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**SECTION: INTERNATIONAL BUSINESSES AND EUROPEAN
INTEGRATION**

SUB-SECTION: INTERNATIONAL BUSINESSES

THE ANALYSE OF THE REGULATIONS AT THE EUROPEAN LEVEL REGARDING CARTELS. CASE SUDY: CARTEL BETWEEN THE COMPANIES CHIQUITA AND PACIFIC

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The present paper tries to make an analyse of the policy in the field of competition, at the level of the European Union, more exactly the policy applied on cartels. It is important to know the regulations regarding cartels, especially the way in which procedures are done in the case of a cartel. Cartels have a negative impact on competition and consumers, and that's why it is extremely important that they are discovered on time and after that, by using correction measures to try to recuperate the created damage.

The used research method is the analyze of the legislation in force regarding cartels and the study of the existing literature in this field, and in order to give an example of the procedures in the case of a cartel, we analyzed the cartel between two companies Chiquita and Pacific. It is extremely important for these regulations to be known, and in order to discourage such practices, the European Committee has thought of a series of advantages for the companies that give information and evidence regarding the existence of a cartel. Among these advantages we could mention immunity to fine, that permits the company to be absolved of all its fines.

The paper presents schematically the legislation that forbids anti-competitive practices, at the level of the European Union, and after that the applied procedure when a law violation is discovered. The modality in which the procedures are applied, in the case of suspecting a cartel, have been presented step by step, and after that, the case study does not exist only to give an example of procedures, but also to present the applied methods, in the case of success in proving the existence of a cartel.

The importance of competition policy at a European level cannot be denied because of the fact that only by implementing of a proper policy in this field, an economy can develop further.

Keywords: cartels, competition policy, European legislation, fine, immunity from fines

JEL: F51, K21, L13, L66

1. Regulations regarding cartels

At the level of the European Union the policy regarding competition between cartels is regulated by Article 101 of the *European Union's Functioning Treaty*, that has replaced Article 81 from the European Community Treaty. The European Law System forbids any agreement between companies that can affect trade between the European Union's member countries. Article 101 from the *European Union's Functioning Treaty* refers to the prohibition of some aspects, such as: direct or indirect settle of purchase or sale prices, markets' sharing, output control or trade control, and unequal conditions for commercial partners that provide similar services (European Committee).

The policy applied to cartels is based on economic principles, exactly like the legislation that regulates the policy regarding competition.

Because there is a difficulty in proving the existence of a cartel, by the fact that this is a secret agreement between two or more companies, at the level of the European Union there is a possibility that a company to benefit from fine immunity when it gives information about the cartel it is included in.

The fine immunity is given to companies based on some strictly regulated conditions. This immunity must be perceived as a reward given to companies that provide useful information to the Committee during the investigation. A company can get immunity, if it voluntarily offers the Committee useful information regarding the existence of an agreement between companies, and this information can be the starting point of the investigation. Immunity cannot be granted if the request for clemency comes after the beginning moment of the investigation or if the Committee has information regarding the alleged agreement.

If the conditions for fine immunity granting are not met anymore, the companies can benefit of a reduction in the amount of the fines. In order to benefit of a reduction in the amount of the fines, the companies have to give the Committee information that bring an extra value during the investigation. In a cartel, if more companies wish to benefit of such a reduction, they have to obey the following rules: the first company that brings significant information will benefit of a fine reduction, reduction that can be up to 50%, the second company that brings significant information will benefit of a reduction between 20% and 30%, and the companies that bring information after, will benefit of a reduction of maximum 20% from the given fine.

2. How to conduct the proceedings in the case of a cartel

To start an investigation in the case of a cartel can be done if there are some complaints made by: companies, physical or juridical persons, member states of the European Union or European Committee can dispose to start an investigation, based on information gathered during the years. Before the investigation begins, there is an initial evaluation, which has as a goal, the analyse if the information of the European Committee is enough, or there is a need of gathering more data. When the investigation is started, the companies and their field of activity is established. The decision to start the investigation is made public only after informing the company in writing as well as orally. The notification of the company is done in the language of the country where the company has its headquarters, but it can be done in any other language officially acknowledged in the European Union.

After the beginning of the investigation the European Committee has the right to ask for any kind of information that is considered to be necessary of the solving of the case. This information will not be asked only from the companies implied in the investigation, but also from other companies that can provide useful information in the case. The Court of Justice of the European Union recognizes the right of a company not to contribute at its own incrimination. Thus, when a company invokes this right, more exactly its refuse to give information that could incriminate it, the company has to notify this to the General Direction for Competition. The dead line for information request is clearly settled and it permits to answer in due time. The companies can ask for the information given to be strictly confidential. During the investigation, the General Direction for Competition can ask from the parties involved, but also to others, to take part at different meetings that have want to clarify some aspects. During these meetings, the persons involved in the investigation give declarations.

During the stage of investigation, there can be inspections done at the headquarters of the companies. During the investigations, the European Committee can exchange information with the national authorities of competition.

Also there are meetings organised in order to analyse the current situations, meetings that have the role of maintaining the transparency between the general Directions for Competition and the involved parties. During these meetings, the involved parties are given the chance to clearly present their point of view. They are presided by the leaders of the General Direction for Competition and take place immediately after the beginning of the investigation when the investigation has reached an advanced level.

After the investigation, the following decisions can be taken: forbidding one or more problems identified at the beginning of the investigation, on the reason that they are contrary to Article 101

from the *European Union's Functioning Treaty*, or the finishing of the investigation on the reason that the accusations are not founded. Before taking a final decision, in the case of not finishing the investigation, the involved parties have the right to be heard. After the hearings, the Committee will say its objections and the intention of giving or not giving a fine will be mentioned. This stage of the investigation can end with the decision of closing the case, if the communicated objections are considered to be unfounded, or a decision can be adopted as a consequence of breaking the competition norms.

Voluntarily, the companies can propose the Committee some commitments that can answer to problems identified in the field of competition. Before these commitments are obligatory, a decision is taken regarding some market test to see if the measures applied are efficient. The committee can consider that besides these commitments the introduction of some corrective measures and fines are proper. The fine for each company can reach up to 10% from the turnover of the company, depending on the seriousness of the facts. The decisions are adopted by the Committee, the implied parties are informed, and after a short period of time, the decisions are published. The abstract of the decision is published in the Official Journal of the European Union.

3. Case Study: the Cartel between Chiquita Company and Pacific Company

The cartel between Chiquita Company and Pacific Company has been called *Exotic Fruits*, having the number 39.482. the companies that have been investigated were, on one hand: Chiquita Brands International, Inc. From the U.S.A., *Chiquita Banana Company BV* from Belgium, Holland and Luxemburg and *Chiquita Italia SpA* from Italy, and these companies being collectively called Chiqhita,; and on the other hand, the companies: *FSL Holdings NV* and *Leon Van Parys NV* from Belgium and *Pacific Fruit Company Italy SpA* from Italy, these companies being collectively called *Pacific* (European Committee). These two companies have been subject to one investigation, also for violeting Article 101 from the *European Union's Functioning Treaty*, and with the Committee's decision in 2008, the existence of a cartel between the two companies has been proven, establishing the price for bananas on the North European market.

In this case, the subject of the research has been the price establishing for ripe and unripe bananas on the South European market. In 2007, the Committee has got a series of documents that have been gathered by the Italian police, when making an inspection at the headquarters of the Pacific company, After that, some other inspections have been done at the headquarters of other significant importers of bananas from Spain and Italy. In December 2009, the Committee has communicated the objections to this case. After this communication, all the involved companies have presented, in writing, their point of view, regarding the objections made against them.

In June 2010 the hearings took place, where all the involved parties were present. We have to mention the fact that, Chiquita Company, in 2005, submitted an application for fine immunity. Of course, this application was approved on the condition that the company gave all the necessary information during the investigation. The application was submitted in order to be given a fine immunity in the case of the cartel regarding the price establishing of the bananas on the North European market. This application was also acknowledged in the present case, the only imposed condition being to cooperate exactly like in the first case. Thus, after the investigation, it was clear that during eight months, July 2004-April 2005, the two companies, Chiquita and Pacific coordinated their strategy regarding the price for selling ripe and unripe bananas on the Portugal, Italian, and Greek markets. During this period, the two companies exchanged information regarding the future price strategies, applied on the three markets.

The cartel could be proved on the basis of the documents found at the headquarters of Pacific Company, after the unannounced inspection and of the information brought by Chiquita

Company. These two companies are among the largest providers of bananas on the European market.

The decision adopted by the committee, on the 12 October 2011 could be summarized as follows: a secret agreement between the two companies could be proved, agreement regarding the price establishing for bananas, for a period of eight months and 12 days; the significant market was Greece, Portugal and Italian; and as corrective measures regarding the above mentioned violation, there were some fines given. The amount of the fine was established according to the sales done in Portugal, Italy, and Greece, during eight months. Thus, as a consequence of the final decision, the Pacific Company was given a fine of 8.919.000 Euro, and Chiquita Company has benefited of the clemency policy, thus being exempt from the payment of any fine.

4. Conclusions

The importance of a policy in the field of competition, at a European level, cannot be neglected, because only by implementing of an adequate policy in this field, an economy can develop.

At a European level, the policy in the field of competition is focused on: cartels, abuse of dominant position, economical concentrations and state aid. Regarding cartels, the regulations and proceedings are clearly established. The particularity in the case of a cartel is that it is rather difficult to be identified, being by definition a secret agreement between two or more companies and that aims the coordination of the market prices, thus influencing both competition and consumers.

During the years, the European Committee has been confronted with different kinds of cartels that activated in different sectors. All these cartels have been punished by applying corrective measures. The extent of these measures was established according to the damage and according to the period of the cartel’s existence.

In the table below (Table no.1) we can observe the amount of the fines applied to cartels in the European Union, between 2006-2012. Analysing this table, we notice the fact that in 2007, the fines had the highest value, a total of approximately 3.338 millions of Euro, and the smallest value was recorded in 2011, totalling 614 millions of Euro. We cannot take into consideration 2012 because only three months were taken into consideration.

