling diverse reports to third parties (insurance companies, transportation companies etc.). The information flow is presented in figure 2. The second is based entirely on existing SNECS managed by STS. In this case, SNECS receive MSD [9] resulted from car accident, announce the competent authorities, close the emergency case and could sell various reports to third parties. The question is what solution could provide an efficient business models. It is expected that all the cost involved by implementation, operation and maintaining.

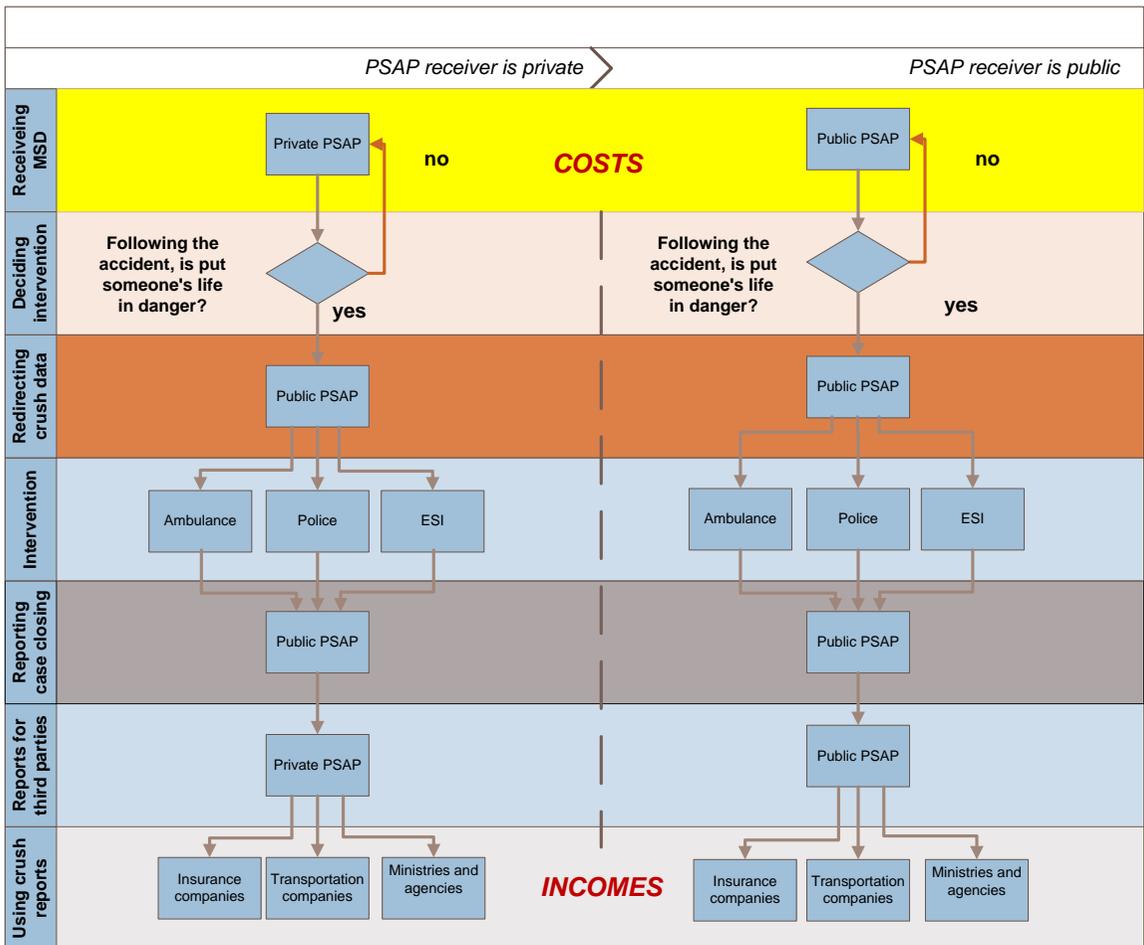


Figure 2 Comparatively information flow for eCall business models

If private PSAP is put on target, the cost of implementation are very high because, none of Romanian companies from assurance or transportation field, accordingly with our study, based on questionnaire in December 2009- February 2010 [10], is not interested in develop their own PSAP. So, if any private company intent to develop such PSAP it is need to:

- Connect to all PSTN, to receive a digital compressed data under the form of MSD,
- Extract from MSD the VIN code and connect to Romanian Automobile Registry database to establish vehicle manufacturer, type, color,
- Decide, after a voice call or other procedural step if is an emergency life situation. Must have its own call center,
- Collect closing data from STS and prepare reports for third parties.

In public PSAP case, all those operations are currently covered in classic 112 emergency life situations. What must be developed is:

- Prepare the system for MSD receiving, supposing additional software module developing to existent system,
- Complete hardware infrastructure with servers for switching and recording data and additional voice calls,
- Testing entire chain service and also the crossing border situations,
- Develop special procedure for eCall.

Now, Romania is part of FP7 initiative named eCall National Projects, European Commission providing 50% of implementation and testing costs. The project will start in January 2011, having a

three years durations and one million euro total budget for Romania. The project consortium bring together ITS - Romania, STS, RNADCR, UTI, Romanian-American University and El- Sol. The first conclusion is that because of lack of interest of assurance and transportation companies, first implementation will be with a single public PSAP managed by STS.

The second issue is the In Vehicle System, supposing that every car to be equipped with a device capable to transmit the MSD with GPS position and VIN code and support a voice call. In this case, based also on the same questionnaire, the assurance companies are not interested to support entirely or a part of implementation cost, evaluated between 50 and 150 euro/car. Therefore, the implementation situation could be as follow:

- For old vehicles by owner request, if the vehicle already has the sensors for triggering the call in crush situations,
- Mandatory for new car produced in Romania from 2013,
- Mandatory for new cars registered in Romania from 2020.

In the plan presented, we expect to reach 30% of registered vehicle until 2018, and 45% in 2020, based on actual and presumed vehicle replenishment rate in period 2010-2020 and predicted number of vehicles. The operation and maintenance for 112e service will be sustained financial by government budget with co-financing from selling reports for third parties. Car owner will pay IVS on vehicle purchasing time.

4. Conclusions and Future Works

In order to make the reporting of an accident more simple and to give the emergency call operator more information about the accident the European Commission launched a communication telling the EU Member States to implement the single European emergency call number 112, which has been follow by all EU Member States. In addition the European Communication launched a recommendation about the enhanced E112 number, with also provides the location when an emergency call initiated from a cellular phone. From the network operators and service provider's perspective they are developing different systems for all vehicles manufactures, which is making the system expensive and not able to work across the different EU Member States. Another conclusion is that if there should be a Pan-European eCall system, the vehicle manufactures or the network providers cannot develop these themselves. It is very important to include the public eCall MSD signaling system should be based on a in-band modem/signaling application eCall In-band Modem.

The present article presents the research made in Sectorial Contract Implementation study regarding eCall system, Romanian Ministry of Communication and Information Technology. The eCall system utilizes existing E112 networks to communicate between a vehicle and a public emergency service center. The authors are direct implicated though its partner ITS Romania, which have signed the European Commission MoU regarding eCall. Therefore, what we claim in this article is the general plan of implementation for Romanian of eCall technology, as the result of Sectorial Contract *Implementation study regarding eCall system*, being now on third phase, project-having deadline in September 2010. To conclude, we propose an architecture with a single PSAP managed by STS and calendar to impose IVS on new car. In 2020 we expect a 45% coverage of the service. Next, for future work, we will participate to eCall implementation, as a part of FP7 already constituted consortium.

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SOME ASPECTS CONCERNING THE CORRELATION BETWEEN ICT AND INNOVATION IN EUROPE

Crișan Daniela Alexandra

Preda Ana-Maria

Coculescu Cristina

Altăr-Samuel Adam Nelu

Romanian-American University, Bucharest, Romania

In the context of the entire world's efforts to start recovering from one of the worst economic crisis, finding the main drivers of growth is increasingly important. The European Commission's new proposal – "Europe 2020" – states innovation as one of these main drivers, and promotes the development of a smart economy based on knowledge and innovation. But how innovation can be fostered? The present study focuses on the relationship between innovation and Information and Communications Technology (ICT), a supporting pillar of the "smart economy". This relationship has been studied at country level using two composite indicators: one for ICT – the "Networked Readiness Index" (NRI) published by World Economic Forum – and another for Innovation – the "Summary Innovation Index" (SII) from the European Innovation Scoreboard (EIS). The results represent a first step towards finding the best driving factors that can stimulate innovation.

Keywords: *Innovation, ICT, SII, NRI, correlation*

JEL classification: O11

1. Introduction

Innovation and ICT, as main drivers of competitiveness and sustainable growth, enable the reducing of the digital, economic, and social divides within each country, and among countries.

A recent analysis made by the European Commission (European Commission, 2010) shows that even before the global economic crisis, Europe was not progressing fast enough relative to the rest of the world, and the productivity gap has widened over the last decade. This was due to many factors, including the insufficient use of ICT, the lower level of investment in R&D and innovation, the "reluctance in some parts of our societies to embrace innovation" etc. Thus, the importance of *the dynamic relationship between "the use of ICT" and "innovation"* is becoming more and more politically recognized.

But how does ICT connect with innovation? This research study – which was partially supported by the National Council for Scientific Research in Higher Education (CNCSIS) under the Project NPRDI - II, Contract No. 91-071/2007: "Innovation and competitiveness – the fundamental drivers of economic and social progress of Romania" – investigates the following aspects:

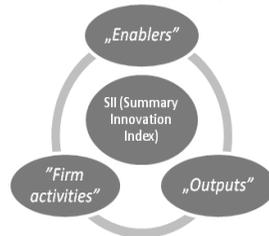
- the existence of a correlation between ICT and Innovation for 32 European countries in 2009; a cross-sectional regression analysis on the relationship between two composite indicators has been used: the Summary Innovation Index (SII) for Innovation, and the Networked Readiness Index (NRI) for ICT;
- the existence of a connection in time, related to different clusters of innovation, between SII and NRI; a dynamic regression analysis for the data of 27 European countries over six years (2004-2009) has been used;
- the relationship between NRI and SII for Romania during 2004-2009.

2. Composite Indicators - measures of ICT and Innovation performance

2.1. The Summary Innovation Index

SII (Summary Innovation Index) is a composite index that measures the overall innovation performance at national level. It was created at the request of the European Council in Lisbon in 2000 and since then has been assessed and published annually in the European Innovation Scoreboard (EIS). According to the methodology used since 2008, SII summarizes 7 innovation dimensions grouped into 3 main blocks: "Enablers", "Firm activities" and "Outputs". Each one of the innovation dimensions contains several indicators leading to a total of 29 indicators (EIS, 2009).

Fig. 1. The structure of the Summary Innovation Index (SII)

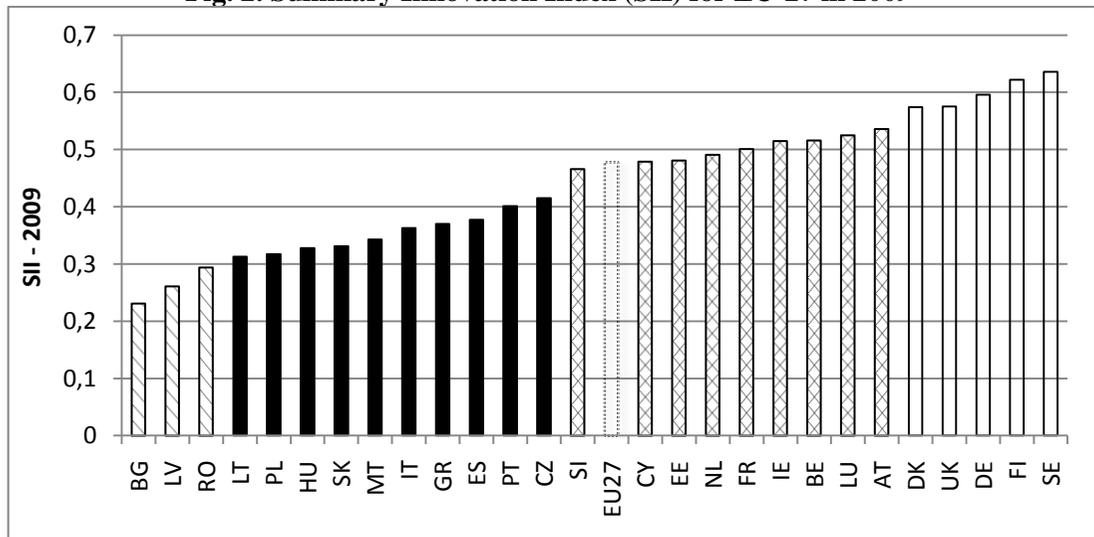


Based on a statistical cluster analysis of the SII scores over a five-year period, the EU Member States are divided into four groups:

- *Innovation leaders*, including countries with innovation performance well above that of the EU average;
- *Innovation followers*, including countries with innovation performance below those of the innovation leaders but close to or above that of the EU average;
- *Moderate innovators*, including countries with innovation performance below that of the EU average;
- *Catching up countries*, where the innovation performance is well below the EU average.

Figure 2 shows the four groups (clusters) according to EIS 2009 (with the most innovative country in the right side and the less innovative one to the left).

Fig. 2. Summary Innovation Index (SII) for EU-27 in 2009



Source: (EIS, 2010)

The *Innovation Leaders* are Sweden, Finland, Germany, the UK and Denmark. The group of the *Innovation followers* includes the following nine countries: Austria, Luxembourg, Belgium, Ireland, France, Netherland, Estonia, Cyprus and Slovenia. The *Moderate innovators* are: Czech Republic, Portugal, Spain, Greece, Italy, Malta, Slovakia, Hungary, Poland and Lithuania, whereas Romania, Latvia and Bulgaria are regarded as *Catching up countries*.

2.2. The Networked Readiness Index (NRI)

The Networked Readiness Index has been published annually, since 2001, in *The Global Information Technology Report* produced by World Economic Forum, in collaboration with INSEAD. The index is a composite of 3 components (fig.3):

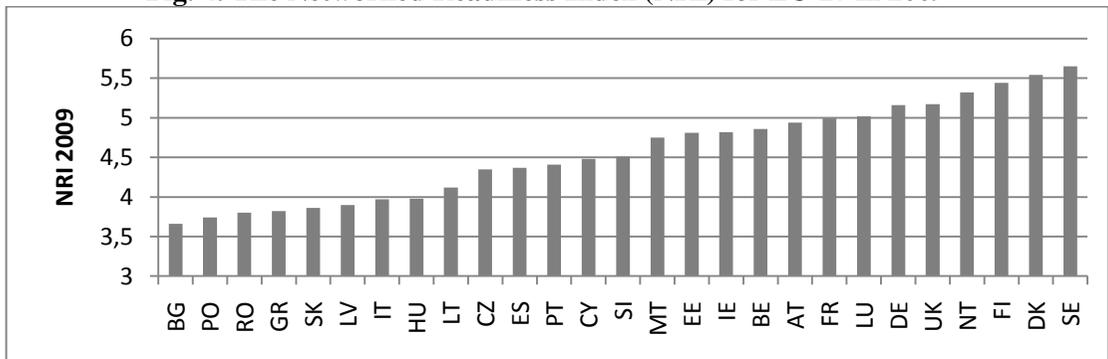
- the *environment* for ICT offered by a given country;
- the *readiness* of the economy's key stakeholders (individuals, businesses, and governments) to use ICT;
- the *usage* of ICT among these stakeholders.