Table no.1 Fines applied to cartels between 2006-2012

Year	Amount in €
2006	1.846.385.500
2007	3.338.427.700
2008	2.263.279.900
2009	1.540.651.400
2010	2.868.676.432
2011	614.053.000
2012*	255.258.000
Total	12.726.731.932

Source: adapted on information found at <http://ec.europa.eu/competition/cartels/statistics/statistics.pdf>

* March 2012

According to the statistics, beginning with 2006 up to present, during these seven years, on the European level, there were fines given valuing approximately 12.727 millions of Euro, because of Article 101 violation, from the *European Union’s Functioning Treaty* (once Article 81 in the *Treaty of the European Community*).

In order to emphasize more clearly the evolution of the fines applied to cartels in the European Union, in the period 2006-March 2012, we can analyse the chart below (Chart no.1). We can

notice the fact that during seven years, the maximum points were reached in 2007 and in 2010. The period between 2007-2009 registering a decrease of the fines applied to cartels.

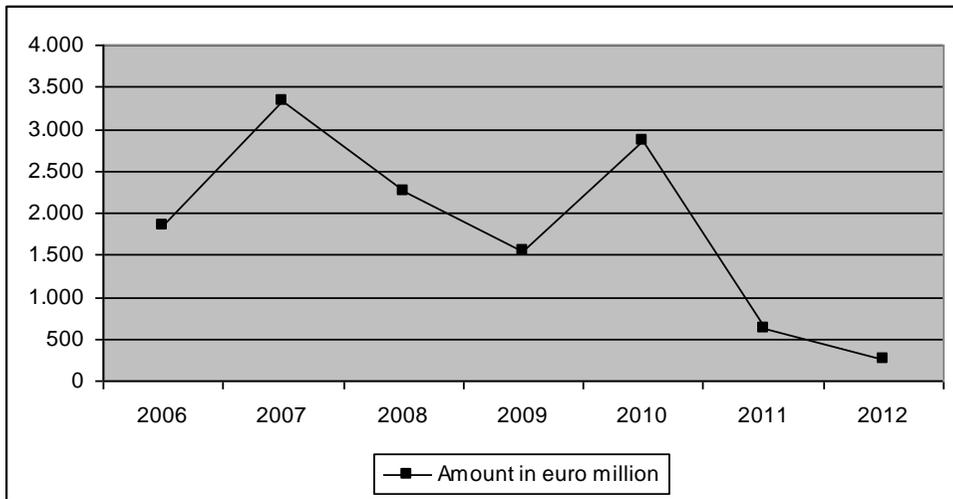


Chart no.1. The evolution of the fines' value, applied to cartels between 2006-2012

Source: made by the author based on data from <http://ec.europa.eu/competition/cartels/statistics/statistics.pdf>

* March 2012

In order to see also an evolution of the cartel cases, acknowledged by the European Committee, the table below can be analysed (Table no.2). During the analysed period, we notice that, in 2007 there were discovered and punished, most cases of cartel, that is 8, and in 2011, the fewest cases, that is 4. Until March, the current year, two cases of cartel were acknowledged.

Table no.2 The number of cartel cases acknowledged by the European Committee, during 2006-2012

Year	No. cases
2006	7
2007	8
2008	7
2009	6
2010	7
2011	4
2012*	2
Total	41

Source: adapted based on the data from <http://ec.europa.eu/competition/cartels/statistics/statistics.pdf>

*March 2012

Thus, in order to diminish the cases of cartel registered at a European level, it is extremely important that the legislation in the field of competition should be strictly applied.

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ROMANIA'S EU ACCESSION. GAINS AND LOSSES (I)

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EU accession has brought, as expected, many changes in economic, social and cultural domains. An important chapter is the trade dynamics and how this dynamic has been modified over time by changes in the legal status of Romania's relations with certain trading partners. In this paper we present data on trade with countries with which Romania has concluded trade agreements before accession. Data presentation and analysis continues in "Romania's EU accession. Gains and losses (II)".

Keywords: bilateral agreement, comparative advantage, international trade, EU accession, EU integration.

JEL Classification: F13, F14, F15.

Introduction

As a result of national will and political interests, the accession process and then, the integration of Romania into the EU is too often regarded as controversial. If the accession and integration option is not contested, how governments have managed this process is considered unprofessional. EU had fulfill its role of providing training support for accession and quickly integration, but governments did not know or did not want to get maximum profit for the citizens. Five years after accession Romania does not yet feel the benefits of EU membership. Many of the actions taken by representatives of political and administrative power are, though, against national interest and appear to show resistance to the EU's democratic institutional system. An important factor, among others, is the opening to the biggest economic market. If the governments knew and wanted to take advantage of Romania's foreign trade this would have grown strong with January 1, 2007. This in fact happened but not in the desired direction: trade volume increased, but trade deficit with the EU also increased. This supports the idea that in the economic relations with a majority of partners, comparative advantage is on their part and not Romania's one. Romania's main comparative advantages are cheap labor and low price of exported natural resources. Neither of these two components do not contribute to economic development in Romania but to its devaluation. To justify these assertions we will analyze (in part (I) and part (II)) commercial advantages or disadvantages of EU accession by studying the dynamics of commercial balance with countries with which Romania has changed, during time, the legal status.

Romania before 2007

Romania has concluded trade agreements wich, with the accession, were closed. The main agreements were concluded with the CEFTA, EFTA and that bilateral agreements with Albania (2004), Bosnia (2004), Israel (2001), Macedonia (2004), Moldova (1995), Slovenia (2004) and Turkey (1998).

We present statistics on trade with these countries with highlighting, if any, the effects of termination of these contracts, on the one hand, and the accession, on the other hand, on the volume of these exchanges. Note that data for 2010 are provisional and those for 2011 are obtained by interpolating the data for the period January-October 2011 (according to INS (Institutul National de Statistică) monthly statistical bulletin issued).

First we present data on those CEFTA countries which joined the EU before Romania. It's about Czechoslovakia (Czech Republic and Slovakia) (1992, 2004), Poland (1992, 2004), Slovenia (1996, 2004) and Hungary (1992, 2004). Since the effective separation of Czechoslovakia took

place on January 1, 1993 to 1991 and 1992 data were mentioned on the behalf of Czech Republic. Dates in the brackets represent the year when the country joined CEFTA, and the year when the country joined the EU and therefore the output of the CEFTA.

We are not doing here an analysis, because we return in Part II, but already seen a steady growth of trade volume with these countries.

Table 1. Romania's trade with selected CEFTA countries during 1991-2011

	Imports (thousand euros)					Exports (thousand euros)				
	Czech Republic	Poland	Slovakia	Slovenia	Hungary	Czech Republic	Poland	Slovakia	Slovenia	Hungary
1991	81146	119595	0	0	100717	57890	72581	0	0	67156
1992	60592	46552	0	0	137321	20450	40694	0	0	62345
1993	30776	28260	19846	8419	143239	8166	17203	4976	10183	99931
1994	42290	25141	26822	10641	140939	63783	11818	6332	14613	136051
1995	47817	44121	37610	16892	243622	16254	30249	12445	17010	134888
1996	65659	68333	47190	20024	230449	14064	42206	23969	17256	136824
1997	93006	80026	64229	24913	308864	15347	90990	21691	14442	162322
1998	173126	129400	94723	41033	486173	11342	72815	19048	29259	194906
1999	162965	150692	82866	43918	389414	13910	112707	11264	40720	255245
2000	214150	210196	124685	60314	559869	22353	110012	28655	57561	386743
2001	307350	307755	155860	74952	670664	40371	112234	35849	72703	414196
2002	367911	367759	171353	90421	675349	54972	112387	36449	86190	455850
2003	433022	491382	213307	103698	766090	84901	149519	41409	61988	545372
2004	568374	658473	269872	133195	832102	135482	250424	63403	96331	724183
2005	747695	939968	354848	151894	1077309	212633	325063	93003	102818	922598
2006	1007389	1128437	461642	192019	1331563	294468	468266	180435	92632	1276028
2007	1240034	1732047	676940	480366	3565377	407042	637319	267244	164372	1691176
2008	1422607	1933814	839148	476847	4293159	533731	667700	443407	161127	1726398
2009	916677	1383502	538369	263562	3291382	478846	647232	308898	169089	1266330
2010	1114049	1742690	729386	310469	4043721	573615	982258	460724	183029	1774513
2011	1311013	2099237	893270	363264	4559739	738989	1073195	692335	200907	2418095

Source: compiled by author based on data from the INS website (www.insse.ro)

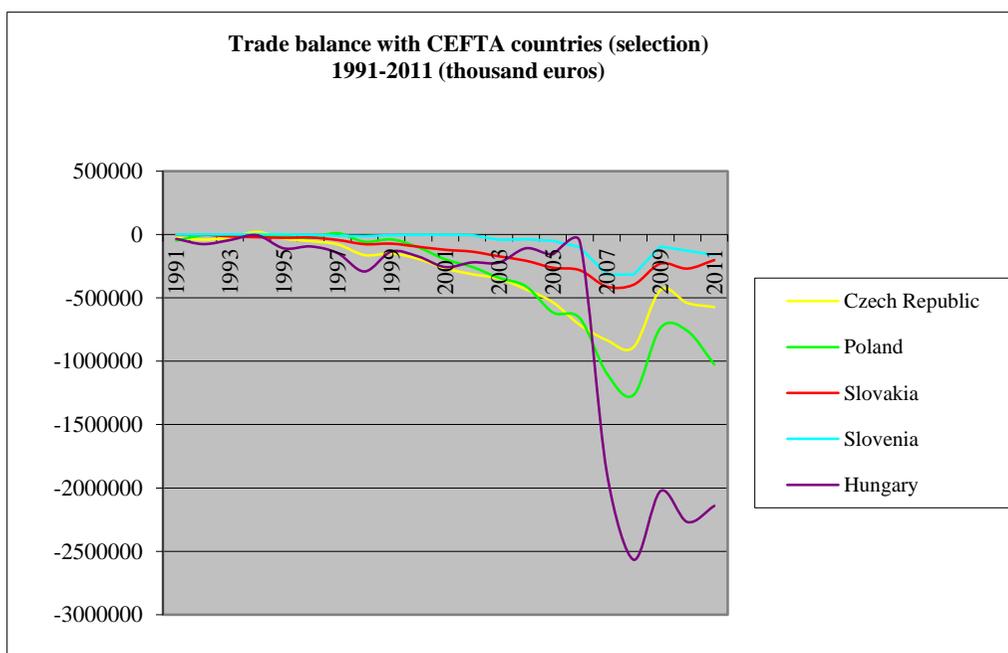


Figure 1

Source: Graphic made by author based on data in Table 1.

A first conclusion following the analysis of the graph showing trade with CEFTA countries mentioned is that the inclusion of Romania, in 1997, in to the Central European Free Trade Agreement has led to a growing trade deficit with these countries, the deficit widened in 2004, year that all states accessed EU. Moreover, following the accession to the EU, trade deficit rises sharply with values 2-3 times higher than the previous. Things were changed in 2008-2009, but not to the values of the period 1991-2000. It is important to note, and we return to this issue in analyzing the advantages and disadvantages of accession (from trade point of view), that deficit reduction is mainly based on the growth of value of exports to these countries.

An interesting development is the dynamic trade with EFTA signatory states (Norway, Switzerland, Iceland and Lichtenstein).

Table 2. Trade between Romania and EFTA Member States during 1991-2011

	Imports (thousand euros)				Exports (thousand euros)			
	Switzerland	Norway	Iceland	Lichtenstein	Switzerland	Norway	Iceland	Lichtenstein
1991	105743	2220	0	1968	54673	4021	0	579
1992	96728	5236	0	932	50406	3962	89	25864
1993	126208	6820	2215	2658	102035	5700	18	391
1994	124263	9440	1601	3062	38090	8899	0	278
1995	153618	18091	1067	7217	48964	8633	302	1934
1996	153688	15400	119	1292	29593	19257	14	4050
1997	132222	13882	147	1336	38704	54729	372	2167
1998	120865	18256	332	2374	44746	41893	908	2248
1999	119343	15713	1320	1230	53781	38838	447	208
2000	166569	29504	1066	923	63075	46445	534	732

	Imports (thousand euros)				Exports (thousand euros)			
	Switzerland	Norway	Iceland	Liechtenstein	Switzerland	Norway	Iceland	Liechtenstein
2001	188651	34719	631	762	60216	81954	138	843
2002	163273	47360	1247	4111	74995	119685	478	80
2003	189986	46887	1835	864	93868	100555	174	153
2004	262024	65620	1387	782	114053	79480	878	206
2005	323772	89700	1608	923	150171	137969	2718	107
2006	421338	110828	2090	1589	157459	264965	2372	263
2007	357053	96765	1652	2781	221621	308037	4081	2365
2008	411444	95473	1910	1435	302288	323772	2595	1145
2009	354042	83148	1099	12366	254450	398794	1616	385
2010	428291	87102	3074	11330	259676	312492	1152	2180
2011	389352	122559	3802	35108	296128	328794	971	361

Source: compiled by author based on data from the INS website (www.insse.ro)

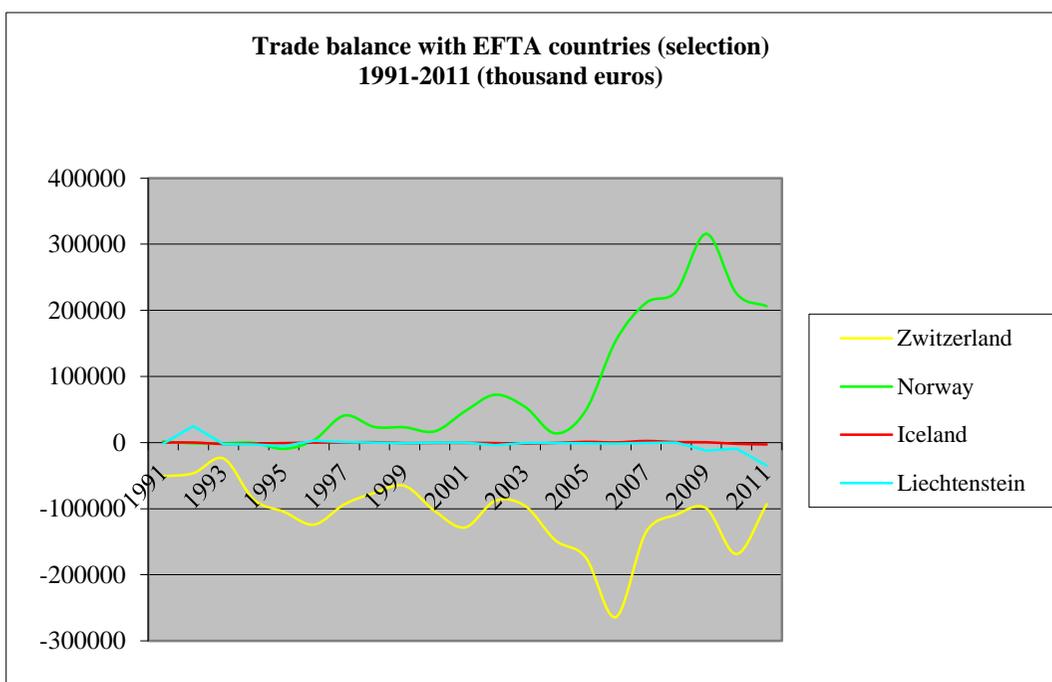


Figure 2.

Source: Graphic made by author based on data in Table 2.

If, regarding Iceland and Lichtenstein, trade does not record (in absolute values) significant changes (even if the relative values can vary over 15 times) regarding Switzerland and Norway a mirroring behavior is observed. This suggests that European free trade association has a lesser role in the individual Member States trade with other countries and probably more influenced relationships between EFTA.

Another category is the Romanian relations, before and after accession, with the states with which our country had concluded bilateral agreements. It is, as mentioned earlier, Albania

(2004), Bosnia (2004), Israel (2001), Macedonia (2004), Moldova (1995), Slovenia (2004) and Turkey (1998).

Table 3. Dynamics of the Romanian trade balance with countries with which bilateral agreements have been concluded (thousand euros)

<i>Country/Year</i>	1991	1992	1993	1994	1995	1996	1997
Albania	-1931	1575	2525	3831	5401	8222	2698
Bosnia and Herzegovina	0	20886	-6738	384	559	1279	2713
Israel	2235	-12544	-19444	28922	1820	-9285	-12457
Macedonia	0	7494	45	5393	14362	4776	6173
Moldova	-5619	-37510	6369	-29885	-17488	16614	59330
Turkey	16299	32898	111050	84842	74961	136683	124058
<i>Country/Year</i>	1998	1999	2000	2001	2002	2003	2004
Albania	3540	7288	11382	13533	21622	13156	15261
Bosnia and Herzegovina	3339	4540	1415	4078	14727	14589	16546
Israel	-12712	-31258	-9032	-31861	45376	-12167	-47668
Macedonia	2084	4878	13404	10870	6258	9100	91483
Moldova	60861	57415	109698	81553	63315	46592	102791
Turkey	44531	219251	385762	81643	19496	-16600	225856
<i>Country/Year</i>	2005	2006	2007	2008	2009	2010	2011
Albania	11014	23299	34230	36664	27429	46119	39882
Bosnia and Herzegovina	66104	82814	17377	27605	35630	52581	67302
Israel	-47628	-47885	-50052	-25223	-13087	620	20066
Macedonia	44120	65799	41541	63590	67793	58178	33249
Moldova	195362	231270	280531	322620	242824	324605	313696
Turkey	179025	-24625	-694181	-557693	-10600	897504	924048

Source: compiled by author based on data from the INS website (www.insse.ro)

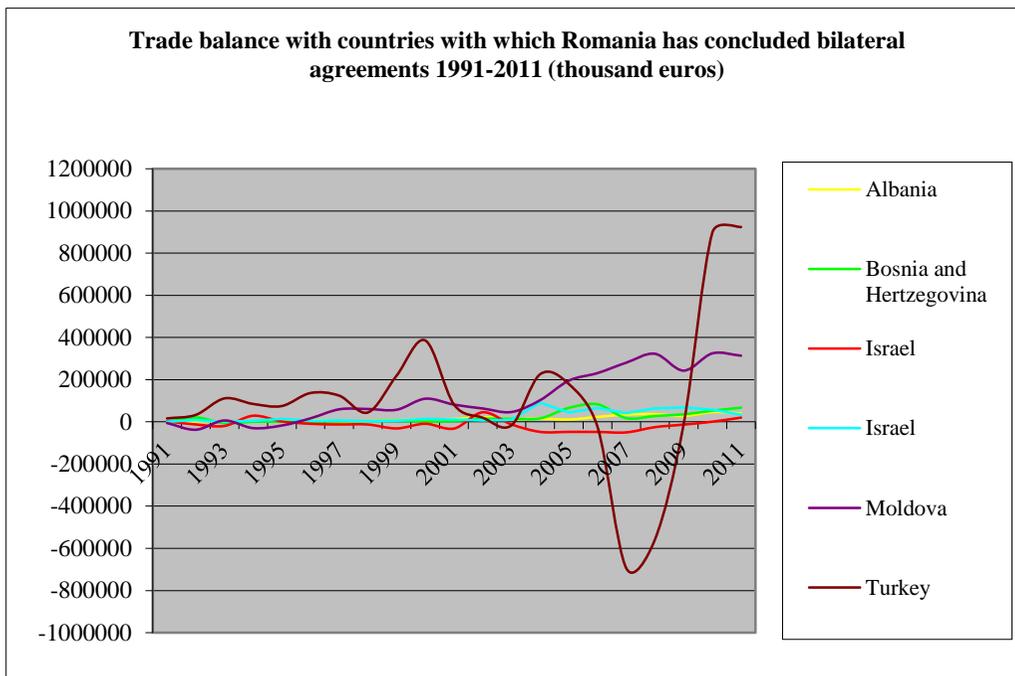


Figure 3.

Source: Graphic made by author based on data in Table 3.

On first examination, except Turkey, do not seem to have been significant changes over time.