Fig. 3. The structure of the Networked Readiness Index (NRI)



Each of the NRI components contains 3 sub-indexes ("pillars") composed of variables, the total number of variables included in NRI being of 68 (WEF, 2010).

Fig. 4. The Networked Readiness Index (NRI) for EU-27 in 2009



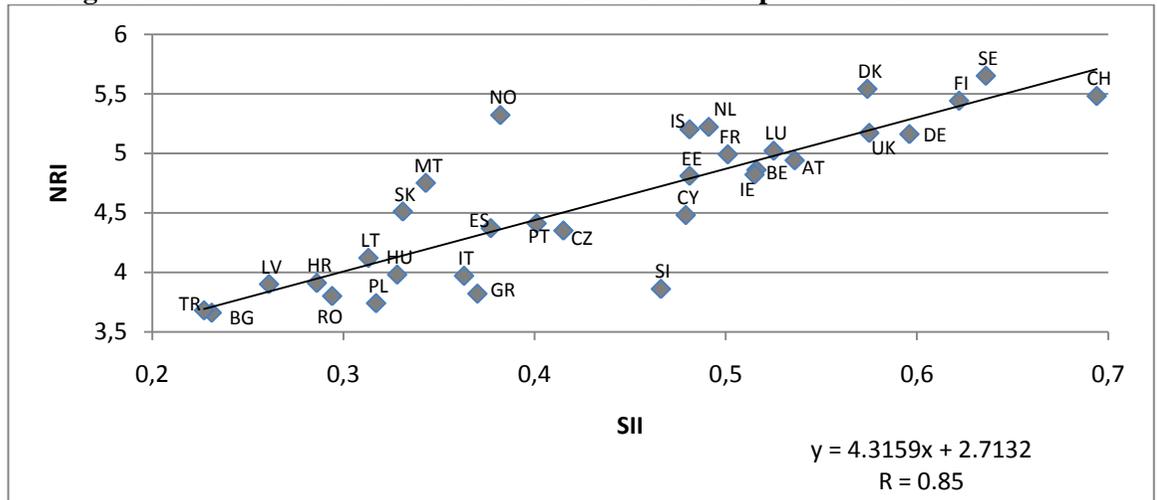
Source:(WEF, 2010)

3. Econometric tests

3.1. The correlation between NRI and SII for 32 European countries in 2009

To get an overview of the degree of correlation between ICT and Innovation at EU level, a cross-sectional analysis of NRI and SII in 2009 for 32 European countries has been achieved. The results of the statistical tests performed are listed in Annex, Table 1.

Fig. 4. The correlation between NRI and SII for 32 European countries in 2009

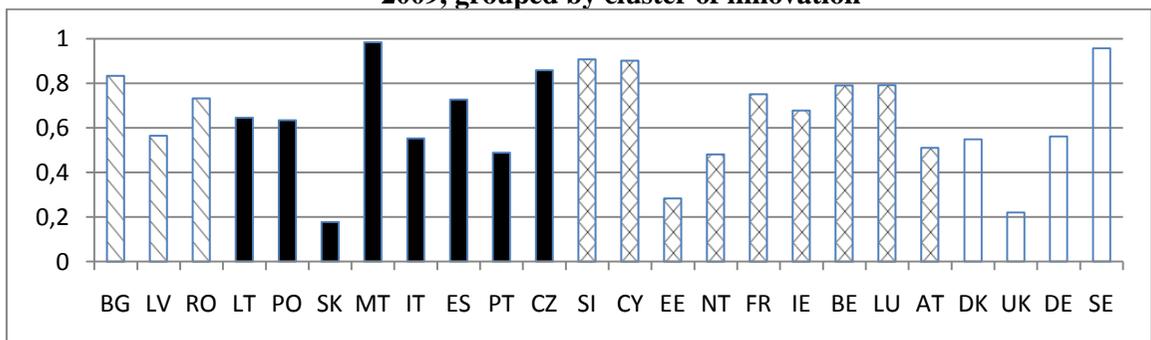


As shown in figure 4 there is a strong correlation between NRI and the innovation index (SII), the regression coefficient having a value of 0.85. In the right-upper corner, countries which are "leaders" in innovation also have the highest values for NRI. In the second group of countries, the "followers in innovation", the low performance in ICT opening of Slovenia and Cyprus must be noted. The "moderates" in innovation are spread in the lower left corner, registering a wide range of NRI values, from 4.75 for Malta to 3.74 for Poland. The "catching-up in innovation", Romania, Latvia and Bulgaria, have also wide spread NRI-SII values: Romania (3.8, 0.294), Latvia (3.9, 0.261) and Bulgaria (3.66, 0.231).

3.2. The correlation between NRI and SII for 24 countries from European Union, during 2004-2009

Using a linear (unifactorial) regression analysis, the relationship between NRI and SII for 24 EU countries over a period of six years (2004-2009) has been studied. The results obtained are presented in Annex, Table 2. Figure 5 shows the correlation degree for each of the 24 states, grouped by innovation cluster. The "leaders in innovation" (cluster 1) appear on the right, and those who are "catching up in innovation" (cluster 4) appear at the left.

Fig. 5. The correlation degree between NRI and SII for 24 UE countries during the period 2004-2009, grouped by cluster of innovation



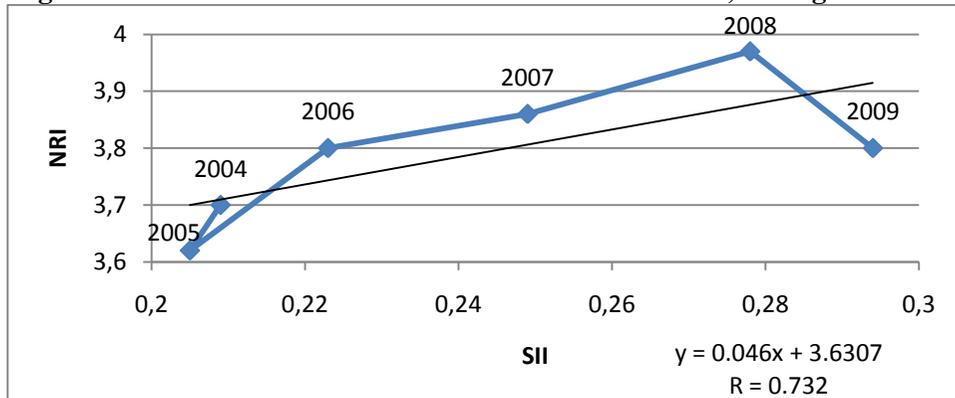
All clusters in innovation have similar properties, namely they are composed by countries where the correlation between NRI and SII is relevant, and countries for which this correlation is not significant. For "innovation leaders", Sweden is the only country for which there is a strong correlation between NRI and SII. In the "followers in innovation" cluster, there are strong correlations recorded for Cyprus and Slovenia, and significant correlations for Luxembourg, Belgium, Ireland and France. Similar results can be observed in the case of

"moderates in innovation". Among "catching-up in innovation", just for Romania and Bulgaria the connection between the two indicators is significant.

3.3. The correlation between NRI and SII for Romania during 2004-2009

For Romania, the correlation between the two composite indices over the period 2004-2009 is illustrated in figure 6.

Fig. 6. The correlation between NRI and SII for Romania, during 2004-2009



Statistical analysis of the correlation is shown in detail in Annex, Table 3. The 0.732 value of the correlation coefficient for Romania confirms that there is a relationship between ICT and innovation. To be noted the regress registered in Romania in 2005 over the previous year. In 2009, although the degree of innovation has increased significantly, from 0.278 in 2008 to 0.294, a regression in terms of opening for ICT can also be noted.

4. Conclusions

The study shows, through the econometric tests performed, that there are significant correlations between NRI and SII:

- at the European level - proved by the transverse analysis corresponding to year 2009 and the dynamic analysis for the period 2004-2009;
- at the national level – proved by the dynamic analysis for Romania in the period 2004-2009.

The results represent a first step towards finding the best driving factors that can stimulate innovation and increase its efficiency.

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Annex

Table 1. Statistical analysis of the correlation between NRI and SII for 32 European countries¹⁾ in 2009

<i>Regression Statistics</i>	
Multiple R	0.855
R Square	0.731
Adjusted R Square	0.722
Standard Error	0.333
Observations	32

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	9.073	9.073	81.579	4.634E-10
Residual	30	3.336	0.111		
Total	31	12.409			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	2.713	0.216	12.552	1.799E-13	2.272	3.155
SII - global	4.316	0.478	9.032	4.634E-10	3.340	5.292

¹⁾The 32 European states analyzed are: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom and Switzerland, Norway, Turkey, Croatia, Iceland.

Table 2. The correlation coefficient between NRI and SII for 24 EU countries²⁾ during 2004-2009 (by cluster of innovation)

State	Correlation coef.						
BG	0.833	LT	0.646	SI	0.907	DK	0.549
LV	0.564	PO	0.634	CY	0.901	UK	0.220
RO	0.732	SK	0.178	EE	0.283	DE	0.561
		MT	0.984	NT	0.481	SE	0.957
		IT	0.553	FR	0.751		
		ES	0.726	IE	0.678		
		PT	0.488	BE	0.790		

CZ	0.858	LU	0.791
		AT	0.510

²⁾The 24 European states analyzed are: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, France, Germany, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and United Kingdom.

Table 3. Statistical analysis of the correlation between NRI and SII for Romania during 2004-2009

<i>Regression Statistics</i>						
Multiple R		0.732				
R Square		0.536				
Adjusted R Square	R	0.420				
Standard Error		0.093				
Observations		6				
<i>ANOVA</i>						
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>	
Regression	1	0.04	0.040	4.619	0.098	
Residual	4	0.035	0.009			
Total	5	0.074				
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	3.206	0.275	11.643	3E-04	2.441	3.97
SII	2.412	1.122	2.14916	0.098	-0.704	5.528

A SUPPLIER SELECTION MODEL FOR SOFTWARE DEVELOPMENT OUTSOURCING

Zoltán Alpár Fekete

Babeş-Bolyai University, Faculty of Economics and Business Administration

Lucian-Viorel Hancu

SoftProEuro srl

This paper presents a multi-criteria decision making model used for supplier selection for software development outsourcing on e-marketplaces. This model can be used in auctions. The supplier selection process becomes complex and difficult on last twenty years since the Internet plays an important role in business management. Companies have to concentrate their efforts on their core activities and the others activities should be realized by outsourcing. They can achieve significant cost reduction by using e-marketplaces in their purchase process and by using decision support systems on supplier selection. In the literature were proposed many approaches for supplier evaluation and selection process. The performance of potential suppliers is evaluated using multi criteria decision making methods rather than considering a single factor cost.

Keywords: Supplier evaluation, Supplier selection, Multi-criteria decision making, E-marketplace, Software development outsourcing

JEL: P13, L81

1. Introduction

Today, outsourcing is considered a competitive strategy to improve the competitiveness of an organization. There are many barriers which can affect the success of a software development outsourcing. Some research suggests that most outsourced development projects do not succeed. The primary cause is the lack of customer preparation about the selection criteria and other important factors which have to take into account in the supplier selection process.

Identifying, gathering, and analyzing the appropriate information to aide in the selection of a qualified supplier is essential in properly preparing to outsource, and critical to outsourcing success. With appropriate supplier selection the company can achieve significant cost reduction and can increase its productivity. The potential benefits that come from outsourcing create a new demand and a successful market that have 10.000 suppliers in 175 countries. Many organizations have failed on her outsourcing action because of improper preparation and consideration. A study showed that 45% of the companies engaged into an outsourcing project would classify their project as a success.

In this paper we review some important aspects of supplier selection from the literature than we will propose a conceptual model for supplier selection on software development outsourcing which can be used on e-marketplace.

2. Literature review

Supplier evaluation and selection problem has been studied extensively. We can mention three important literature reviews – Weber at al. (1991), L. De Boer at al. (2001), W. Ho at al. (2010) – in which the authors present the main criteria's and methods utilized in supplier evaluation and selection. Weber (1991) based its review on Dickson 23 supplier evaluation criteria. Dickson (1966) concludes that the major supplier selection criteria proposed in the most researches are quality delivery, net price, geographical location, production facilities and capacity. W. Ho (2010) analyzed papers from 2000-2008 periods and found that nowadays in the literature numerous individual and integrated approaches were proposed to solve the supplier selection problem. They are capable to handle multiple quantitative and qualitative factors. They find that the most important individual approach is DEA and the most popular integrated approach is AHP-GP. H. Shyr and H. Shih (2006) present an effective model for supplier selection using ANP and modified TOPSIS techniques. They observe also that most popular

criterion used for evaluating the performance of suppliers is quality, followed by delivery, price or cost, and so on.

Degraeve et al. (2000) analyses the supplier selection models proposed in the literature from a total cost of ownership perspective. He concluded that all mathematical programming models perform better than the rating models because they approach the problem in a more objective way by optimizing an explicitly stated objective function.

Several studies have been conducted on the process of outsourcing dealing with different aspects of this matter. Smith et al. (1996) have presented a framework that addresses issues that arise in the context of the offshore outsourcing of software development. The proposed framework links projects and sites, including environmental aspects. Krause et al. (1998) have developed a process model for supplier development based on an exploratory study.

Regarding the supplier selection on outsourcing problem little research has been found in the literature. Almeida (2001) has studied the maintenance contract selection problem based on a multicriteria model, which uses contributions from multiattribute utility theory (MAUT). Dulmin and Mininno (2003) have presented a multicriteria decision aid method, to approach a suppliers selection model, which is applied in the context of the rail transportation. Valluri and Croson (2005) have studied the performance of a supplier selection model, which displays a reward and punishment profile under incomplete information. Their study is based on outsourcing of tangible products and is not adequate for service outsourcing.

3. Supplier selection criteria for software development outsourcing

The process of e-procurement using an e-marketplace can be illustrated with the following figure.

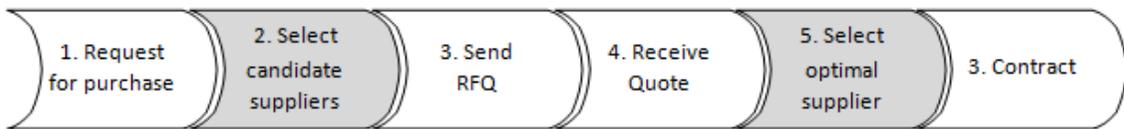
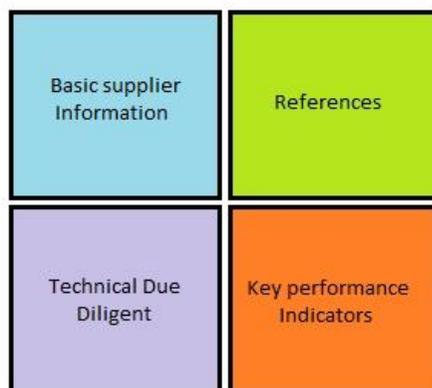


Figure 1. E-procurement process

The supplier selection process starts with potential supplier selection. In this first step the client company has to isolate a handful of potential suppliers from a field of thousands. There is necessary an assistant tool which help the client in what information to look for, how to get the information, how to assess the information to locate those suppliers that best suited for the task. The information need to be evaluated by the client can be group in 4 categories.