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A STUDY ON FINANCIAL DERIVATIVE WORLDWIDE TRANSACTIONS – FUTURES CONTRACTS

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Financial products and financial derivatives transactions are on front page in the profile publications, because they have generated huge gains for a small part of market participants, and losses as well, sometimes followed by collapse even on the international financial institutions. Very common we can find in specialized media the hypothesis that the global instability was caused by derivative contracts and by the magnitude of these transactions, from the years preceding the crisis. Since they appeared in order to protect investors against various risks, we believe that the approach must have via derivative products is the ethical one. It is true that derivatives trades have grown very rapidly and have expanded from the commercial field (commodity derivatives) to the capital market, but this was because the demand for such products was very high. Basically, the demand for financial derivatives products has validated their existence in the market.

Derivative financial products are used by traders of financial intermediation companies, dealers, brokers, individual investors and corporations or governments. Precisely because of this large spectrum of users of financial derivatives, we can ask whether they should be used only by specialists in derivatives trading. Taken literally, the term derivative refers to a new product resulting from the modification of an existing product, but has different properties from the original product and from which it was derived (Business Dictionary 2012). But financially speaking, a derivative is a financial contract between two or more parts that comes from the future value of n reference asset (Reuters 2001, 17). Of course, in literature there are many definitions of the concept of financial derivative. If we were to build our own simple definition, we define financial derivatives as financial contracts based on an underlying asset whose price on the spot market determines its price. This is a very simple statement, but true.

Regarding the main categories of derivatives market, the literature (Popa 1994, 62) (Bako 2006, 65) refers to four such categories: forward markets, futures markets, options market and swap markets. We chose as a subject for this article the futures market, worldwide. The latest data available at this time refer to 2010 statistics; in this area the data for 2011 are not available yet.

Keywords: futures, commodity futures contracts, currency futures contracts, interest rate futures contracts, stock index futures.

JEL Clasification

G12 - Trading volume

G15 - International Financial Markets

Futures market has suffered constant changes since the 1980s, both in Europe and especially in the United States. The stock exchange markets that offer derivatives for trading, namely futures products have diversified its range, there underlying assets are the most various traded futures. The most traded future contracts worldwide have as an underlying asset currencies, interest rates or indexes. Traditional futures markets, commodities markets have declined in the last 20 years due to extremely rapid development of markets where futures are traded mainly with the underlying financial assets.

1.Commodity future contracts and energy products

Commodity futures contracts are among the oldest derivatives and are the base for financial futures development. The goods most traded on the Chicago Stock Exchange are:

- Cereals and oilseeds: corn, wheat, soybean, soybean oil, crude palm oil, oats, rough rice.
- Livestock: live cattle, lean hogs.
- Frequently consumed products: Milk category 3 and 4, milk powder, whey, butter.
- Wood products: variable length timber, resin (cellulose).
- Other agricultural products: Cocoa, Coffee, Cotton.
- Precious metals: Gold, Silver, Platinum.
- Ferrous metals: Steel.
- Other metals: Copper, Uranium.

From the category of energy products traded on the Chicago Stock Exchange, we can mention: coal, refined products: heating oil , gasoline (various types), marine oil, electricity, natural gas, ethanol, light sweet oil, brent oil (name of two different types of oil extraction due to their area of extraction).

Worldwide, the volume of derivatives traded with the goods underlying asset, in 2010, can be presented as follows:

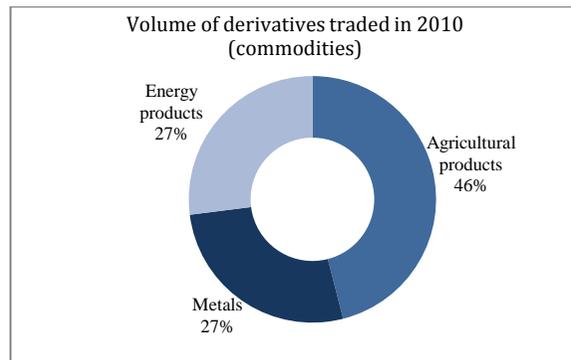


Figure no 1. Volume of derivatives traded in 2010 (commodities)

Source: made by author by data provided by the World Federation of Exchanges.

World Federation of Exchanges has made in 2011 a study conducted on the world market of derivatives of all types, and classified the exchanges that trade derivatives according to the volume traded in 2010 in comparison with the volume traded in 2009.

On the first position as increased trading volumes in 2010 compared to 2009 we find EUREX (337%). EUREX is one of the most representative markets for derivatives worldwide. This was the first market where investors could trade derivatives on gas emission allowances with greenhouse effect (CO₂). The great advantage of this market, managed by Deutsche Bourse AG and SIX Swiss Exchange, has been buying ISE (International Securities Exchange) in 2007, this system offers a wide variety of electronic trading platforms and access to many international stock exchanges. Volume traded with derivatives increased on average by 34% in all markets.

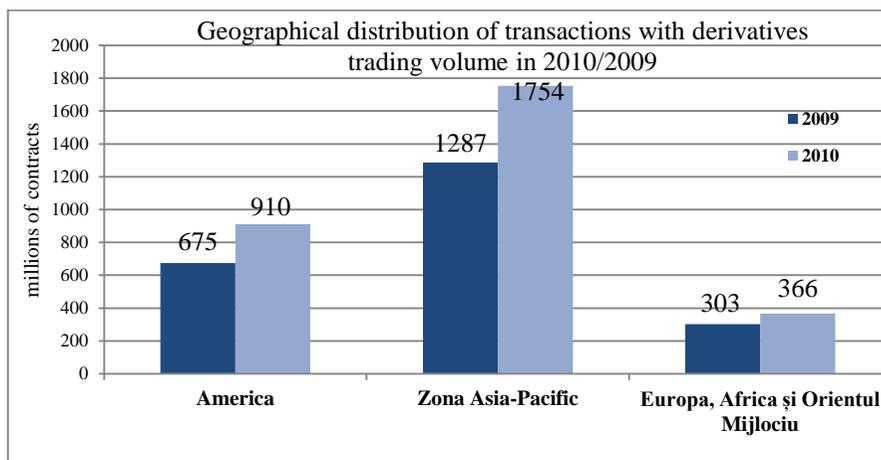


Figure no 2. Geographical distribution of transactions with derivatives trading volume in 2010/2009

Source: made by author by data provided by the World Federation of Exchanges.

As shown in figure number 2 above, the most commercial derivatives were traded in the Asia-Pacific. Stock exchanges in this area increased in trading volumes (36% higher in 2010 compared to 2009), given that 87% of total volume traded in this region of the world has been determined by China. The volume of commodities derivatives traded at Shanghai Stock Exchange in 2010 increased by 43% compared to 2009, while on the stock market in Zhengzhou were traded with 118% more transactions in 2010 compared to 2009.

Chicago Stock Exchange (CME Group) dominates the trading with commodities derivatives in America, across all segments, as follows: agricultural products, energy products and metals. The number of derivative contracts traded in 2010 was 35% higher than traded during 2009. This because of the possibility created by stock exchanges for investors to trade using trading platforms such as CME, CBOT and NYMEX.

2.Currency future contracts

Currency futures contracts require standardization of most elements (Ciobanu 1997, 204), the margin that has to be submitted is very small, hence the possibility of employment in high value transactions. However, a small margin for the transactions engaged, can bring huge profits, but this mechanism can generate losses as well. Most times, transactions with the future contracts with underlying asset on currencies, are made for speculative purposes or for a foreign exchange risk coverage.

Derivative transactions with underlying asset on currencies saw a remarkable increase in 2010 in their volume compared to 2009. Worldwide, the increase was 142% for stock exchange markets taken in the analysis of World Federation of Exchanges. Thus, in the top of stock exchanges with the highest growth of derivatives trading volumes on currency futures, there is Osaka Securities Exchange with a volume increase of 684% in 2010 compared to 2009, MCX-SX (MCX Stock Exchange Ltd India) with an increase of 294% or National Stock Exchange of India with an increase of 218%. At CME Group, the volume of transactions increased by 45%.

The volume of transactions with derivative contracts with underlying asset on currencies declined by 11% in 2010 at NYSE Liffe, compared to 2009.

As shown in the figure number 3, most currencies derivatives were traded in Asia-Pacific. The stock exchanges in this area recorded increases in trading volumes on average 216% higher in 2010 compared to 2009. Volume traded on currency derivatives on Osaka Exchange, has

increased 684% in 2010 compared to 2009, while on the MCX – SX stock exchanged were traded with 294% more transactions in 2010 compared in 2009.

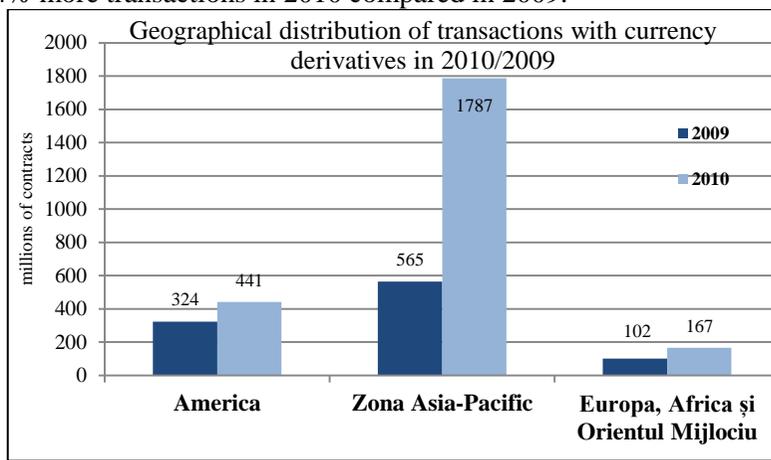


Figure no 3. Geographical distribution of transactions with currency derivatives in 2010/2009

Source: made by author by data provided by the World Federation of Exchanges.

3. Interest rate future contracts

Interest rate futures are commitments to deliver or to receive at a fixed maturity, a financial asset with an interest fixed at the start of operation (Ciobanu 1997, 206). The purpose of the futures contract in this case is the interest produced by the asset, the buyer will actually buy the interest that the asset will produce in the future. This interest will have a fixed rate at the signing of the contract.

Regarding trading derivative products with underlying asset on interest rates, there has been an increase on their volume by 29% in 2010 compared to 2009, worldwide after two consecutive years of decline. Since 2009, trading interest rate derivatives has evolved in the context of the practice of monetary policy interest of almost 0% by several major central banks around the world. But from 2011 the European Central Bank changed its interest rate and increased it from 1% to 1.25% in April 2011, the same action have been adopted by other specialized banks, the perspective of gains for investors using derivatives on interest rates, was almost obvious. Thus, the first months of 2011 have brought increased trading volumes on these instruments.

Regarding the distribution of derivative transactions on interest rates, in 2010, 40% of them have been concluded with futures contracts based on short-term interest rates (STIR futures), 39% with futures based on long term interest rates (LTIR futures), 16% with options contracts based on short-term interest rates (STIR options) and 5% were concluded with options contracts based on long-term interest rates (LTIR options).

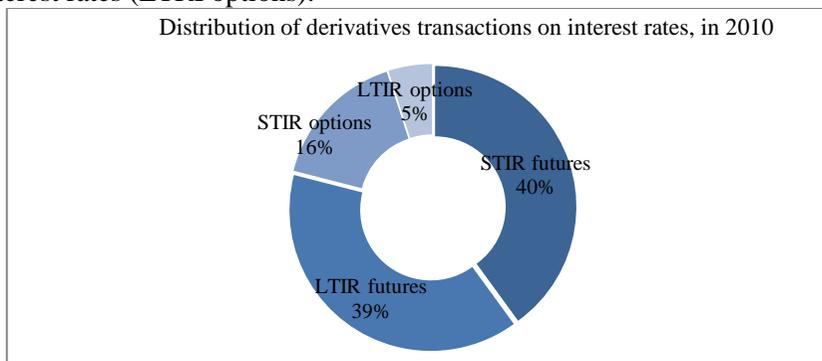


Figure no 4. Distribution of derivatives transactions on interest rates, in 2010

Source: made by author by data provided by the World Federation of Exchanges.

From the regional point of view, the most futures and options on short-term interest rates were traded in America (about 1170 million contracts in 2010) while in Europe, Africa and in the Middle East was traded a number of 578 million such contracts in 2010. The fewer contracts based on short-term interest rates have been traded in the Asia-Pacific (24 million contracts in 2010). Most futures contracts and options on long-term interest rates have been traded throughout the Americas (696 million contracts in 2010), while in Europe, Africa and Middle East were traded 612 million contracts. In contrast stands the Asia-Pacific zone, with a volume of 99 million contracts.

In the category of interest rate derivatives and offered for trading by EUREX (Eurex 2010, 110), we can mention:

- Futures on fixed interest rates: they are debt securities issued by Germany, Italy and Switzerland, whose value / contract is 100.000 euro or 100.000 Swiss francs.
- Contracts for fixed interest rate options.
- EONIA futures (Euro Over Night Index Average): These are futures contracts based on the average effective overnight reference rate for the euro. This rate is calculated by the European Central Bank for a period of one calendar month. The contract is 3 million euro.
- EURIBOR Futures: are future contracts that are based on EURIBOR for 3 months deposits. The value of such a contract is 1 million euro.
- Options on Futures EURIBOR futures.

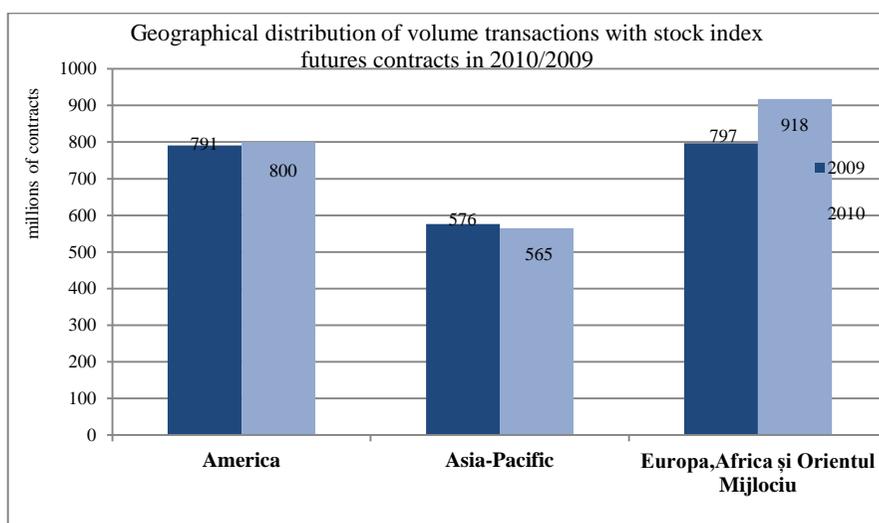


Figure no 5. Geographical distribution of volume transactions with stock index future contracts in 2010/2009.

Source: made by author by data provided by the World Federation of Exchanges.

In Asia we can find five stock exchanges in a ranking of the highest trading volume in stock index futures contracts as follows: Hong Kong Exchange, Korea Exchange, National Stock Exchange of India, Osaka SE and Singapore Exchange.

In the Europe, Africa and the Middle East we can distinguish tree stock exchanges in trading such instruments: EUREX, RTS and NYSE Liffe. In fact, this area records also the highest growth on the volumes traded in 2010, with 15.18% higher than in 2009.

4. Conclusions

Derivatives traded volumes has grown globally in an impressive mode, especially in the last 12 years when their volume was approximately 10 times higher than 1998-2000. The period of the financial derivatives transactions boom was situated between 2003 and 2007 when most of the capital markets were increasing. During this period the growth of derivative products traded was higher than the volume traded on spot markets, worldwide. The years 2008 and 2009 brought with the crisis a decline in volumes of traded derivative products, globally. However, 2010 was noteworthy, the increase was 25% compared to 2009. With this increase of trading volume it returned to pre-crisis level. The major reasons for this increase relates to better market conditions in 2010, trading infrastructure development, etc.

If we analyze the derivative contracts traded by different regions, there is an impressive increase in trading volumes in the Asia-Pacific (+36%), especially in the KOSPI (Korea Composite Stock Price Index) on the options. In the America, traded volumes of such products in 2010 increased by approximately 35% in 2010 compared to 2009, and in the Europe, Africa and the Middle East, the increase was about 21%.

The main attribute of increased derivatives trading volumes on the one hand is the increasing of global liquidity and on the other hand it ensures a fair distribution of risk between the various participants at the transaction. We could say that much of the derivatives market participant expectations palette was satisfied with the financial instruments provided, but certainly there is enough space remained for new products and new innovations in this field.

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LITERATURE REVIEW OF THE EVOLUTION OF COMPETITIVENESS CONCEPT

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The concept of competitiveness can be reported – considering the level of discussion – to a product, firm, industry or sector, region, nation, commercial block or to a global aspect and there is a close connection or relationship between all these levels of competitiveness. Firstly, the quality of a certain product or service determines a firm's possibilities to survive the competition. On the other hand, a firm's economic performance is connected to the performance of a certain sector, region or nation in an international scale. Competitiveness is a concept that can be used in a comparative sense or analysis. Due to the globalization and liberalization process, the boundaries between the domestic and international markets faded, conducting to disappearing of the distinction between national and international competitiveness. Despite the complexity and notoriety surrounding the concept of competitiveness, this article is trying to gather as much information as possible regarding this notion, presenting it from different perspectives, at micro and macro level, reviewing the theoretical literature background: the classical, neoclassical, Keynesian theories, the development economics theory, the new growth theory, the new trade theory and all their implications on the evolution and development of the concept of competitiveness, but also the empirical literature such as IMD's World Competitiveness Index, WEF's Global Competitiveness Report, OCDE's New Economy Report and UK Government's Productivity and Competitiveness Indicators.

Key words: international competitiveness, national competitiveness, regional competitiveness, firm competitiveness, evolution of competitiveness

JEL codes: F23

Introduction

Lately, the concept of competitiveness has been oftenly used, and sometimes quite abusive. The rising questions and the derived concepts are essential, also being the central question of all researchers: a better understanding of the problems of wealth and its distribution. In the present context, of European integration process, the challenges faced by the member states are related to applying the Lisbon Agenda objectives and transforming the European Union in the most competitive and dynamic economy, based on knowledge, at international level, that should generate a sustainable economic growth, more jobs and social cohesion. That is why it is very important to understand the concept of competitiveness under all its various forms, both at micro and macro level.

Stephane Garelli begins his latest work, *Top class competitors. How nations, firms and individuals succeed in the new world of competitiveness*, with a very interesting observation related to the notoriety and the excessive usage of this concept, stating that a simple Google search of the word competitiveness, generates more than 35 million entries (Stephane Garelli 2006:XV).

Although this concept is excessively used, its definition still remains ambiguous. That is why this article tries to cover as much as possible the economic literature. The competitiveness's main objective is represented by the growth of the prosperity level of a nation and of the individuals. At a national level, the source of competitiveness is represented by the firms operating on its territory, stating that this is the place where the economic value added takes place. The role of state in this case, is to ensure a sustainable flow of economic wealth from firm to its citizens, meaning direct revenues or benefits resulted from the services offered by the state and the infrastructure. Overall, the nation's prosperity level results from the interaction of three forces: the competitiveness of firms, the competitiveness of individual and the competitiveness of nation.

The micro and macro perspective of competitiveness

At micro level, the understanding of the concept of competitiveness refers to a firm's ability to compete, to grow and to be profitable. At this level, the competitiveness consists in a firm's capacity to produce in a profitable manner goods that should correspond to an open market requirements.

Comparatively, at a macro level, the concept of competitiveness is more vaguely defined and much more controversial. Despite the fact that improving a nation's competitiveness or a region's competitiveness is the central purpose of every economic policy, the lack of a clear unanimously accepted definition represents a source of constant controversy, the main argument being that it is quite dangerous to construct an economic policy around such an amorphous and interpretable concept.

Paul Krugman describes national competitiveness as being a "dangerous obsession", that rises three important issues: firstly, this concept is very confusing, and the analogy between the firm and the nation is incorrect. This point of view is accepted by the supporters of the concept of macroeconomic competitiveness, that could be illustrated by the following definitions: "A nation's competitiveness is represented by the degree to which into a free market economy this can produce goods and services that meet the requirements of the international market, simulating in the same time a real growth of the citizens incomes. At national level, competitiveness is based on economic performance and on a economy's ability to transform the results generated by the productive activities in raising the incomes. Competitiveness is oftenly associated to rising the living standards and rising the employment opportunities and also in a nation's ability to maintain its responsibilities at international level. It is not just a measure of a nation's ability to sell its goods at international level and to maintain a commercial equilibrium (The Report of the President's Commission on Competitiveness, 1984).