3.1. Basic vendor information



The basic supplier information group is necessary for having an elementary insight about de supplier background and capabilities. A list of basic information is presented in Table 1.

Figure 2: Vendor selection information grouping

Basic Supplier information	
Location	Country and city of suppliers
Year founded	Year when the supplier start its activities.
Number of Technical Resources	Number of development, testing and management resources that supplier employs.
Average rate	Average hourly/monthly rate of a developer, tester, and project manager.
Technical Capabilities	Technical skill set (development languages, databases)
Applications Previously Developed	Types of applications developed for their clients (document management, business intelligence, etc.)
Major Clients	Most important clients
List of Certifications	CMM, ISO, etc.

Table 1: Basic information about the supplier

3.2. References

The reference information is almost always positive; otherwise the supplier wouldn't provide the reference. This reference information represents the best objective information that the supplier can provide. By measuring the degree of praise offered by de reference can give some inspection to the general capabilities of the potential supplier. Basing the buying decision on only this information would be a mistake. What works for one organization may not work for another. This is why different business models, experiences, and available resources of each organization interested in outsourcing will play a major role in the execution of the outsourcing initiative.

3.3. Technical Due diligence

This group of information involves a detailed discussion with some of the supplier's technical resources. Topic of discussion should include: Development process, development tools, project management, and technical skills/certification. The technical resources provided by the vendor to answer a potential client's due diligent questions are the best resources that a supplier has to offer. The information gained during due diligent may be not shows clearly the actual technical expertise that you can expect on your project. Technical due diligent indicates generally the supplier capabilities.

3.4. Performance indicators

The performance indicators are the best information based on the client can select a well qualified software development outsourcing supplier. This information offer de specific and objective insight about the performance of potential supplier. The key performance indicators group contains the most important information on the supplier selection process. Until recently this type of information was impossible to be collected. But this thing was changed and there are new way to gather this type of information.

Key performance indicators	
On-Time Delivery	Indication of the supplier's ability to deliver the specified work on schedule. Calculated via client feedback.
On-Budget	Indication of the supplier's ability to deliver the specified work within budget. Calculated via client feedback.
Quality	An acceptable level of quality can differ from client to client. This KPI provides an indication of the supplier's ability to deliver on an agreed upon level of quality. This measurement is calculated via a combination of client feedback.
Productivity	An indication of the supplier's speed, responsiveness, and related effectiveness. Calculated via client feedback
Client Satisfaction	The level of satisfaction with the supplier. Calculated via client satisfaction surveys.
Ability to Manage Change	Most projects have some element of change that is required as the project progresses. This is an indication of the supplier's ability to plan, prepare, and respond to the inevitable change requests. Calculated via client feedback.

Table 2: Key performance indicators

4. Supplier selection model on the e-marketplace

The supplier selection model in software development outsourcing utilizes the six criteria described in Table 2: on-time delivery, on-budget, quality, productivity, client satisfaction, ability to manage changes. As a supplier evaluation method we will use the Multi Attribute Utility Theory (MAUT).

“MAUT allows the decision-maker to quantify and aggregate multiple objectives even when these objectives are composed of conflicting attributes. The decision-makers preferences are modeled in order to obtain a multi attribute utility function, for instance $U(c_i, t_i, d_i)$. This function aggregates utility functions for all criteria or attributes. That is an analytical function is obtained which combines all criteria through a synthesis function. Each particular analytical form for this function has preferential independence conditions to be evaluated, in order to guarantee that the decision maker’s preferences are associated to the basic axioms of the theory” Teixeira, (2007). According to this MAUT the utility of a supplier can be calculated with the formula:

$$U(s) = \sum w_i f_i(x_i)$$

$U(s)$: supplier utility

x_i : criteria(attribute)

w_i : importance of attribute x_i represented by a numeric value

f_i : utility function applied to attribute x_i

On the marketplace clients when registries sign a contract agreement and take the obligation that they will give feedback about every selected and contracted supplier. The feedback is to rate in a 1(very dissatisfied) to 4 (very satisfied) scale of the supplier’s performance. The evaluation of each supplier will be calculated as the average of the individual evaluations gave by the clients.

For the utility function we will use the linear function having the formula $u=ax+b$.

The weights are given by the client depending which is the most important selection criteria in its case. The weights are introduced by a specific form on the e-marketplace interface. The suppliers will be ranked according to their calculated utility from the bigger utility value to the smallest.

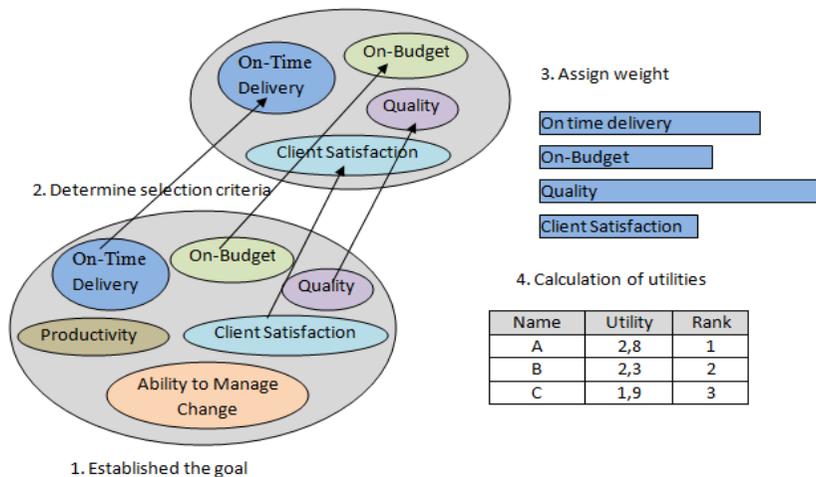


Figure 3: Supplier selection process model

4.1. Example of the utilization of the supplier evaluation model:

1. Establish the goal: A typography company wants to outsource the development of software for supporting different form types used in business as invoice, delivery note, bill, etc.

The company makes a search on the e-marketplace based on basic supplier information presented in Table 1. Based on the basic supplier information and references the company chose the potential suppliers.

2. Criteria selection: The client company considers that for his case on-time delivery, on-budget, quality, productivity and client satisfaction are the key factors.

3. Assign weight: On-Time Delivery – 20%, On-Budget -20%, Quality – 30%, Productivity – 15%, Client Satisfaction – 15%.

4. Calculation of utilities: Supplier A – $U(s)=2,81$. (Table 3)

5. Ranking the suppliers bases on the utility value

In this example the supplier selection model for software development outsourcing indicate supplier B having the biggest utility value (3.54, bigger than A’s utility – 2.8, D’s utility – 2.2 and C’s utility – 1.98).

Criteria/Client's evaluation	Client ₁	Client ₂	Client ₃	Client ₄	Eval/Criteria	Weight	
On-Time Delivery	2	3	4	3	3	20,00%	
On-Budget	4	3	4	4	3,75	20,00%	
Quality	2	1	3	2	2	30,00%	
Productivity	3	4	2	3	3	15,00%	
Client Satisfaction	2	3	3	3	2,75	15,00%	
Ability to Manage Change	1	2	3	4	2,5		
U(s): Supplier A	2,81						100,00%

Table 3: Calculation of Supplier A utility value

5. Conclusions and future work

In this article we have presented a model of supplier evaluation and selection for software development outsourcing in e-marketplace. We have detailed the information group that are necessary to take proper supplier selection decision. We presented also the supplier evaluation criteria specifically for software development outsourcing. We proposed a supplier evaluation method based MAUT theory. Finally we presented an example of using the proposed model.

As future work we propose to evaluate the possibility of using alternative methods and criteria for supplier selection. For example we can use the ELECTRE method for supplier evaluation in our model. We can include other supplier selection criteria like: performance history, warranties and claim policies. The evaluation and complaints received from clients in supplier evaluation enhance the collaborative nature of supplier selection model for e-marketplace presented.

Acknowledgment:

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PARTICULARITIES AND TENDENCIES IN IT

Mareş Marius Daniel

Spiru Haret University, Bucharest, Romania

Faculty of Management, Finance and Accounting

Mareş Valerica

Economic Studies Academy of Bucharest, Romania

Faculty of Accounting and Management Information Systems

In the current global economic environment, competition is becoming acute and complex, and rapid technological changes are shortening product lifecycles and the capacity of a company to generate new goods and services, or to improve them and distribute them as quickly as possible to markets. Changes of technological nature have been so rapid lately that one can talk of a new technological revolution – if we take into account the „waves” of technological development which are based on the spectacular progresses in informatics, telecommunications, robotics, fiber optics, fine chemical products and in aerospace industry.

Keywords: technological revolution, strategic management, formalized knowledge, inovational potential, organizational culture, analysis of the value chain

Jel classification: M15, M54, O17

Introduction

The term technology has different meanings and definitions:

- assembly of processes, methods and scientific methods applied for obtaining a product or service;
- assembly of knowledge regarding the method, the way, the experience of producing a product, creating a factory etc, together with the technique and the working facilities;
- combination between a certain technique and the knowledge necessary for using it (in which knowledge has the dominant role related to the working facilities), technology plays an essential role in the economic development of a country, determining not only an increase in production dimensions but also in its quality. In an increasingly concurential environment, technology appears to be a key element in obtaining international competitiveness for countries;
- structured assembly of the processes, methods and operations used in order to produce or commercialize a certain product or for creating a process; organized and formalized knowledge of techniques (assembly of procedures for creating a product) a pluridimensional package structured on knowledge that can be exploited from an economical point of view. In its composition we find material elements (materials, machinery), informational elements (knowing the procedures, experiences or individual or collective habits) or operational (production functions, coordination);
- at company level, technology appears as an operator that represents using resources, structures (production structures and how to manage them and the company in general), know-hows and human relationships in the process of work and not only that, for achieving objectives.

The most common way of approaching notions of technology is based on separating the notion related to defining technology as a scientific means of research or defining it as a procedure, method or process. This delimitation can be considered just partial because, even when the notion of technology is attributed to processes and procedures, they're not accompanied by the knowledge related to it. This results in the definition given by the Economic Commission for Europe, according to which the technology consists in „concretely applying scientific knowledge and techniques in the conception, development and fabrication of a product”.

The impossibility of separating scientific knowledge and techniques from the used methods, procedures and techniques becomes even more evident when the concept is had into account, that is technology is

seen as a system. Regarded as a system, technology covers, as invariable elements, scientific knowledge, technical knowledge incorporated in procedures, materials, equipment and specific informational systems (plans, programs, various documentation). Under this vision, the technology concept is not referring only to product processing, but it becomes a complex activity of a company, where it takes a number of forms: research technology, design technology, information technology, leadership and organization technology, fabrication technologies, distribution and sales technology, etc.

The place of IT in the modern company

Under the impact of scientific and technologic progress, but also under the profound and accelerated mutations to which are exposed the global economy and the national economies, the company will be the stage of fundamental changes that will affect its leadership, functionality and integration in the society as a whole:

- increasing dimensional, structural and functional flexibility
- geographical dispersion of the activities of the company
- adopting suitable dimensions for competitiveness
- harmonizing standardization with flexibility
- extending informatization
- increasing the role of intellectual technologies in the management and functioning of a company
- increasing the creative potential
- increasing the managerial ability to anticipate environment change
- increased concern for saving and a superior valorification of resources
- increased concern for environment protection
- increased professionalization of the management

On the other side, the future *characteristics of the environment* – due to general causes (such as the technico-scientific progress, the progress of society in general, perfecting economic mechanisms) or the reaction of companies that pollute the environment and are trying to adapt to its evolution, by influencing it, on their turn, in a significant way – with a major impact on the strategic management of the company will be:

- development of the knowledge society
- amplification of the inovational potential
- intensification of the entrepreneurial spirit
- increasing internationalization and globalization of the markets
- intensification of the cooperation between companies
- acceleration and deepening of changes

The metric force is the acerb struggle for increasing competitively and efficiency in the context of globalization of the economy and in this context a significant contribution was brought by the managerial revolution in IT.

In order to see the place and the role of the informatics systems in the informational management of an informatized economic organization, one starts from the structured organizational scheme on levels of management and on management domains (functions) of the organization (Figure 1).

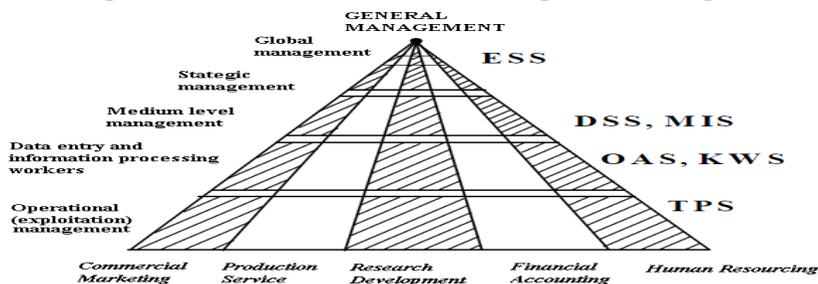


Figure 1 Level and domanins management

The categories of informational systems correspond to each layer of organizational management:

-at the level of **strategic management** – informatics systems for assisting the executive, (ESS Executive Support Systems) serve the strategic management level and are aimed at assisting decision taking not structured on elements of great synthesis, graphical presentations and advanced communications. ESS are used by general managers, address unstructured decisions and more, they create the general working and communication environment, dealing less with specific, detailed applications, necessary for the economic organization.

-for the medium level management: MIS (**M**anagement **I**nformation **S**ystems) and informatics **D**ecision **S**upport **S**ystems (DSS). MIS serve the medium management layer of the economic organization, providing managers with reports, online access to results and older records. MIS also serve the strategic management layer, by supporting the planning, control and decision taking functions through routine resumes and reports of unforeseeable situations. Normally MIS can be accessed by managers who are interested in weekly, monthly or annual results obtained by the economic organization. The IT for assisting DSS at the medium management layer, combines data and sophisticated analytical methods for helping semistructured and unstructured decisions. Although DSS uses mainly data and information coming from TPS and MIS, it often receives data and information from external sources, as for example market values of certain products or services.

-at the layer of the data and information entry workers, the knowledge informatics system is called **K**nowledge **W**ork **S**ystem (KWS) and the informatics system for the automatization of desk office, also called **O**ffice **A**utomation **S**ystem (OAS).

-at the operational management layer (exploitation) – informatics systems for processing transactions, also called **T**ransaction **P**rocessing **S**ystems (TPS).

These informatics systems are designed to incorporate, in general, data about external events as, for example, new elements about market competitors, but also receive internal data from MIS and DSS. ESS filters, compresses and follow critical data, while having an accent on shortening execution time for activities and reducing the necessary effort for obtaining useful and relevant information for the whole organizational management.

Organization management through IT

Organizations are formal entities tied with rules and procedures that have to be followed. They can also be seen as social structures, because they represent a collection of social elements. The technical definition is focused on influences that technological modifications (thus also the information and communication technologies IT&C) have on the environment in which the inputs are transformed in outputs.

In the case of behavioral definition, building or reconstructing the informatics system of an organization supposes much more than a new configuration of the workstations or a new informatics application. Organizations, in general, can have different structures - entrepreneurial, bureaucratic, bureaucratic machine with subdivisions, professional bureaucratic machine and adhocratic.

Organizations with an *entrepreneurial structure* are of a smaller dimension, usually small companies with simple structures, led by an entrepreneur.

Bureaucratic organizations are formal organizations, of medium size, with a clear division of labor, with pre-established procedures and rules and an impartial process of decision taking, where employees are promoted based on their technical qualification and their professionalism. This type of organization has the following characteristics of the management: a centralized management team, a centralized management process and a centralized decision making process.

Bureaucratic machine organizations with division's combines multiple bureaucratic machines, each achieving distinct products and services, led from a central general headquarter.

Professional bureaucratic machine organizations are based on knowledge, and the products and services depend on the knowledge of the specialists. This type of organization is dominated by department chiefs with a low central authority.

Adhocracies are act of God organizations created to solve emergency situations and which have to respond to rapid changes of the socio-economic environment. This type of organization is composed by a large number of specialists organized in multidisciplinary teams, it functions for a short period of time and have a weakly represented central management.

All organizations develop standard working procedures, policies and cultures. Standard procedures are precise rules, procedures and practices developed by the organization in order to answer to almost all possible future situations.

Organizational policies take into account the fact that people in organizations occupy different positions have different specialties, preoccupations and perspectives. Thus they represent various points of view about distributing resources, the way of rewarding work results and sanctioning ways. These different points of view affect managers as well as employees and are materialized in the existence of disputes and of a competition inside the organization.

Virtually all informatics systems that bring significant changes to the goals of the organization, in the work procedures, in productivity and personnel will raise a problem to organizational policies and in the organizational culture.

Economic organizations, according to the evolution of the socio-economic environment, are subject to several challenges related to: frequent internal reorganizations required by the evolution of the socio-economic environment; the increase in operational risks and in the direct requirements and in those related to the procedural environment; integrating all management activities of interhuman relationships, including clients: ensuring the efficiency of the organizational activities and their correlation to the evolution of the business environment and the tendencies of the modern man to use products and services suitable to his lifestyle; gaining new clients by using the economic-financial analysis and the marketing analysis.

Any economic organization functions based on 4 categories of resources: human, material, financial and informational. In the last years, the degree of informational resources used in the organization increased considerably together with the progresses of the Informational Technology and Communications (IT&C), so that currently one can say that this category of resources of the organization has become a success factor and an important vector in the overall directions of evolution specific to the informational society and the knowledge society.

The integrated informatics system of the economic organization is subject to a continuous modernization and consolidation in order to be ready to achieve continuity, coherence, opportunity, confidentiality and the security of data, information and knowledge, of all processes and transactions.

The knowledge society, through both its components, informational and durability, have a global character and is a factor of globalization, representing a new stage in the culture, in which the most important will be the culture of knowledge, which implies all forms of knowledge, including artistically, literary and personal knowledge etc. Two large classes of vectors of the knowledge society have been defined

-technological vectors;

-functional vectors.

A vector of the knowledge society represents an instrument that transforms the informational society in a society of knowledge

The category of technological vectors of the knowledge society comprises

-internet development;

-e-music and e-books technology;

-intelligent agents, which represent expert systems (from the domain of artificial intelligence), used, for example, for Data Mining or even for formal knowledge discoveries;

-intelligent environment for man's life and activity;

-nanoelectronics;

The category of functional vectors of the knowledge society comprises:

-management of the moral use of knowledge at global level;

- organizational knowledge management;
- health, physical education and sport at social and individual level;
- enhancing existential knowledge;
- implementing an education system based on methods of the informational and knowledge society (e-learning, e-library, on-line learning);
- protecting the environment and ensuring a durable society;
- generating new technological knowledge;
- developing a culture of knowledge and innovation etc.

Elements from the informational sector that's evolution affect overall the society and the businesses, and the progress of informational resources of the economic organization, in particular, are:

- enhancing knowledge in informatics for managers and a growing number of employees
- developing telecommunications through fiber optic, satellites, computer networks and global communications and databases;
- developing and proliferating personal computers; the manager and the employee have personal computers at work and at home, connected to a central computer, to a databases and to other personal computers;
- computers are perceived and used as "analytical thinkers" (analogous to the function performed by the left hemisphere of the human brain);
- creating a common front against infractionality in the computer domain (against informatics criminality);
- using laser devices for writing and reading information from various supports in various encodings;
- human-computer communication through voice;
- the evolution of technologies in the field of producing electronic micro-chips which led to decreasing power consumption

The image of this manager who is, for example, in an international meeting, anywhere in the world of the informational society is associated with a mobile phone of the last generation and with a laptop permanently connected to the organizational network of the country it represents. The manager has on his laptop all kinds of information about competitors, about the up to date legislation in the concerned fields in the form of databases which can be exploited through specific instruments.

Directions in the evolution of the IT management

The main directions in which can be anticipated the evolution of the IT management are:

- the emergence of a new type of management, based on information;
- harmonization of the managerial priorities with the level of profitability of the company;
- developing new systematic approaches;
- developing the situational perspective;
- perfecting strategic learning for modeling strategic behaviors;
- intensification of the development of the multiple capabilities of the company;
- increasing the range of strategic variables to be taken into account;
- developing new basic managerial principles;
- establishing an optimum level of complexity of the activity of the company;
- increasing organizational flexibility.

Understanding the connection between the competences (resources) of the organization and its competitive position is based on knowing the way in which the activities of the company generate added value, the link being theoretized in what is called **the analysis of the value chain**, which starts with the identification of the activities that are creating value. Thus the activities of an organization can be split into two large categories:

- primary activities** – grouped into 5 main areas:
 - internal logistic – receiving, storing and distributing inputs activity;
 - production (operations) – the activity of transforming inputs in a final product;

- external logistic – the activity of collecting, storing and distributing;
- marketing and sales – generate means through which the consumer can be told about the existence of the product and through which it can be procured;
- service – improving and maintaining the value of the product through repair, installation, preparing the auxiliary personel etc.
- support activities** – are related to primary activities and are grouped into 4 main areas:
 - procurement – the process of acquiring the resources for the primary activities;
 - technology development – know-how related to product (research, design), process or particular resource;
 - human resource management – recruiting, training and motivating the personel of the organization;
 - infrastructure – planning, financing, quality control systems, and elements of organizational culture.

Conclusions

1. The management of an economic organization strongly implies knowledge and using the informational resources of the organization which, in the modern approach, imply managing these resources in an integrated informatics system (organizational structure) of the economic organization, a system conceived and used from a business perspective.
2. For using these informational resources, the manager has the duty to learn the general IT&C concepts and principles for creating dedicated informatics systems, as well as of informatics instruments which can assist the managerial process and the managerial decision.
3. By using the IT&C the efficiency of the organizational activities increases significantly, together with the alignment to similar practices at global level.

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THE IMPORTANCE OF THE IMPLEMENTATION OF INTEGRATED INFORMATION SYSTEMS IN THE RESTRUCTURING AND EUROPEAN INTEGRATION PROCESS OF ORGANIZATIONS

Moisuc Diana-Aderina

“Babes-Bolyai” University of Cluj Napoca

Faculty of Economics and Business Administration

Șteliac Nela

“Babes-Bolyai” University of Cluj Napoca

Faculty of Economics and Business Administration

Many of the organizations that are part of the public and private domain in Romania have reached the stage in which the existing information systems can no longer comply with the requests of users. Therefore, we are compelled by necessity to use integrated information systems which should be able to control all kinds of data and to allow access to them, to ensure the coherence and consistency of the stored information. Managers must be aware of the importance of the implementation of integrated information systems in the background restructuring of the organization, which can thus become consistent and competitive with the European Union one, so the integration process becomes a real and possible one.

Keywords: integrated information systems, ERP (Enterprise Resource Planning), CRM (Customer Relationship Management), SCM (Supply Chain Management)

JEL Classification: M15, O30, O32

1. Introduction

The economic, social and political environment in which the management decisions are currently made is characterized by a sustained and pronounced dynamics. In this respect, many changes are made in the way the competition is evolving on the market, in the legislative framework, in the way in which the enterprises function and organize, in the industrial and data processing technologies. All these processes lead to an increasing pressure over the managers and to new requirements compared to the way in which the decisions are elaborated and adopted, because the success of an enterprise in a competitive economy depends entirely on the quality of the decisions made by its managers.

Making a decision implies more and more the necessity of having a large package of information as well as an entire process of analyzing and synthesizing it. This ability to collect, process and analyze the necessary information in order to make a decision has long exceeded the human limits, as one must use the highest information technologies to support the decision in its making process. The information technology is nowadays a dominant one as well as a welfare source.

Right now many organizations in the public and private domain in Romania have reached the stage in which the existing applications can no longer comply with the requests of users.

We are compelled by necessity to use integrated information systems (integrated unitary systems in which the management positions, the ones of supporting the management decisions as well as the ones of controlling the activities and processing the transactions between different subsystems should be integrated). Part of the Romanian organizational environments has joined the integration game, as the implementation of integrated information systems means performance, efficiency and business control. The other ones are still hesitating, as they consider the integration a difficult step, a very difficult decision and, most of all, investment to make.

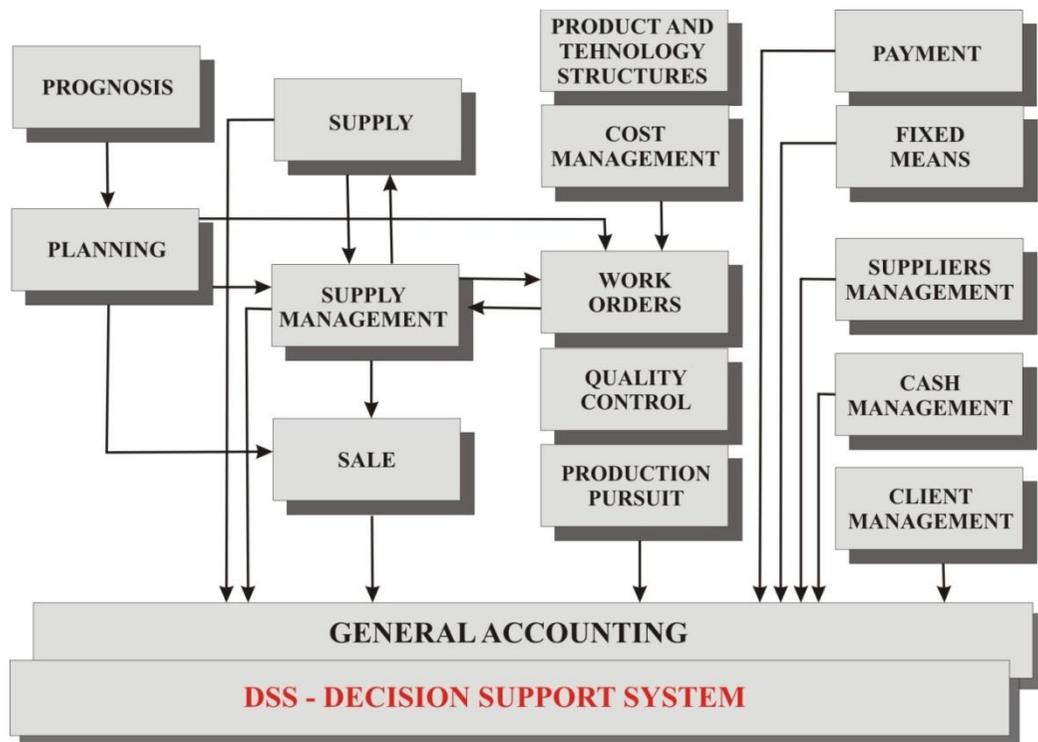


Figure 1. The functional architecture of an integrated system⁸⁸⁹

„In order to justify the investment in an integrated system we can take into consideration the following benefits:

- cost reduction by efficient resource planning (energy, water, prime matters, labor force, time) and by avoiding penalty charges (payment delays, violation of the terms of agreement);
- quality information and avoiding operations and data redundancy (single database);
- risk prevention and control;
- anticipation of legal requirements and the facilitation of the their compliance;
- the improvement of the company image and credibility on the market (by product certification);
- the improvement of the internal and external communication, decrease in the response time due to reports and ad-hoc information provided by the system;
- technological openness – (the system architecture allows the integration of new types of e-business applications).⁸⁹⁰

Information integration must be regarded as a continuous process and a long-term strategic investment, since its benefits appear not immediately, but with time. It may be considered as a form of “life insurance” for the company’s information system.

The approach to integration must be realistic and take into consideration two major alternatives:

- internal integration – focuses on the intra-corporate economic processes, covered by **ERP** application suites (Enterprise Resource Planning);
- external integration - combines the services of several suppliers in order to support the extended operations management, information exchange, coordination and cooperation throughout the extended value chain (expansion of the traditional ERP applications by means of “newer” **CRM** - Customer Relationship Management, **SCM** - Supply Chain Management).

⁸⁸⁹ Rusu, L. și colab, (2005), Sisteme integrate și sisteme ERP, Editura Risoprint, p.106

⁸⁹⁰ Jones, M., Zound, R., *ERP Usage in Practice: An Empirical Investigation*, Information Resources Management Journal, January-march 2006, p. 23-42

2. ERP (Enterprise Resource Planning) Systems

Defining ERP systems

An ERP is a complex multimodular software application which integrates the economic processes of the companies in order to optimize and increase their efficiency.

From the functionality point of view, an ERP software covers the following domains of interest of a business: production planning; acquisition management and supply management; interaction with the suppliers; customer relationship management; order pursuit; financial management; human resources management.

An ERP system achieves the information integration used by the functions and departments of a company, framing them in a single and coherent system.

The benefits of an ERP system:

An ERP software offers a series of advantages for the financial management, as it is able to present any time a general view of the company in what concerns the financial status of the treasury, sales, debtors and creditors, current contracts.