OECD defines competitiveness as being the degree to which a state may produce goods and services that should pass the test of international competition and in the same time to maintain and develop its incomes at national level, in the conditions of market liberalisation (*OECD Programme on technology and the Economy, 1992*).

In the European Competitiveness Report, an economy is competitive if its population can benefit over higher living standards and a better employment degree, in a sustainable perspective (European Competitiveness Report, 2000).

The above definitions have some common features regarding the macroeconomic perspective of competitiveness: the performance is expressed in improving the living standards and the real incomes; the liberalisation condition of markets for the goods and services produced by the nation in charge, and on short term, competitiveness should not generate imbalances.

In this context it is important to introduce the concept of regional competitiveness, a term that is not used that often and is defined less. Trying to define this concept, the European Commission states that this definition should encompass certain elements, despite the fact that there are competitive firms and less competitive firms at regional level, there are common features in these regions, that affect the competitiveness of the firms localised in these regions. So, for being competitive, a region must ensure the growth of incomes and of the living standards, the quantity and also the quality of jobs, in the terms of international competition.

In other words, regional competitiveness represents an economy's ability to optimize its local resources, to compete and prosper on international and national markets and to adapt to the changes present on these markets.

Theoretical background and the evolution of competitiveness

This section presents the theoretical aspects of economic literature and their implications on the evolution of the concept of competitiveness. Every one of the schools of thought had important effects on the notion of competitiveness, even if we refer to international, national, regional or

firm competitiveness. This part of the article is concentrated on the economic doctrines, presenting the ideas of classical theory, neoclassical theory, Keynesian theory, development economics theories, new growth theory and new trade theory, from the perspective of the concept of competitiveness.

According to classical economic theory, the specialisation under the form of “work force division” developed by Adam Smith generates scale economies and differences of productivity between nations. For Adam Smith, the capital investments and trade ensures the specialisation and result in rising the productivity and the output. With respect to trade, Adam Smith demonstrated that the benefits of trade appear when the autarkic regime changes into free trade, and the nations involved have an absolute advantage in the production of some goods. So, trade means differences of productivity.

David Ricardo demonstrated that the benefits from trade result when the nations specialise in the production of goods for which they have a comparative advantage for. In the model developed by Ricardo, the production technology differences between industries and nation lead to employment productivity differences.

The implications of classical economic theories on the concept of competitiveness are the following:

- Every nation plays a certain role in the division of the work force based on the comparative advantage. If the technology and productivity are the same for each nation, the trade would be pointless.
- Even if a state is more productive than the other in producing a certain good, it could register a decline of this industry in the terms of free trade.

The neoclassical economic theory offers the conditions of a world based on perfect competition. The Heckscher – Ohlin model is based on the Ricardian model, comprising other two production factors, work and capital and it assumes that the technology is the same and the comparative advantages are due to the differences generated by the abundance of production factors.

The implications of neoclassical economic theories on the concept of competitiveness are the following:

- Every nation has its own role in the labour division, based on the relative proportions of the production factors. If the proportion is the same, then the trade would be useless;
- The equalisation of factor prices implies a certain degree of convergence of incomes derived from capital and labour;
- In the conditions of perfect competition, the competitiveness concept is not sustainable on long term.

While the classical economists considered capital and labour two independent production factors, the Keynesian theory states that they are complementary. The Keynesian theory is based on the dynamics of the demand and on the degree of employment, and it focuses on expectations because they influence investments and the consume behaviour. Even if Keynesian theory and policy are categorised as being part of the macroeconomic perspective, they have important repercussions on the regional analysis.

The implications of Keynesian theory on the concept of competitiveness are the following:

- The state may interfere successfully whenever;
- The imperfect markets allow the existence of regional disparities;
- The regional convergence may be acquired through economic policies,
- The intensity of capital leads to economic and productivity growth.

The development economics theories represented the subject of endless contradictory discussions. The most important subjects are the efficiency of state aids, the trade liberalisation, the foreign direct investments. Some of the concepts appeared from the development economics, some of them being very relevant for the regional competitiveness.

The implications of development economics theories on the concept of competitiveness are the following:

- The central regions that have a productive advantage will maintain their positions ahead of the peripheral regions;
- The economic policies should consider the state of development of every region,
- The economic policies should promote the 'multiplication effects' of FDI.

The main aspect developed by the endogenous growth theory is the fact that the accumulation of knowledge generates an increase of incomes. Knowledge and know – how are not disseminated instantly, they must be obtained.

The implications of endogenous growth theories on the concept of competitiveness are the following:

- The technological and human capital improvements represent the engines of growth;
- Free trade is a determinant of growth and technological development
- The R&D investments are very important.

The new theories of trade are based on the economies of scale and product differentiation, as being the most important explanations for the trade models between nations.

The implications of new trade theories on the concept of competitiveness are the following:

- The labour specialisation is necessary,
- The investments intensify the economies of scale.

For understanding the concept of competitiveness, there are necessary some insights developed from the urban theories, the new institutional theories and the Schumpeterian theory.

In the urban theory, Jane Jacobs considers that the cities are the main factors of wealth.

A different perspective is offered by the 'transaction cost' theory, that states that a firm's dimension must be explained by the transaction costs.

The most important theory is the cluster theory developed by Michael Porter, and according to which to be competitive, a firm must constantly improve its operational efficiency and geographic clusters stimulate a firm's necessity to be competitive.

The Schumpeterian theory states that the role of the entrepreneur is the most important on economic growth.

The empirical literature

In the research conducted on the concept of competitiveness, there were found certain difficulties like: the linear and causal relations and the quality and quantity of the data available. This research led to classifying the evaluation and measuring models of competitiveness in three categories:

- National competitiveness;
- Regional competitiveness
- Firm competitiveness.

From the national competitiveness point of view the most important sources of measurement are developed by:

- World Competitiveness Yearbook, IMD;
- Global Competitiveness Report, WEF;
- New Economy Report, OECD
- DTI competitiveness indicators.

From the regional competitiveness point of view the studies are focused on the following studies, developed by:

- Second Report on Economic and Social Cohesion, European Commission;
- Competing with the world, Barclays Bank PLC;
- Regional Competitiveness Index, DTI of UK
- Regional Investment Climate Study, ECORYS-NEI

From the firm competitiveness point of view, the economic literature shows that the main determinat factors of competitiveness are the entrepreneurship and the investments.

Conclusions

Overall, the economic literature demonstrates that the competitiveness concept is very complex, difficult and amorphous.

There is still not a common view with respect to the concept of competitiveness, the common features being the following: its deffinition must comprise the ability of selling on the international markets and the effective competition at a global level.

Despite the confusions surounding the deffinition of the competitiveness concept, the economic literature shows some of the important aspects:

- There is no theoretical perspective complex enough to define the term;
- Competitiveness means qualitative and quantitative factors and conditions;
- Competitiveness has several dimenssions: national, regional and local;
- Competitiveness is explained by composite factors.

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POSSIBLE TRADE EFFECTS OF THE NEXT EUROPEAN UNION ENLARGEMENT

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The European Union next enlargement will constitute a significant qualitative change in the structure of the current Union, as the accession of the Western Balkan countries and of Turkey in particular will bring a brand new set of economic problems. It is expected that this enlargement to have a considerable effect for the new entrants, as well as for the entire European Union.

Considering some of the aspects raised by a new extension, this article aims to observe the trade impact of a new enlargement with the membership of the Western Balkan countries and Turkey, as this new growth is expected to have a considerable effect for the new entrants and for the entire European Union.

This study is based on the compare of the potential effects of trade creations and trade diversion following to the removal of trade restrictions for Western Balkan countries and Turkey and the European Union, by using the revealed comparative advantage index.

The analyze objective was to estimate the degree of trade creation and trade diversion outcome on the EU countries when Western Balkan countries and Turkey are included into the Union market.

The obtained results suggest that the export structures differ significantly among Western Balkan countries and Turkey and the European Union. Based on the revealed comparative advantage indexes, the authors would expect an intra-regional trade creation effect, but also we expect a risk for the Eastern European countries trade with European Union, especially as a result of Turkey's accession into the European markets with no trade barriers.

As far as trade creation and trade diversion effects are concerned, they observed that Western Balkan countries and Turkey, probably, do not change the European Union position significantly because of their lower trade volume comparing with the one of the EU-27.

Keywords: EU enlargement, trade creation (TC), trade diversion (TD), revealed comparative advantage (RCA), economic integration

JEL Codes: F10, F15, F17.

Introduction

The EU next enlargement will constitute a significant qualitative change in the structure of EU, as the accession of the Western Balkan countries and of Turkey in particular will bring a brand new set of economic problems.

It is expected that this enlargement to have a considerable effect for the new entrants and for the EU as a whole.

Focusing on the Western Balkan countries and Turkey, the purpose of this paper is to examine the possible trade creation (TC) and trade diversion (TD) effects of economic integration for these countries and for the EU. The analysis is based upon an approach found in the literature acknowledged as the Revealed Comparative Advantage (RCA) index explained further on.

Previous research

The initial academic contribution to the understanding of customs union was made by the Chicago School economist Jacob Viner (Viner: 1950)¹, who showed how welfare gains or losses may result from either TC or TD. His study became the foundation of the theory of international economic integration. Study's theoretical framework suggests that the benefits of TC to member state joining a regional coalition like the European Union might be small and possibly exceeded by the negative effects of TD. TC, as a consequence of forming a customs union, takes place as a result of shifting the imports from higher cost source to a lower cost source, while TD takes place when imports from a lower cost source are changed to a higher cost source. In his study Viner considered two states, comparing their trade flows with the rest of the world after they eliminate customs tariffs on inner border of their union, and describing the redirection of the trade flows by TC and TD.

Later on some other studies on customs union theory about static and dynamic effects were provided by Lipsey (Lipsey: 1957)², Balassa (Balassa:1961)³, Baldwin (Baldwin:1992)⁴, Huang and Tu (Huang and Tu:1994)⁵, Krueger (Krueger:1999)⁶, Karakaya and Ozgen (Karakaya and Ozgen: 2002)⁷.