According to a survey carried out in Great Britain among the organizations that have implemented ERP applications, we can point out the following aspects:

- the organizations have gradually invested human resources, money and technology in order to develop their own ERP systems and in the current financial climate they are trying to consolidate and maximize the results of these investments;
- not all the companies have equally prospered as a consequence of their investments, as many of the organizations have achieved considerably larger benefits using the ERP systems than the others. Among the difficulties encountered we mention: the systems haven't been perfectly set; not all the functionalities of the system have been activated and therefore their efficiency was reduced; the companies haven't ensured and maintained the correct functioning of the system;
- in Fig.no.2 is rendered the share of the factors that have influenced the motivation of the organizations in choosing an ERP solution:

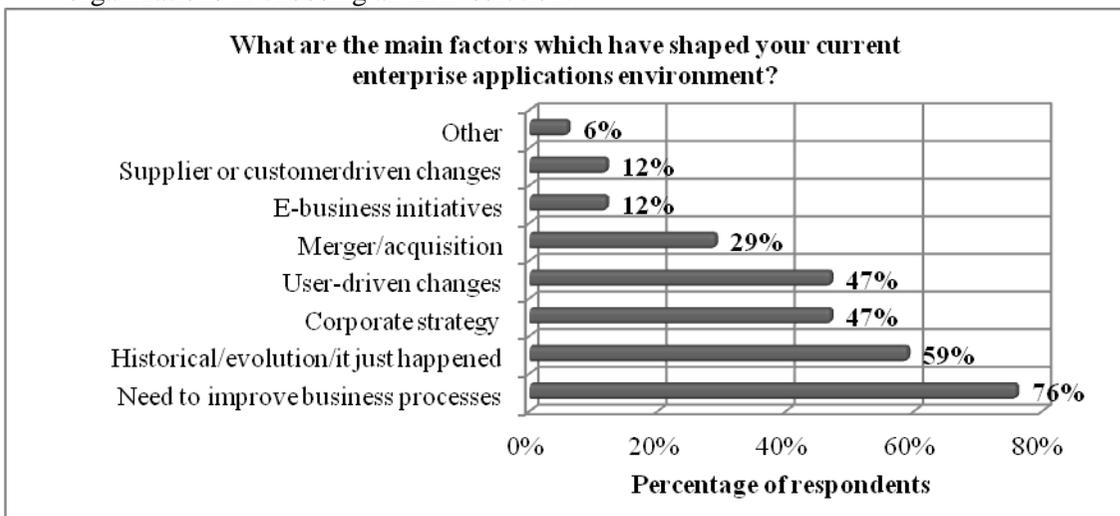


Figure 2. Key drivers for enterprise systems⁸⁹¹

- there are contradictory opinions among the respondents as regarding how easy it is to modify the ERP solutions in order to produce changes in the business processes:

⁸⁹¹ http://www.conspectus.com/2009/october/downloads/Conspectus_ERPSolutions_October09.pdf

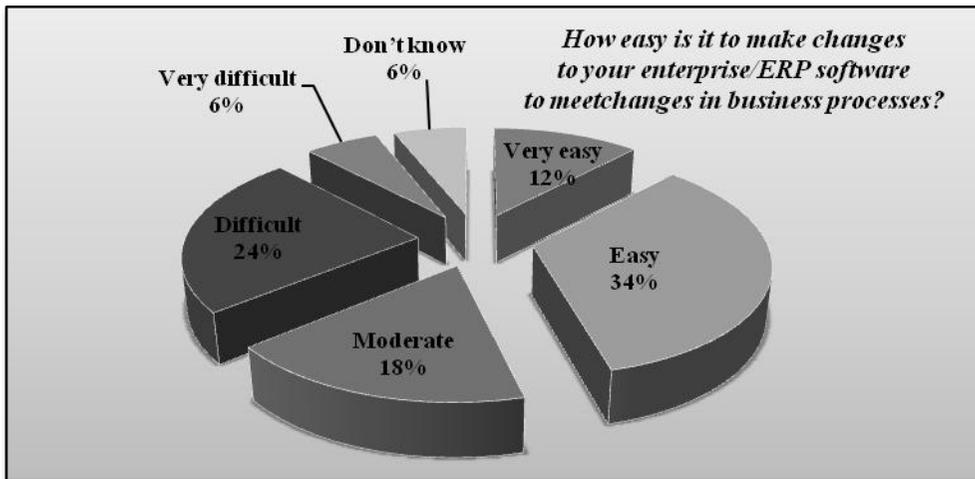


Figure 3. Flexibility of the software⁸⁹²

2. CRM (Customer Relationship Management) systems

CRM: definition and functionality

"CRM is a complex system that provides a means to improve the experience of a particular client so as he should remain a trusty one; it provides both technological and functional means, in order to identify, attract and keep clients; it provides a single image of the client inside the entire organization." (Paul Greenberg – English analyst).

"CRM extends the sales document from a confidential one, issued by a salesman, to a continuous one that involves the entire staff of a company. It is the art/science of collecting and using the information about the client to strengthen his loyalty and increase his long-term value." (Larry Tuck – American analyst).

"CRM means an integrated approach of the processes of identification, attracting and keeping the clients of an organization." (Siebel Systems).

The advantages given by CRM compared to the traditional marketing are:

- reducing advertising costs;
- focusing the company's policy on the clients' needs;
- quick ascertaining of the efficiency of a campaign;
- the possibility to compete with the main contestants not only on a price level but also through the provided services;
- avoiding extra expenses that are assumed to be made by the less profitable clients and redirecting the resources towards the high profitable ones;
- surpassing the delays arising from the development and marketing of a product (it optimizes the marketing course);
- optimizing the trade channels and the contact with the clients.

So, placing the client in the centre of the organizations' concern in order to suggest to him the most appropriate products and services is the aim of this new generation of information tools in the Customer Relationship Management category.

According to the surveys carried out in Great Britain among the organizations that have already implemented a CRM System, we can point out the following aspects:

- the companies that provide good services and manage to understand their clients' requirements are those that, generally speaking, can survive and prosper on a long time;

⁸⁹² http://www.conspectus.com/2009/october/downloads/Conspectus_ERPSolutions_October09.pdf

- in the past, successful companies used to search for their clients instinctively. Nowadays we have to use the CRM systems, but we have to understand very well the fact that a CRM application only provides the process automation of the client relationship management. A company uses the CRM in order to supervise and keep information regarding to its current and future clients. It's not enough to install a CRM system in order to develop and ensure a complete environment for client services. The success doesn't depend entirely on the implementation of the system. A philosophy and a clear strategy for client relationship management have to be developed. O society has to provide a formative support climate and an accurate business environment for the employees in order to completely take advantage of the information systems;
- many organizations have implemented a CRM integrated system to help elaborate a client relationship management strategy. The surveys have pointed out how important these strategies are as opposed to three years before:

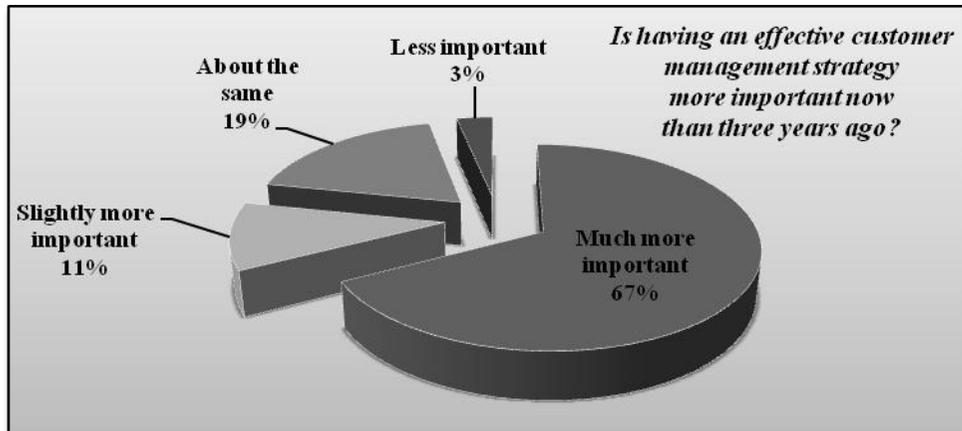


Figure 4. Importance of customer strategy⁸⁹³

3. SCM (Supply Chain Management) systems

SCM: definition and functionality

The Supply Chain Management is a term encountered in the Romanian literature under the name of supply-sales chain management or distribution chain management and it basically refers to optimizing and automating all the economic processes that take place at a level of an enterprise, starting with materials and raw material supply and ending with the production, transportation and distribution processes of the end products.

"The easiest way the supply-sales chain is defined is as an "umbrella" process under which the products are created and delivered to the clients."⁸⁹⁴ The efficient distribution chain management secures the necessary amount of goods and services where they are needed, at the right time, in the solicited quantity and at the best price.

The chain management allows the administration of the expanded processes of the enterprise, integrates both the internal and external processes, secures flexibility and transparency in the development of a business from the raw materials that are necessary to the production supply stage to the delivery towards the end consumer.

The web expansion as a means for the economic transactions to take place and to develop a business-to-business communication, together with the development of new web based SCM technologies, achieve the transition from linear interactions to the network model. We are now talking about the interdependent distribution networks. The enterprises are heading for real time operating by dividing the information and interconnecting the processes with the ones of the business partners.

⁸⁹³ http://www.conspectus.com/2009/june/downloads/Conspectus_CRM_June09.pdf

⁸⁹⁴ Meșniță, G., *Introducere în afaceri electronice*, Editura Junimea, Iași, 2002

According to the surveys carried out in Great Britain we can point out the following aspects:

- the British companies continue to invest in SCM technology, in spite of the uneven results and, sometimes, despite the current economic recession;
- a particular aspect for present-day organizations is to ensure the supply chain. They are designed to support the global business strategy, both in terms of management and marketing aims support and also of financial performances;
- the surveys show to what extent the SCM systems support the entire strategy of the organization:

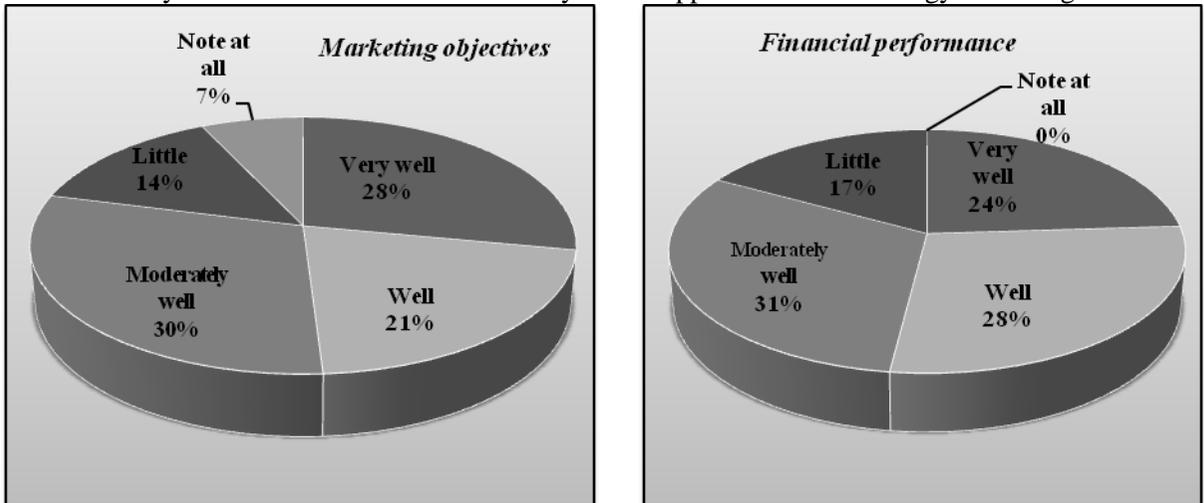


Figure 5. How well do your supply chain operations support the overall strategy of the business?⁸⁹⁵

Conclusions

The passing to the appliance of some restructuring and changed modern methods and to real-time distributed processing of the information using new approaches like: ERP-Enterprise Resource Planning, CRM-Customer Relationship Management, SCM-Supply Chain Management, is a fact both in the private and public domain, which has to be treated accordingly.

In Romania there already exist a whole series of integrated information systems implementations provided by well-known companies such as: SAP, ORACLE, SIVICO (the first place in providing ERPs in Romania).

The rising number of integrated systems implementation confirms the fact that managers (in public and private domain) are aware of the importance of this solution in the background restructuring of the organization which can become thus compatible and competitive with those of the European Union. Therefore, the integration process becomes a real and possible one.

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⁸⁹⁵ http://www.conspectus.com/2009/march/downloads/Conspectus_SupplyChain_March09.pdf

THE OBJECTUAL DATABASE DESIGN FOR A VIRTUAL STORE

Popa Silviu Claudiu

„Babeş-Bolyai” University Cluj-Napoca, Faculty of Economic Science and Business Administration

Avornicului Mihai-Constantin

„Babeş-Bolyai” University Cluj-Napoca, Faculty of Economic Science and Business Administration

Avornicului Constantin

„Babeş-Bolyai” University Cluj-Napoca, Faculty of Economic Science and Business Administration

Nowadays, the most systems on the Internet are using databases. These databases are relational and normalized. Although the tables of the relational model itself does not have a behaviour in context object, though the diagrams uses different methods. In this article we focus on the database modeling for a virtual store using UML (Unified Modeling Language).

Keywords: Database, Virtual store, UML, Business model

Cod JEL: C88, M15

1. Introduction

For representating and modeling of databases are used several types of diagrams. In the relational world the instructions are not procedural type, still they are result oriented. In the implementation, many times we have to combine programming object to relational databases. UML is a language for visualization, specification, construction and documentation of models. There are no official UML diagrams for modeling data, but we have a scoring system and a data modeling system used and accepted by many CASE tools. The scoring used for data modeling in UML class diagrams comes from other scoring systems used the classical model (entity-relationship).

2. Modeling and database design

2.1. The database modeling

The database modeling is based more on logical and physical models of databases. A logical model of a database consists of entities, attributes and contains relations between entities that may be required or not (Naiburg E. J., Maksimchuk R. A, 2003).

The logic model is a standardized model, which is 3 normal form (3NF). May contain several elements, which is next to the database, but it does not contain any specific software management system or a database.

In this case, it is not important the important optimization factor, neither the application where the database will be managed. In the center is the building of the model. De-normalization process begins with the physical database model. The group of developers try to optimize the model and seek its implementation.

2.2 The database design

Until the modeling is focused on presenting a database, it contains the entire design process starting with specification, continuing with business modeling, logical analysis, the physical structure of the database to its implementation and installation.

For example, in the database design in physical modeling there are already set tables, columns and in modeling addition and hardware and the database system structure.

The Database Design includes (Song E., Yin S., Ray I., 2007): the requirements for modeling, the business processes (which may be today or in future), the business activities, the logical models, the physical database model, the links between database and application, developing of the system. After

the design, it comes the implementation itself, which can be done individually or in most cases the group.

2.3 UML diagrams for database design

There are many types of UML diagrams that help designer databases in their work. These diagrams can be used for meeting requirements for representation of installation, etc. The most important UML diagrams are as follows (Marcos E., Vela B., Cavero J. M., 2001):

Diagram	Description
Use Case	Use Case shows the behavior of the system or a part of the system and a description of a set of action sequences.
Interactions	Sequence or collaboration diagrams, which represent the interaction of objects in the system.
Activity	Activity diagram is a flow chart of activities that have control flow between activities. It is used to model dynamic aspects of the system and requires a process modeling step.
Statechart	Statechart diagram presents the dynamic of the system state or system objects.
Class	The logical model for the system class.
Database	Database shapes including the database modeling structure and constraints.
Component	The diagram of components shows the dependencies between various software components that comprise a computer system. These dependencies are static or dynamic. The software component has a model with a well defined interface.
Deployment	The deployment diagrams present operating configuration of runtime processing elements and components, processes and objects containing them.

Table 1 UML diagrams for database design

3. Business modeling for database design

The understanding the functioning of a company and its work it is not an easy problem. It is important to understand what business do they do, what information exists, who are business partners, etc. The current activity is not only important but also the firm's future perspectives. Most of the companies, firms have a standard representation of activities, especially their modeling tools (Avornicului C., Avornicului M., 2010).

We need the following information to create a correct model:

- How do the employees see business?
- What is their opinion to advance the company?
- What does not the company do well?
- What does each individual do?

3.1. The Business Modeling

The first step is the gathering information and the modeling descriptions. We must have an overall idea about the business, only to read only the words themselves.

We always start with the use case diagrams. A business use case diagram represents the most important functions of a business. In the modeling business is very important to identify and shape the roles of coming into contact with the business.

Business model should include views of interior and exterior views to suggest the most important moments of the business. The use case diagrams and use case actors may contain links. Actor can be anyone and anything that comes into contact with the system. It is important to note that one person can play multiple roles and a role can be characterized more people. The actor can be defined as a set of roles which the user uses when interacting with the use cases. It can be a human role, device or any other system hardware. The use case it may be a number of activities that may be useful for players. They involve the interaction between actors and system. In the business modeling, working groups are not only important but also the way they operate. The working mode is the activity diagram. This is a flow chart presenting the control flows between activities. It is used for modeling the dynamic aspects of the system and it requires a process modeling step. Activity diagrams returns to specific use case. Activity diagrams have several purposes (Song E., Yin S., Ray I., 2007):

- understanding the current business;
- understanding and designing of changes;
- discovery of redundancy in the business;
- discovery of the delays in business;
- revealing those activities that affect business;

3.2 Nowadays business model

By understanding the functioning of today's business systems, we can understand their operation. In this step, it helps to identify the business models having activities that are repeated, they are redundant. If we look at the whole business, we must understand the processes, systems, software, hardware etc. currently there. The essence consists not only in understanding the current business but also in revealing future prospects.

4. Case Study: Creating a database for a virtual store

In this part we deal with database design for a virtual store in Târnăveni, Mures county. The company is dealing with buying and selling computer parts.

A person can see components existing categories to rank and order them online on the Internet. To order our products, the person must register on the site. Insert an email address and password that is stored in databases. A person can order more products. Products will be sent by post or by Cargus (courier) and payment is made on receipt of goods. The administrator can introduce new products that can modify existing information products.

Project purpose:

- reduce human error;
- increase efficiency;
- national coverage (the Internet);

The emphasis is on quality of service and not on human resources management, the bill payment or other processes.

4.1. Business model use case

First part of business modeling is the use business model. It reflects the views of the outside and their contact with services. The outside actors are the business actors. After negotiating with the company, the first step is to identify business actors (Song E., Yin S., Ray I., 2007).

This is a very simple model and it shows us which business actor belongs to which use case. These actors do not relate to all who come into contact with services. For example, Ms. Florica involved in the cleaning company will not be considered in this model, although it contributes indirectly to the company's reputation.

During discussions, new players may appear coming in contact with the company, such as carriers, insurance companies and other corporate stakeholders. Of course, we have many sites use case, but they

must be verified, it will remain only those that are important in terms of business. Figure 1 shows a business use case possible.

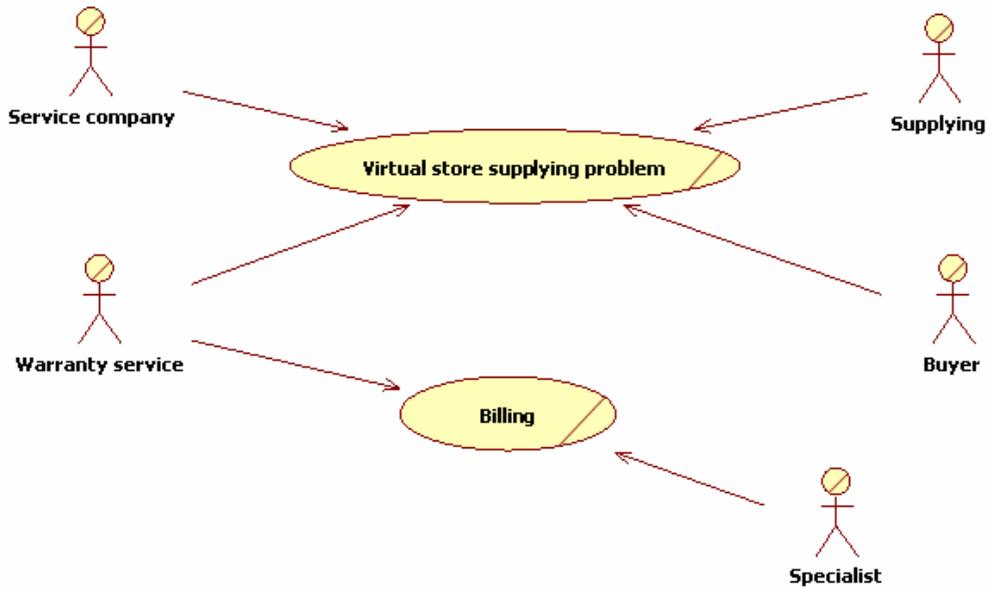


Figure 1 Business model use case

Improving of use case model can be done through a business model for each process. The charts shows business activities and have people who belong to departments.

In a business it is extremely important to look at things in terms of business actors. Because of this, the activity diagrams do not contain internal business functions. Business process ends when the players transfer the business management within the system (records manager – business worker) (Avornicului C., Avornicului M., 2010).

4.2. The design database using UML

In that part we design the model database. StarUML CASE tool is used. In the first phase of building the necessary classes. Figure 2 contains the necessary classes.

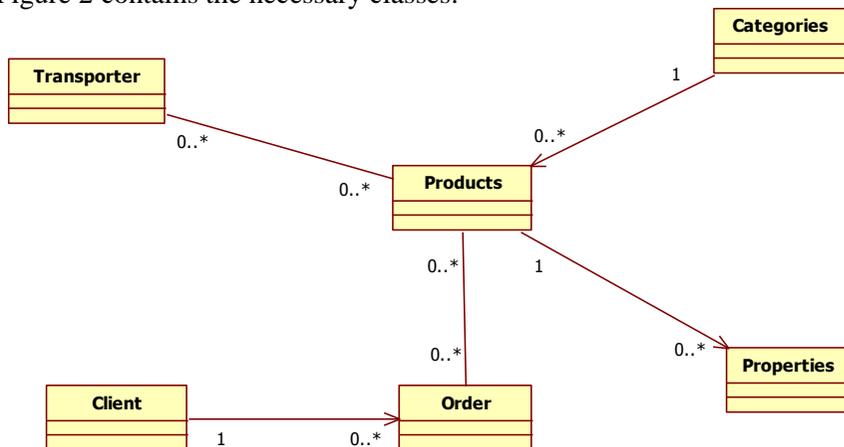


Figure 2 Class diagram for the shop

The following chart contains tables with all attributes.

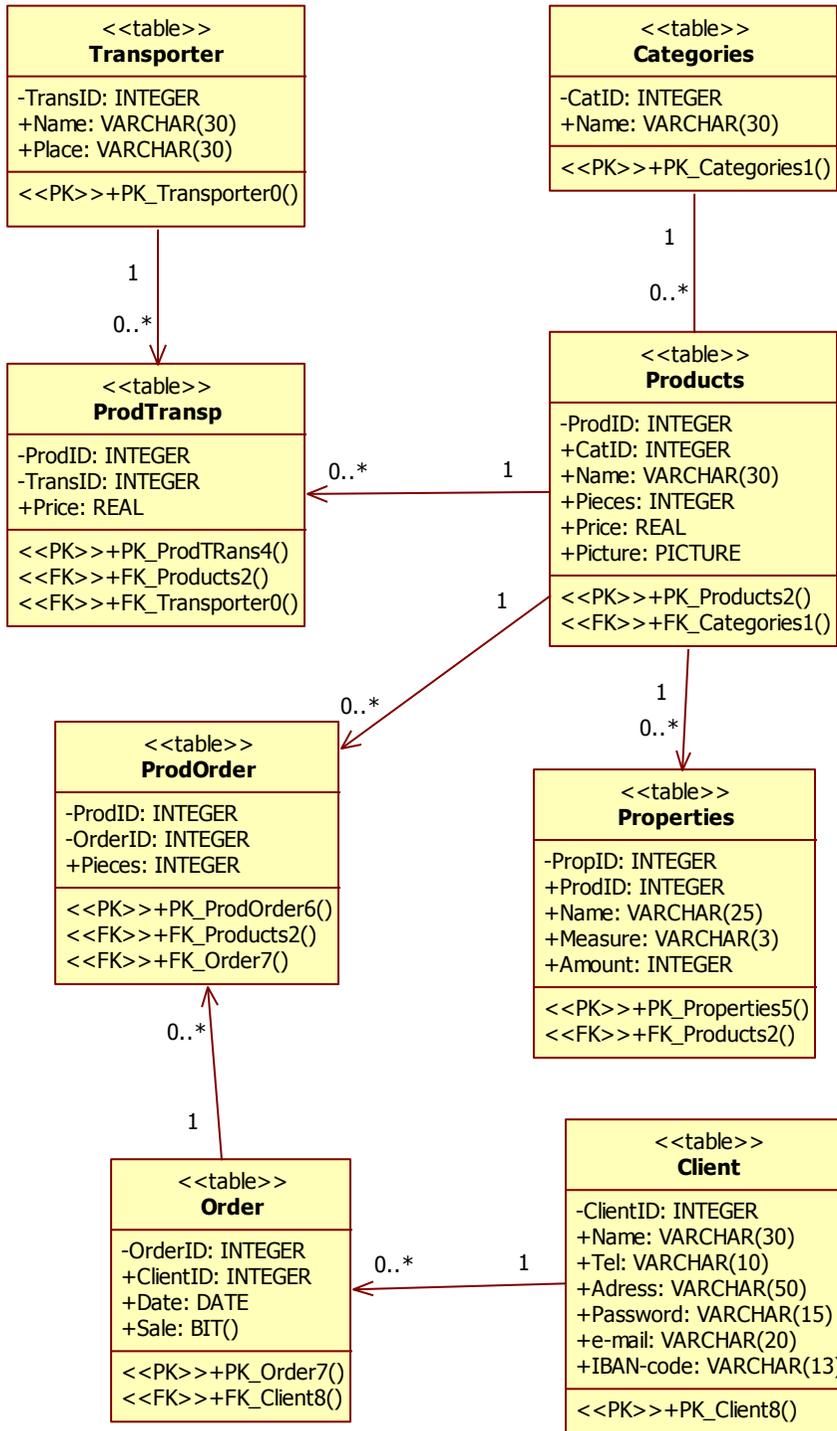


Figure 3 Tables with attributes for virtual store

The database will be implemented in MS SQL Server, Oracle, etc.

5. Conclusions

Even if in UML there are no diagrams for modeling data, we have a scoring system and a modeling data used these are supported by many CASE tools. The scoring used for data modeling in UML class diagrams comes from other scoring systems used the classical model (entity-relationship). Using UML diagrams, we can easily achieve a database that can be used in a virtual store. This paper presents such a database, which is used successfully in a virtual store.

Acknowledgement

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FINANCIAL MANAGEMENT AND LOCAL ECONOMIC DEVELOPMENT – AN ALTERNATIVE FOR NEW FUNDING SOURCES OF THE LOCAL COMMUNITIES

Petru Filip

University of Oradea, Faculty of Economics

Abstract: This paper intends to answer mainly the questions: What are the consequences of the taxation base increase? What forms does the taxation base have? What can local authorities do in order to make certain areas attractive? Which are the specific players involved in the local economic development? Also, beyond the rigours imposed by the mathematical presentation of the sustainable economic development, we appreciate that for the financial management, too, knowing the gear determined by the allocation of public resources and generation of additional revenues will be very useful in establishing and underlying the decisions to invest in the public infrastructure and, also, to calculate the time period in which these can be depreciated especially based on the financial flows from supplementary revenues.

Key words: financial management, local economic development, financing local communities

JEL Code: M1, H4, H5,

The budgetary challenges of decentralization

Most of the times after 1990, the political discourse regarding the decentralization of the administrative decision from the central level to the local level focused mainly on the managerial capacity of local public administrations to take over in the direct coordination of some public services which used to be in the direct coordination of the centralised state.

Once this process triggered, it followed the second stage of the decentralization's opportunity analysis, that is, whether the management of local budgets and the transfer of financial resources from the central level to the local level ensures a superior quality and quantity of public services.

After the 2000s, the approach of superior problems that the local administration faced occurred. It was that of coordinating the local sustainable development strategies with the stimulation of local economic development which should lead in the end to supplementary budgetary resources obtained by local political decisions. But to stimulate an investor to create an economic activity in his/her own community, the public administration must ensure the water, canal, electricity, local transport for the employees, qualified labour force.

Strategies regarding the increase of local budget revenues

Interested in ensuring the supply of public services, the main loan officer will have to permanently identify new funding sources in order to cope with continuously increasing needs of the population, using, as much as the law permits, three financial like levers, which, in my opinion, consist in:

- a) Getting fiscal revenues as a result of fiscal policies, in which the tax rate (r_i) will harmoniously collocate with the taxation base (B_i), two situations being distinguished:
 - 1) " r_i " has an increasing tendency with a constant " B_i " is specific to a pure fiscal policy which must take into account the tax payers' financial capacity and also the value of the taxation base;
 - 2) " r_i " constant with " B_i " which records an increasing tendency, is the result of a balanced policy supporting the local economic development;
- b) getting revenues from the capitalization of some goods belonging to the public or private field of the cities, towns or villages through Beyond the procedures that have to be applied to obtain these categories of revenues, it is worth mentioning the fact that these will take over from the fiscal burden "instituted" by the assumed

managerial policies, being a good opportunity for the financial manager to reduce “ r_i ” without taking measures that might influence “ B_i ”;

- c) the levies from the state budget, no matter the form they have, their meaning remaining always the same: when the levies increase (sums broken down from some revenues of the state budget or transfers) will register an accentuation of the financial dependence on the state budget, with unfavourable consequences on the local autonomy. On the contrary, the meaning of the diminution of breakdowns is based on the consolidation of the financial state of the local communities.

The mix of the fiscal, non-fiscal or state budget resources will have thus ensured so that the public services of local interest function permanently and at a higher qualitative level.