Methodology

This article adopts Karakaya and Ozgen (Karakaya and Ozgen: 2002)⁸ approach, by comparing the TC effects with the TD effects resulting from the removal of trade restrictions for Western Balkan countries and Turkey and the EU as a whole.

The RCA index measures the comparative advantage of every industry within all countries. The more scattered the distribution of comparative advantages among the member countries, the better will be the possibility of these countries balancing each other's industrial production. Therefore, all other things being constant, if the variance of the RCAs of the members in one industry is large, the TC effects in that industry should also be large. Moreover, a large difference in the RCAs of members and non members would suggest larger TD effects, since imports originating from non member countries would be substituted by imports from the member countries. Thus, viability or potential of this grouping depends on the net difference between TC and TD. As mentioned before, the dispersion of RCA's among the member countries are used to measure the level of TC and the difference in RCA's between the chosen group and the rest of the world is used to find out the level of TD.

The relationship between the RCA index and TC/TD

¹ Jacob, Viner, *The Customs Union Issue*, London, Carnegie Endowment for International Peace, 1950

² R.G., Lipsey, *Trade Diversion and Welfare*, *Economica*, vol. XXIV, 1957

³ Bela, Balassa, *The Theory of Economic Integration*, Richard D. Irwin Inc., Homewood Illinois, 1961

⁴ Richard E., Baldwin, *Measurable Dynamic Gains from Trade*, *The Journal of Political Economy*, vol. 100, The University of Chicago Press, 1992

⁵ Deng-Shing, Huang, Jenn-Hwa, Tu, *On the Feasibility of Economic Cooperation in East Asia: Perspectives from Trade Creation and Trade Diversion*, *Journal of Economic Integration*, vol. 9, Center for Economic Integration Sejong University, 1994

⁶ Anne O., Krueger, *Trade Creation and Trade Diversion under NAFTA*, Working Paper 7429, National bureau of Economic Research, Cambridge, 1999

⁷ Etem, Karakaya, Ferhat-Baskan, Ozgen, *Economic Feasibility of Turkey's Economic Integration with the EU: Perspectives from Trade Creation and Trade Diversion*, International Economics Research Conference, 2002 [available at SSRN: <http://ssrn.com>]

⁸ Etem, Karakaya, Ferhat-Baskan, Ozgen, above quoted work

As said above, the TC represents a shift in production from higher cost domestic manufacturers to lower cost manufacturers in the associated country, and is equivalent to an increase in intra-regional trade.

In contrast, the TD represents a shift from lower cost manufacturers in the non member countries to higher cost manufacturers inside the group, due to inequitable trade policies against non member countries, and is equivalent to a decrease in inter-regional trade.

RCA represents the index used for calculating the relative advantage or disadvantage of a given country in a given group of goods or services as evidenced by trade flows. It relies on the Ricardian comparative advantage idea and introduced by Balassa (Balassa:1965)⁹.

We say about a country that it has a revealed comparative advantage in good g if its export share of good g is higher than the world average, i.e. the RCA index of good g for that country goes over 1.

On the contrary, we say about a country that it has a revealed comparative disadvantage in good g , if the corresponding RCA index is under 1.

As per Karakaya and Ozgen¹⁰ the above concept may be restated as follows:

- Agree that
 X_k^g indicates the value of exports of good g from country or region k .
- Consequently
 $X_k = \sum_g X_k^g$ represents the total export value of country or region k
and
 $S_k^g = X_k^g / X_k$ represents the share of commodity group g in the total exports for country or region k .
- Thus
 $X^g = \sum_k X_k^g$ would be the total exports of good g in the world
and
 $X = \sum_g X_g$ represents total exports in the world.
- Then
 $S^g = X^g / X$ shows the g -th commodity group's share of the world exports,
and the RCA index can be obtained by the formula
 $RCA_k^g = S_k^g / S^g$
- Interpretation
if $RCA_k^g > 1$ country or region k has a revealed comparative advantage in good g ,
if $RCA_k^g < 1$ country or region k has a revealed comparative disadvantage in good g ,
additionally, the larger the deviation of the RCA index from 1, the higher comparative
advantage or disadvantage.

The data for each country's export share of specified commodity group, S_{gk} were drawn from the World Trade Organization statistics¹¹. With S_{gk} and by making use of total export value of a country, X_k , from World Trade Organization statistics, we calculated the share of the same grouping in total world exports, since $X_{gk} = X_k \cdot S_{gk}$.

Table 1 shows the export share of each commodity group in Western Balkan countries, Turkey and EU countries. It also presents the share of each commodity category in the total exports of the world.

⁹ Bela, Balassa, *Trade Liberalisation and Revealed Comparative Advantage*, The Manchester School, vol. 33, 1965

¹⁰ Etem, Karakaya, Ferhat-Baskan, Ozgen, above quoted work

¹¹ WTO Statistic, Resources, Statistics, Statistics database, Time series- Subject selection [available at WTO: <http://stat.wto.org/StatisticalProgram/WSDBViewData.aspx?Language=E>]

Table 1: Commodity Trade Shares for Western Balkan countries, Turkey, EU-27, and World [% from the total merchandise exports]

Year	Agricultural products exports	Fuels and mining products exports	Iron and steel exports	Chemicals exports	Machinery and transport equipment exports	Textiles and clothing exports	Other exports	Total merchandise exports	Country or Group of countries
2007	14.96	19.63	1.03	9.42	31.05	5.79	18.12	100	Croatia
	15.09	10.68	37.11	3.88	4.41	20.15	8.68	100	Macedonia
	13.41	49.20	15.17	2.07	3.35	0.15	20.0	100	Montenegro
	23.79	14.99	12.39	10.36	14.31	6.09	18.07	100	Serbia
	10.43	11.09	8.93	4.08	31.92	21.27	12.28	100	Turkey
	10.62	11.43	3.98	15.19	39.92	3.51	15.35	100	EU-27
	9.62	25.24	3.42	10.54	35.31	4.16	11.71	100	World
2008	13.10	17.20	1.24	9.88	33.48	5.27	19.83	100	Croatia
	12.85	9.09	38.13	3.10	5.13	21.82	9.88	100	Macedonia
	13.61	49.91	23.01	2.59	5.51	0.16	5.21	100	Montenegro
	19.13	12.05	13.19	10.12	17.31	5.96	22.24	100	Serbia
	8.47	9.01	12.75	4.28	29.63	17.41	18.45	100	Turkey
	9.59	10.32	4.06	15.04	38.45	3.30	19.24	100	EU-27
	8.35	21.92	3.64	10.38	33.07	3.72	18.90	100	World
2009	16.50	16.66	1.15	9.68	29.58	5.98	20.45	100	Croatia
	18.61	4.13	6.24	4.43	5.28	23.41	37.90	100	Macedonia
	20.36	47.16	11.85	4.38	10.05	0.51	5.69	100	Montenegro
	24.33	11.69	7.76	7.88	17.80	7.41	23.13	100	Serbia
	10.70	6.88	8.88	4.73	28.19	18.87	21.75	100	Turkey
	10.79	8.26	2.93	17.05	37.35	3.50	20.12	100	EU-27
	9.42	18.09	2.59	11.55	33.46	4.19	20.7	100	World
2010	15.00	16.92	1.04	11.38	31.74	5.10	18.82	100	Croatia
	14.74	10.38	27.01	10.38	5.81	28.37	3.31	100	Macedonia
	20.36	56.75	5.94	3.89	8.23	0.45	4.38	100	Montenegro
	24.08	14.79	9.72	8.93	16.26	5.12	21.1	100	Serbia
	10.86	8.19	8.97	5.35	27.94	19.07	19.62	100	Turkey
	10.32	9.70	3.14	16.80	37.29	3.22	19.53	100	EU-27
	8.92	19.83	2.75	11.17	33.31	1.87	22.15	100	World

data source: World Trade Organization Statistics¹²

With the data from Table 1 were obtained the ratio $X_{k \text{ country}}^g / X_{k \text{ world}}$ based on which were calculated the RCA indices using the report $X_{k \text{ country}}^g / X_{k \text{ world}} : X_{k \text{ country}}^g / X_{k \text{ EU-27}}$.

The data from Table 1 prove that there is a high difference in the export structures of the Western Balkan countries, comparing with Turkey, or EU-27. Due to this different export structures among the EU-27, the Western Balkan countries, and Turkey, we would expect to find out a notable trade creation effect after integration, if the trade barriers within the union will be completely removed.

¹² WTO Statistic, above quoted

These outcomes are also supported by RCA indices for the referred countries and groups of countries. As noted before, an RCA_k^g that is over 1 means a revealed comparative advantage of good g for country or region k .

Table 2 shows the RCA indices, obtained after performing the calculations, for the countries and groups of countries quoted in the Table 1, related to the commodity groups mentioned in the same table.

Table 2: RCA indices for Western Balkan countries, Turkey and EU-27

Years	Agricultural products	Fuels and mining products	Iron and steel	Chemicals	Machinery and transport equipment	Textiles and clothing	Other	RCA for each Country or Group of countries
2007	1.41	1.72	0.26	0.62	0.78	1.65	1.18	RCA Croatia
2008	1.37	1.67	0.31	0.66	0.87	1.60	1.03	
2009	1.53	2.02	0.39	0.57	0.79	1.71	1.02	
2010	1.45	1.74	0.33	0.68	0.85	1.58	0.96	
2007	1.42	0.93	9.32	0.26	0.11	5.74	0.57	RCA Macedonia
2008	1.34	0.88	9.39	0.21	0.13	6.61	0.51	
2009	1.72	0.50	2.13	0.26	0.14	6.69	1.88	
2010	1.43	1.07	8.60	0.62	0.16	8.81	0.17	
2007	1.26	4.30	3.81	0.14	0.08	0.04	1.30	RCA Montenegro
2008	1.42	4.84	5.67	0.17	0.14	0.05	0.27	
2009	1.89	5.71	4.04	0.26	0.27	0.15	0.28	
2010	1.97	5.85	1.89	0.23	0.22	0.14	0.22	
2007	2.24	1.31	3.11	0.68	0.36	1.74	1.18	RCA Serbia
2008	1.99	1.17	3.25	0.67	0.45	1.81	1.16	
2009	2.25	1.42	2.65	0.46	0.48	2.12	1.15	
2010	2.33	1.52	3.10	0.53	0.44	1.59	1.08	
2007	0.98	0.97	2.24	0.27	0.80	6.06	0.80	RCA Turkey
2008	0.88	0.87	3.14	0.28	0.77	5.28	0.96	
2009	0.99	0.83	3.03	0.28	0.75	5.39	1.08	
2010	1.05	0.84	2.86	0.32	0.75	5.92	1.00	
2007	1.00	1.00	1.00	1.00	1.00	1.00	1.00	RCA EU-27
2008	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
2009	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
2010	1.00	1.00	1.00	1.00	1.00	1.00	1.00	

Data source: data obtained after performing the RCAs calculations

The RCA indices obtained from the last four years give us an idea about the possible TC or TD if the Western Balkan countries and Turkey are joining EU.