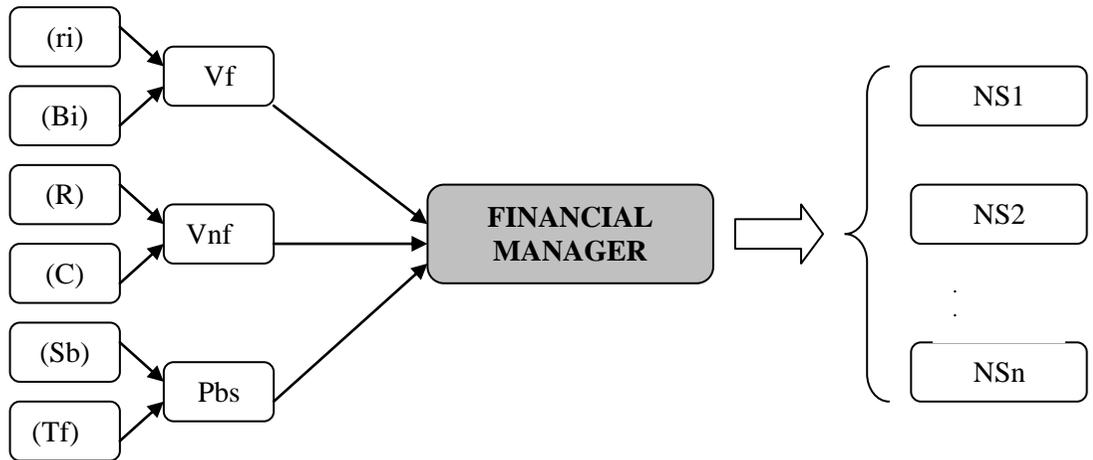


Figure 1 – The financial manager between the resource mix and the need for public services

The local economic development thus becomes a preoccupation of the financial manager interested in permanently increasing the taxation base (B_i) so that the fiscal policies have a marked economic character. A solution for its use as a fiscal level is not recommended having in view Arthur Laffer’s theories, according to which:

- an increase of the tax rate, over a certain level, leads to a decrease of the revenue yield;
- a decrease of the tax rate, over a certain level, will also lead to a decrease of the revenue yield;

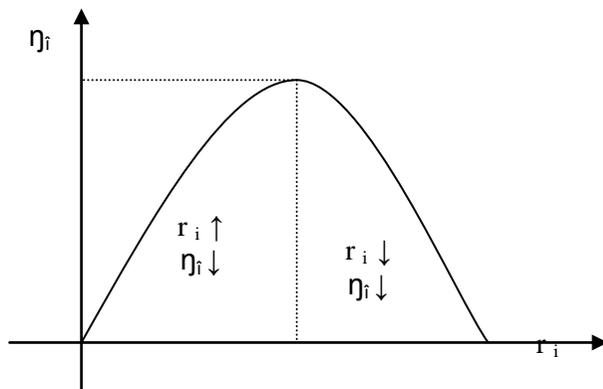


Figure 2. –Laffer’s curve, between the tax rate and the revenue yield

But what are the consequences of the increase of the taxation base? Which forms does the taxation base have? What can local authorities do to make certain areas attractive? Which are the players involved in the local economic development?

These are a few important questions that the local administration and the public manager has to answer.

The taxation base, as a consequence of the local economic development, has different forms (lands, buildings, special constructions are just a few examples of investments made by the traders) when the **local authorities** get involved in stimulating the investor attracting.

A first type of involvement is the ensurance of the access of investors to facilities consisting in supplying utilities like water, electivity, heating etc. and also the supply with social utilities (education, culture, health etc.).

The sum of all these facilities created in a certain area belonging to the administrative-territorial entity (city, town or village) will represent an attraction to the investors interested in immobilizing their capital, usually on as short as possible term, and obtain an as high as possible capital yield, beyond the problems encountered in the allocation of funds at the national level (for the government is facing a double problem, that of spatial and functional allocation⁸⁹⁶).

It is interesting to study the behaviour of the local authorities in ensuring facilities for the companies (investors).

Be $\prod_{i,t}^{f\ al}$ - the level of prospective facilities provided by the local authority in the region (area) "i" over the period t, and $X_{j,t}^{f\ al}$ - the size of the facilities "f" over the period "t" due to the local authority, in the region (area "j". If it is noted the level of general shipment costs between "i" and "j" in the period "t", by using the means of transport m, anticipated by the local authority, with $C_{ij,t}^{m\ al}$ and the mobility coefficient for the facility f with δ^f , we will have the relation: $\prod_{i,t}^{f\ al} = \sum_j X_{j,t}^{f\ al} \cdot e^{-\delta C_{ij,t}^{m\ al}}$, which

will describe the spatial behaviour of the local authorities in supplying facilities.

But what would be the level of facility X^f provided by the local authorities?

To answer this question, the following relation is taken into consideration:

$$X_{j,t}^{f\ al} = K_{j,t}^{f\ al} \cdot p_{j,t}$$

Where

$X_{j,t}^{f\ al}$ - the offer of the facility f ensured by the local authority (al) in period t

$p_{j,t}$ - the population in the region (area) j in period t

$K_{j,t}^{f\ al}$ - the criterion or the standard applied by the local authority in period t, to the offer of facilities f (for example a school for 100 students or a hospital for 40,000 people).

The offer of facilities X^f is a function proportional with the number of population, directly proportional varying with it, yet it must be taken into consideration the offer of facilities outside the administrative-territorial entity.

In these conditions, the offer of facilities depend on the offer desired by the local authorities (al) and on that exiting outside the cities, towns and villages according to the relation:

$$X_{j,t}^{f\ al} = K_{j,t}^{f\ al} \sum_j p_{j,t} \cdot e^{-\mu C_{ij,t}^{m\ al}} - \sum_{j \neq i} X_j^f \cdot e^{-\mu C_{ij,t}^{m\ al}}$$

The spatial behaviour of the local authorities in the offer of facilities X^f becomes in these conditions:

⁸⁹⁶ Van den Berg – Sisteme urbane într-o societate în continuă schimbare, 1982a

$$\prod_{i,t}^{f,al} = \sum_j \left(K_{j,t}^{f,al} \sum_j p_{j,t} \bullet e^{-\mu C_{ij,t}^m} - \sum_{j \neq i} X_j^f \bullet e^{-\mu C_{ij,t}^m} \right) \bullet e^{-\delta C_{ij,t}^{m,al}}$$

Beyond the complexity given by the mathematical form of the spatial behaviour of the local authorities in the offer of facilities, it can be seen that it depends on a series of factors out of which we mention:

- the number of population requiring the facility X^f in the region (area) i or j ;
- the standard applied by the local authority al , in period t , to the offer of facilities X^f ;
- the shipment costs determined by the mobility of the population between the areas i and j .

The financial manager will have to pay increased attention to the problem regarding the facility in order to make certain areas favourable to investments and to expand, also, the taxation base, as a result of the implementation of the local economic development.

A second type of implication, in the local economic development, is represented by the stimulation of the creation of jobs and houses for the population. The spatial behaviour of the local communities can be studied starting with the equation describing the offer desired by employment opportunities like:

$$X_{j,t}^{e,al} = K_{j,t}^{e,al} \bullet p_{j,t}$$

Where:

$X_{j,t}^{e,al}$ - the offer of employment opportunities in the region j in the period of time desired by the local authority

$K_{j,t}^{e,al}$ - the criterion applied by the local authority (al) in period t regarding the level desired of the job offer

Taking into consideration the employment opportunities in the neighbouring areas, the spatial behaviour of the local authorities can be described according to the relation:

$$X_{j,t}^{e,al} = K_{j,t}^{e,al} \sum_j p_{j,t} \bullet e^{-\theta C_{ij,t}^m} - \sum_{j \neq i} X_{j,t}^e \bullet e^{-\theta C_{ij,t}^m}$$

Where:

$C_{ij,t}^m$ - the shipment cost on the distance ij , over the period t , using a means of transport m

$p_{j,t}$ - the population of the area (region) j , in period t

θ - the mobility of the people on the distance ij , having in view the shipment costs expressed by m $C_{ij,t}^m$

It is obvious that the financial manager will be interested in the spatial behaviour concerning the employment opportunities, because one of the immediate gains of the local authorities will be to attract revenues from the quotas broken down from the revenue tax, but we will approach this aspect in what follows.

The third type of implication, to support the local economic development, is to ensure, especially by the local authorities, the **road infrastructure** with an impact on the shipment costs, travel times between the areas ij etc.

An equation like the following describes this dependence: $\prod_{i,t}^{f,al} = \sum_j X_j^{f,al} \bullet e^{-\delta^f C_{ij,t}^{m,al}}$

Where: $C_{ij,t}^m = C_{ij,t}^{mal} \left(\frac{v_{ij,t}^m}{S_{ij,t}^m} \right)^\lambda$ is a function dependent on the demand and supply of infrastructure, that

is $v_{ij,t}^m$ and $S_{ij,t}^m$, and $C_{ij,t}^{mg}$ is the shipment cost on the distance ij , using the means of transport m .

It is worth mentioning the fact that the local authorities, by the opportunities created as a result of the access to facilities $\prod_{i,t}^{fal}$, of the creation of new jobs $\prod_{i,t}^{eal}$ but also of the providing the investors with an appropriate infrastructure $\prod_{i,t}^{ial}$ have a decisive role in supporting the local economic development.

The three types of implication of local authorities describe the latter's spatial behaviour according to the relation:

$$\omega_{i,t}^{al} = \left(\frac{\prod_{i,t}^f}{\prod_{i,t}^{fal}} \right)^{\alpha al} \cdot \left(\frac{\prod_{i,t}^e}{\prod_{i,t}^{eal}} \right)^{\beta al} \cdot \left(\frac{\prod_{i,t}^i}{\prod_{i,t}^{ial}} \right)^{\gamma al}$$

$\prod_{i,t}^f$ - the level of the facilities desired (expected) by the population or companies

$\prod_{i,t}^{f,al}$ - the level of facilities provided by the local authorities

The spatial behaviour function, described above, can be interpreted as such:

- if $\omega_{i,t}^{al} > 1$ the level of facilities, employment opportunities or road infrastructure is shifted off from the offer possibilities of the local communities;
- if $\omega_{i,t}^{al} < 1$ the situation is appreciated as being favourable, the level provided by the local authorities for facilities, employment or road infrastructure exceeds the expectations of the companies or the beneficiary population.

In these conditions, the financial manager, with the help of the mathematical instruments given, will have to identify that combination of facilities, employment opportunities or road infrastructure that would make the area "i" or the region "j" within a place attractive.

It is interesting to study for the financial manager the effect that public expenses have on investments, but also the additional revenues generated by investing one leu by the companies in the area "i" or region "j".

The ways to use the public resources in order to increase the local "welfare" elements are described by the equation:

$$\prod_i = \sum_j Q_j \cdot S_j \cdot e^{-\delta C_{ij}} = \sum_j X_j \cdot e^{-\theta C_{ij}}$$

Where

Q_j – represents the physical quantity from facility j

S_j – the quality of facility j

C_{ij} – shipment costs on the distance ij

An increase of a welfare elements \prod_i (facilities, employment opportunities or road infrastructure) will be determined by a physical expansion of facilities, which will implicitly imply an increase of the governmental expenses, according to the relation:

$$\Delta \prod_i^f = \sum_j \Delta X_j^f \cdot e^{-\delta C_{ij}}$$

$$\Delta X_j^f = K_j^f \cdot I_j^f$$

Where K_j^f represents the additional size of the facilities f that an investment entity can make in the region (area) j :

In these conditions, the potential element of local welfare will be established based on the relation:

$$\Delta \Pi_i^f = \sum_j \Delta K_j^f \cdot I_j^f \cdot e^{-\delta C_{ij}}$$

The financial manager will also be interested in the supplementary revenues generated by the investments made, a ratio known in the speciality literature as the investment multiplier⁸⁹⁷ established according to the relation:

$$\text{mil} = \frac{\Delta V_{i,t}}{\Delta I_{i,t}}$$

Where:

$\Delta V_{i,t}$ -the revenue growth made in period t and area i

$\Delta I_{i,t}$ - the investment unit made by companies in the area j or i

To underlie this not very easy approach, it is necessary to take into consideration an investment like a building, which, during its useful life can generate supplementary revenues⁸⁹⁸, which may consist in:

- the building tax;
- the land tax;
- the income tax as a broken down quota as shared tax.

Referring to the **building tax**, the flows of supplementary revenues will be determined by the way in which this type of tax is calculated, in accordance to the legislation in force, according to which:

$$I_c = r_i * B_i$$

Where:

r_i – is the tax rate between 0.5 – 1% for natural persons and 0.1 – 0,2% for legal persons/entities;

B_i – the tax rate is made by the inventory value for the legal persons and the taxable value obtained by multiplying the usable area with the taxable value expressed in lei/sm.

In these conditions, if useful life is noted DVU and these flows are updated with a rate established at the level of the interest average rate in economy (rd), we will obtain:

$$I_c = \sum_{i=1}^{DVU} \frac{0,2\% \times S_{ui} \times V_i}{(1+rd)^i} + \sum_{j=1}^{DVU} \frac{1\% \times V_{ci}}{(1+rd)^i} = 0,2\% \times \sum_{i=1}^{DVU} \frac{S_{ui} \times V_i}{(1+rd)^i} + 1\% \times \sum_{j=1}^{DVU} \frac{V_{ci}}{(1+rd)^i}$$

The land tax, the second component of the source of additional revenues, in accordance to the legislation in force, has a relatively simple form of establishment, being obtained as a product between the land surface and the land tax determined according to the area where the land is located, based on a mathematic model like:

$$I_t = S_t \times I_t \text{ (lei / mp)}$$

⁸⁹⁷ The investment multiplier was underlied by J. M. Keynes, in 1920

⁸⁹⁸ Law 571/2003 concerning the Fiscal Code published in the Romanian Official Gazette no 927 of 23 December 2003, with subsequent changes and completions

Where:

I_t – the land tax expressed in lei/sm

S_t – the land surface

The flow of revenues during the same period of time DVU of the building generated by the collection to the local budget of this type of tax will be established according to the relation:

$$I_t = \sum_{i=1}^n \frac{S_{ti} \times I_{ti}}{(1 + rd)^i}$$

The last form of additional revenues studied is that of shred taxes, being known the fact that a quota of 47% of the total tax collected at the level of an administrative-territorial entity is monthly transferred, as own revenues, to the local budget.

Given the situation, noting with N_s – the number of employees, with S_m – the average wage made in the production unit generated (the building) and with T_{iv} – the income tax quota regulated by law, the flow of additional revenues generated by the income tax can be determined with the relation:

$$I_v = \sum_{i=1}^n \frac{47\% \times 16\% \times N_{si} \times \bar{S}_{mi}}{(1 + rd)^i} = 0,0752 \times \sum_{i=1}^n \frac{N_{si} \times \bar{S}_{mi}}{(1 + rd)^i}$$

Based on those mentioned above, the additional revenues generated by an investment (accepting the variant of a building execution) will be obtained by adding I_c , I_t , I_v so that the local investment multiplier will be appreciated using the relation:

$$mil = \frac{\Delta (I_c + I_t + I_v)_{i,t}}{\Delta I_{i,t}}$$

Knowing the value of the fiscal multiplier, but also that of the efficiency of using public resources, when the local authority will have to allow the access to facilities, becomes a priority for the financial manager, interested in supporting the local economic development due to its multiple advantages.

Practically, the public manager is urged to know as well as possible the gear determined by the access to facilities ($\Pi_{i,t}^{f al}$) the access to employment opportunities ($\Pi_{i,t}^{e al}$) but also to the road infrastructure ($\Pi_{i,t}^{r al}$) so that the final result to be $\Delta V_{i,t}$ with the forms mentioned $\Delta I_{c i,t}$; $\Delta I_{t i,t}$; $\Delta I_{v i,t}$ as high as possible.

The gear, working according to the systems theory, can be illustrated in accordance to the figure below:

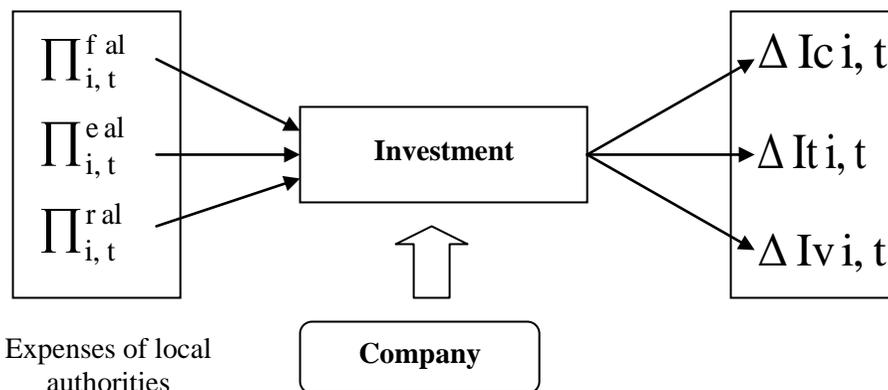


Figure 3. – The gear of resource allocation and making additional revenues in the conditions of a given volume of investments

Conclusions

It is important for the financial manager to know the value of the ratio between the resources invested in order to allow the access to facilities, employment or road infrastructures noted with Chal and additional revenues noted with Vsinv, a ratio interpreted, in my opinion, as a capitalization indicator of the public investments, established with the formula:
$$I_{r_{ip}} = \frac{Vs\ inv}{Ch\ al}$$
.

Practically, there are two situations:

1. when $I_{r_{ip}} > 1$, the additional revenues generated by the investment exceed the level of the resources allotted, a situation appreciated as being favourable;
2. when $I_{r_{ip}} < 1$, the additional revenues generated by the investment do not exceed the value of the resources allotted, the situation being appreciated a unfavourable and unprofitable.

Beyond the rigours imposed by the mathematical presentation of the sustainable economic development, I appreciate that for the financial management, too, knowing the gear determined by the allocation of public resources and the generation of additional revenues will be very useful in establishing and capitalizing the decisions to invest in the public infrastructure, but also to calculate the period of time these resources need to be depreciated based on the financial flows of additional revenues.

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THE CONCEPT OF STRATEGY AND ITS MAIN DETERMINATIONS AT THE LEVEL OF LOCAL PUBLIC ADMINISTRATION

Petru Filip

University of Oradea, Faculty of Economics

Abstract: The strategy, both for the Romanian local communities and for the entire public sector, ensures the permanent monitoring of the resources-transformation process, public services obtained mechanism, both on short term through the plans of measures adopted and also on long term. No matter the way in which the strategy is defined, it ensures the “way” to support the local economic development, harmonizing the limited character of the resources with the unlimited need of the consumers (beneficiaries) for public services. That is why the purpose of the current paper is to emphasize the efforts and action directions that both the Local Councils and especially the town halls must accomplish for only in this way their elective programmes transformed into strategies can be implemented.

Key words: strategy, local community, local public administration, public services

JEL Code: M1, H4, H6,

Strategy has a millenary history, of a real interest being the remark of the American Brian Quinn⁸⁹⁹ who defined strategy as: “Initially, in the early ancient Greece, the term “strategos” referred to the role of a general who ruled an army. Subsequently, it gained the meaning of the general’s art, referring to his psychological and behavioural abilities, which enabled the general to fulfil his role. In the epoch of Pericles (450 BC), strategy gained a managerial (administrative, leadership, rhetoric, power) acceptance. During the time of Alexander the Great (330 BC), strategy referred to the ability of deploying one’s forces in order to overwhelm the opposition (the enemy) and of creating a unitary system of global governing. This last meaning had been used, for centuries, for the highest part of military approaches, expanding, beginning with the 20th century, to economics, political science a.s.o. The definition of strategy, even though it has a pronounced character determined by the need for national protection at that time, is related to the wording out of objectives in order to achieve this purpose.

The **objectives-purpose** relation is thus “the oldest” relation capitalizing strategy as a concept, according to which once the objectives capitalized, all the means (including the resources) must be identified in order to achieve the purposes, no matter the form they wear.

Moreover, the **objectives-purpose relation** would later define the development direction of an organization which, as the research would prove, used to depend on a series of factors out of which we mention:

- **the human factors**, without which the objectives would not reach the purpose established;
- **the material factors**, which transformed by the human factor, had to serve the consumer market in the form of products and services;
- **the financial factors**, known for their exchange function would later interpose, in order to transform the human resources, through labour, into products and services.

For the contemporary scientific community⁹⁰⁰, strategy designates the set of the organization’s long-term core objectives, the main ways to achieve them and the resources allotted in order to obtain the competitive advantage, according to the mission of the organization.

⁸⁹⁹ J. B. Quinn, *Strategies of Change, Logical Incrementalism*, Homewood, Richard Irwin, 1980, p. 3

⁹⁰⁰ Ovidiu Nicolescu (coordinator) – *Strategii manageriale de firmă*, Ed. Economică, București, p. 37

Thus defining strategy, it means that the **objectives-purpose** relation has as finality to acquire the **competitive** advantage, specific to a competitive market, which once assimilated it ensures the **perenniality** of the producer on the market in front of the consumer who, it is true, wants to acquire an as high as possible quality of the products and services, for as low as possible prices.

That producer ensuring the **competitive advantage** in relation to other producers existing on the market and who is harmonizing the best the relation between quality and price, without overlooking the utility as a requirement of the consumer has all the “chances” to satisfy the interests of the owners of the organization, of the employees and also of the stakeholders interested in the managerial performance of the organization.

Placing in the middle of the attention “the consumer” who requires from the producer, as we have mentioned, utility, price and quality for the products and services obtained, relating the consumer’s requirements to the production capacity and, generally, to the factors of production that the producer has, it results an organization and working mechanism of the organization which started the interest of the researchers to study the way in which, in a systemic vision, the resources, through specific **production processes**, are transformed into products and services.

That is why, meeting such challenges, the Romanian scientific community and the entire world “jumped” to help the producer in order to provide the **theoretical-methodological instruments** meant to trace the path to be followed, the path that it will have to make in order to get victorious from the bitter fight between the producers to survive on the market.

The strategy, underlined in this way, answers, in our opinion, to the organizations’ requests, generally, and especially to those of the producers, **like traders**, whose immediate but also a perspective purpose is to maximize the profit when the production costs are minimized, thus ensuring the answer to a series of questions like:

1. What activities will be performed in the future?
2. Which are the means necessary to achieve the objectives, related to the existing production capacity and the technological equipment?
3. Which are the deadlines required in order to achieve the objectives established?
4. What kind of resources are necessary (own, attracted or borrowed) to implement the objectives?
5. What is the **competitive advantage** to the acquired and whether it can be “converted” in terms of performance and profile requested by the owner of the organization?

Yet, how can strategy defined for the public management science, taking into account the fact that the institutions in the public sector present a series of particularities such as:

- **financial resources** are not levied by the public institutions, the latter being only the beneficiaries of “budgetary credits” approved and open according to the law;
- even though the manager of the public institution has the quality of loan officer, the distribution of **resources** (coming from taxes and fees) is made only based on the approved budget;
- engaging **material resources** in “the process of acquiring” public services will take place within the limit of the approved budget so that at least from the perspective of the volume of public services this will take place considering the materials that can be ensured;
- engaging human resources is made according to the rule of remuneration and the number of employees established according to the legal norms in force.

Strategy, in this context, will designate for the public management science, the set of long term core objectives, defined in the conditions of budgetary constraint, the main ways of achievement, together with the budgetary resources allotted, in order to obtain public services at as optimal as possible quality, price and utility for the consumers.

Even though, at first sight it could be considered that the definition of strategy, resulted from the definition formulated by the Romanian scientific community, is a particularization of it, I appreciate

that such a definition of strategy is necessary for the public management, the differences in concept being determined by:

- **the budgetary constraints**, usually imposed by the financial-budgetary discipline;
- **the nature of the resources**, mainly fiscal, which require a certain rigorousness in collecting and using them;
- **the competitive advantage**, in my opinion the most important problem, cannot be obtained as long as the public services have the monopoly market, but it is possible to be argued in terms of price, quality and utility requested by the consumers.

Without averting from the subject, I consider that strategy will answer to the same categories of questions like in the situation of the producers (companies) and for the European local communities and why not for the Romanian local communities, it is a necessity determined by:

- a) legislative requirements, **the local authorities** (The Local Council and town halls) having to draw up the economic-social development strategy for each administrative-territorial unit⁹⁰¹;
- b) **political** requirements, the mayor's elective programme, at least for some time, can be implemented only using as an instrument the economic-social development strategies;
- c) **communitary (public)** strategies, for the financial resources belong to the entire community and the administrators (mayors and the Local Council) have to account for **the reliabilization of this resource consumerism**.

The strategy, both for the Romanian local communities and for the entire public sector, ensures the permanent "control" of the **resources-transformation processes, public services obtained** mechanism, both on short-term, through the plans of measures adopted, and especially on long-term, which can have an impact on:

- the demographic movements of the population;
- the dynamics of the taxation base (economic base);
- the attraction of investments in the area with **long-term benefits** from the perspective of extra gains and the **social policy** concerning the creation of new jobs.

Who gains from a strategy drawn up at the level of a local community? It is a question I am trying to answer in what follows:

In my opinion, there are a lot of stakeholders interested, out of whom we mention:

- 1) **the local community**, which being the "owner" of the resources, it is interested in knowing the way in which these are used, in compliance with the conditions of efficiency, efficacy, and economy in order to obtain services satisfying the needs of the community;
- 2) **the local authorities** (the Local Council and town halls) which based on the mandate given by vote, are responsible (juridically and morally) of the way in which the budgetary resources are constituted and used and especially of the quality, utility and price of the public services obtained;
- 3) **the financial creditors** who, in their turn, are interested in the financial capacity to reimburse the local communities when these use borrowed sources, especially to make public investments in the infrastructure, in the conditions of the law, (maximum 30% of own revenues that the local community has);
- 4) **mass-media**, known as the fourth in the state, has the "main" mission to ensure transparency in constituting and using the budgetary resources, noting, it is true most of the times the "mistakes" in the management of resource administration but also appreciating, if possible, the performance in the use of community resources;

⁹⁰¹ Art. 38, paragraph (2) of Law 215/2001 concerning the local public administration, published in the Romanian Official Gazette no 204 of 23 April 2001

- 5) **the suppliers of public goods and the service suppliers** are interested in knowing the local development strategies to be able to draw up their possible business plans, but also to be informed with promptness on the financial capacity of the local community;
- 6) **the state**, to be able to underlie the future budgetary transfers, conditioned or unconditioned, especially in order to financially support some public services (for example, pre-university education, health, culture etc.) but also to draw up national strategies;
- 7) **the regulating authorities**, interested in knowing the **strategies drawn up** from the perspective of conceiving some frame – regulations and ensuring the underlying of the development strategies nationally.

Enumerated, the **stakeholders**, would seem enough to monitor the process of transformation of resources into goods and services and, then, based on the definition of strategy, we consider as representative the model to draw up **local strategies**, presented below.

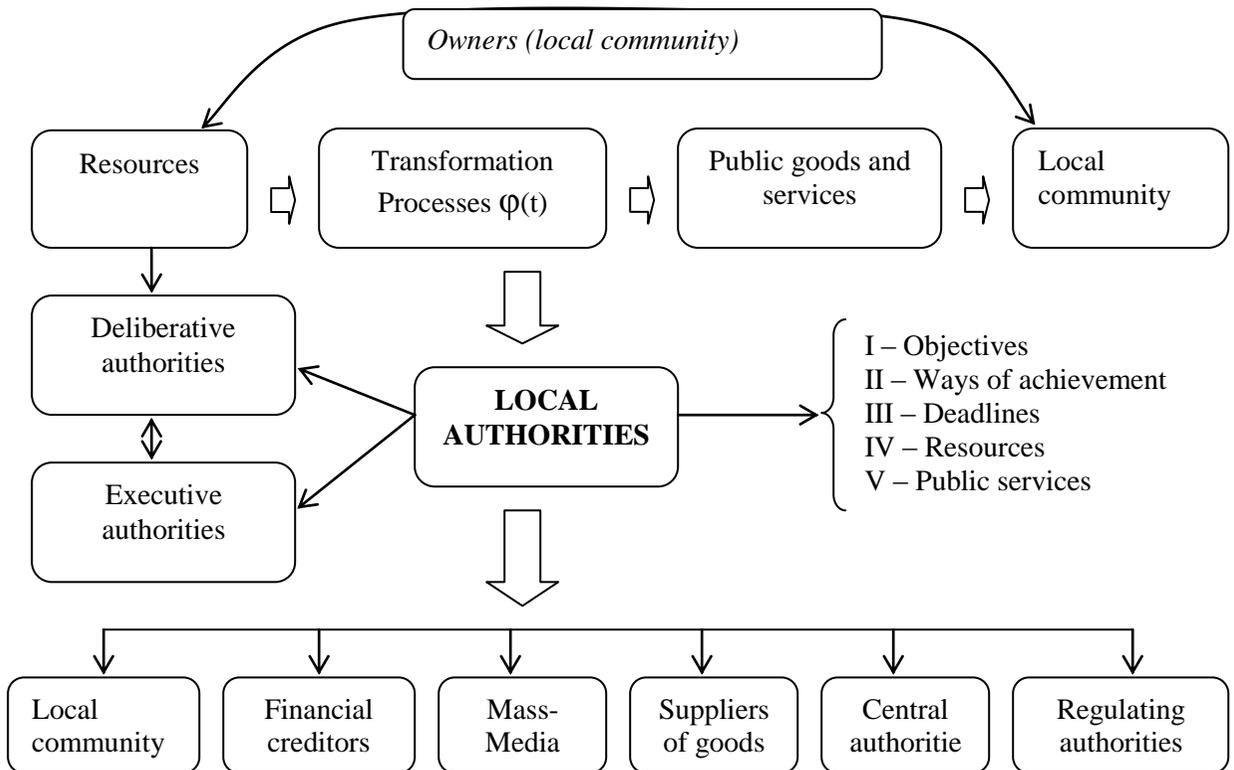


Figure 1. – A model to draw up local strategies and the interested stakeholders

No matter the way in which **strategy** is defined, it ensures as we have mentioned the “way” to support the future local economic development, harmonizing the limited character of the resources with the unlimited need of the consumers (beneficiaries) for public services. That is why important efforts are required, both of the **Local Councils** and especially of the **mayors** for only in this way their elective programmes transformed into strategies can be implemented during their mandates.

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