Results

As noted before, a difference in export structures leads to trade creation.

Table 2 shows that the RCA indices which are over 1 are: for Croatia agricultural products, fuels and mining products, textiles and clothing; for FYI Macedonia agricultural products, iron and steel, textiles and clothing; for Montenegro agricultural products, fuels and mining products, iron and steel; for Serbia agricultural products, fuels and mining products, iron and steel, textiles and clothing; and for Turkey iron and steel, textiles and clothing.

Table 3 shows us clearly which countries have a revealed comparative advantage for the analyzed commodity groups, since the RCA indices for these goods are over 1.

Table 3: TC and TD for Western Balkan countries and Turkey during 2007-2010

Years	Agricultural products	Fuels and mining products	Iron and steel	Chemicals	Machinery and transport equipment	Textiles and clothing	RCA for each Country or Group of countries
2007	TC	TC	TD	TD	TD	TC	RCA Croatia
2008	TC	TC	TD	TD	TD	TC	
2009	TC	TC	TD	TD	TD	TC	
2010	TC	TC	TD	TD	TD	TC	
2007	TC	TD	TC	TD	TD	TC	RCA Macedonia
2008	TC	TD	TC	TD	TD	TC	
2009	TC	TD	TC	TD	TD	TC	
2010	TC	TC	TC	TD	TD	TC	
2007	TC	TC	TC	TD	TD	TD	RCA Montenegro
2008	TC	TC	TC	TD	TD	TD	
2009	TC	TC	TC	TD	TD	TD	
2010	TC	TC	TC	TD	TD	TD	
2007	TC	TC	TC	TD	TD	TC	RCA Serbia
2008	TC	TC	TC	TD	TD	TC	
2009	TC	TC	TC	TD	TD	TC	
2010	TC	TC	TC	TD	TD	TC	
2007	TD	TD	TC	TD	TD	TC	RCA Turkey
2008	TD	TD	TC	TD	TD	TC	
2009	TD	TD	TC	TD	TD	TC	
2010	TC	TD	TC	TD	TD	TC	

As for Croatia commodity groups ‘Agricultural products’, ‘Fuels and mining products’ and ‘Textiles and clothing’ have a revealed comparative advantage, if this country join EU, while for ‘Iron and steel’, ‘Chemicals’ and ‘Machinery and transport equipment’ this country has a comparative disadvantage.

For FYI Macedonia commodity groups ‘Agricultural products’, ‘Iron and steel’ and ‘Textiles and clothing’ have a revealed comparative advantage if this country join EU.

For Montenegro commodity groups ‘Agricultural products’, ‘Fuels and mining products’ and ‘Iron and steel’ have a revealed comparative advantage if this country join EU.

For Serbia commodity groups ‘Agricultural products’, ‘Fuels and mining products’, ‘Iron and steel’ and ‘Textiles and clothing’ have a revealed comparative advantage if this country join EU.

For Turkey: commodity groups ‘Iron and steel’ and ‘Textiles and clothing’ have a revealed comparative advantage if this country join EU.

Having said that, it can be expected that a notable intra European TC effect, as a result of next EU enlargement, would appear.

Conclusions

Our goal was to estimate the TC and TD effects on the EU countries when Western Balkan countries and Turkey are included into the EU market.

By using RCA index to examine TC and TD effects it was found that the export structures are substantially different among Western Balkan countries, Turkey and EU-27.

As far as trade creation and trade diversion effects are concerned, we observed that Western Balkan countries and Turkey, probably, do not change the EU position significantly because of their lower trade volume comparing with the one of EU.

The results here reflects static changes and future analysis should focus on more dynamic effects of Western Balkan countries and Turkey accession, like scale economies, increases in bargaining

power, increases in competition etc, factors which are usually of much concern to member countries.

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ROMANIA'S SPECIALIZATION IN TRADE TOWARDS EU-27-A REVEALED COMPARATIVE ADVANTAGE APPROACH

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"International competitiveness" is a complex topic which raised over time many questions and theories on key factors that underpin it and is still subject to wide debate. Such analysis proves to be necessary under the new requirements raised by the participation of Romanian organizations in the European and global competitive environment in which competing for new markets can be a platform of economic recovery.

As companies compete for markets and resources, national economies compete with each other to achieve performance in a specific activity: for example, we can say that Romania has become less competitive in clothing production, and competitive in cars production. But it makes sense to say that "Romania has become more or less competitive as the economy?"

The answer is no. "Competitiveness" is a meaningless word when referring to national economies. Denying Romanian competitiveness in a particular industry does not mean that Romania's economy is less competitive. The decline in these industries may be a manifestation of their change in production factors endowment or necessary reallocation these factors from old activities with comparative advantage to new ones.

This paper aims to examine the structural competitiveness of Romania vis-a-vis EU-27. Empirical analysis is based on Revealed Comparative Advantage (RCA), an indicator often used in international trade analysis. Section II reviews the empirical literature on the comparative advantage and the competitiveness of Romania, highlighting various theories and approaches, alternative measures of RCA indices are presented in the section III, section IV reports empirical results and the final section draws some conclusions based on the findings.

In 2009, in terms of orientation of the foreign investors towards the economic sectors, according to NACE Rev. 2 Classification, the direct foreign investments were directed mainly to Manufactured goods (31,1% of total), within its best represented branches: oil, chemicals, rubber and plastic processing (6,3% of total), metallurgy (5,2%), transport industry (4,7%), food, beverage and tobacco industry (4,1%) and cement, glass, ceramic(3,3%), some of the sections having low weight to the potential, such as textiles, clothing and leather (1.4%), decreasing their attractiveness due to the convergence of non-tradable goods prices towards Eurozone prices, according to the Balassa-Samuelosn effect. Development of sections refering to intensive technology products should be a priority in the economic transformation of the countries converging to Euro Zone, especially Romania. These sections are: XVI: „Machinery and mechanical appliances; electrical equipment; sound and image recorders and reproducers” and XVIII „Optical, photographic, cinematographic, medical or surgical instruments and apparatus and similar; clocks and watches; musical instruments; parts and accessories thereof”. An increase in exports of these products may have beneficial effects on trade balance, balancing it by reducing the imports of these goods.

Keywords: *Revealed Comparative Advantage, structural competitiveness, specialization, European Union*

JEL Classification: *F10, F14, F15*

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I. Introduction

"International competitiveness" is a complex topic of global concern which raised over time many questions and theories on key factors that underpin it. Such analysis proves to be necessary under the new requirements raised by the participation of Romanian organizations in the European and global competitive environment in which competing for new markets can represent a platform of economic recovery. The popularity of the concept of "competitiveness" is in continuous growth, as researchers, politicians and business men try to assign different definitions and meanings, according to the field in which they perform. For members of government, competitiveness is a positive balance of trade. For some economists, competitiveness represents a low unit labor cost adjusted according to exchange rates. Increasing international competitiveness is an economic policy priority for all nations of the world knowing that between prosperity of a nation and its degree of international competitiveness there is a strong interconnection. Undoubtedly, economic growth - reflected by an upward trend of the main economic indicators (GNP per capita, production per capita, the export value per capita, etc.) - is a necessary condition for increasing wealth. As companies compete for markets and resources, national economies compete with each other to achieve performance in a specific activity: for example, we can say that Romania has become less competitive in clothing production, and competitive in cars production. But it makes sense to say that "Romania has become more or less competitive as the economy?".

The answer is no. "Competitiveness" is a meaningless word when referring to national economies. Denying Romanian competitiveness in a particular industry does not mean that Romania's economy is less competitive. The decline in these industries may be a manifestation of their change in production factors endowment or necessary reallocation these factors from old activities with comparative advantage to new ones. In a desirable context, with perfect balance, optimal resource allocation counts, not the rise or decline in specific activities. Relevant examples in this respect is Switzerland, though endowed with natural and a spectacular mountain landscape, it continues to dominate the watch industry and obtain a huge profit for almost 100 years, and Finland which maintains its leading position in mobile phones. This contradicts the theory of free trade which asserts that free trade automatically diverts nations towards industries for which they are best prepared.

This paper aims to examine the structural competitiveness of Romania vis-a-vis EU-27. Empirical analysis is based on Revealed Comparative Advantage (RCA), an indicator often used in international trade analysis. The plan of the paper is as follows. The following section reviews the empirical literature on the comparative advantage and the competitiveness of Romania. Alternative measures of RCA indices are presented in the Section III. Section IV reports empirical results and the final section draws some conclusions based on the findings.

II. Literature review

A way to highlight a country's degree of specialization in different goods, services or industries industries, it is the determination of revealed comparative advantage index (RCA). (Cristureanu, 2004; Cojanu, 2007). In the theories of international trade, comparative advantage is an important concept for explaining pattern of trade. David Ricardo (1817) firstly introduces the concept of comparative advantage with very strict assumptions. Countries exploit technological differences is then well recognized as the Ricardian model. In the modern theories of international trade such strict assumptions are replaced with the more realistic ones. Heckscher (1919) and Ohlin (1933) examine the effect of different factor endowments on international trade. Their model, which is well known as the Heckscher-Ohlin (HO) model, concludes that a country will export commodity uses the abundant factor of production, while it will import commodity uses the scarce factor of production.

So far, the dynamic theory of comparative advantage has put greater attention on the changes in supply (production) side. This is related to how specific determinants affect the output (economic) growth and, in turn, comparative advantage. Redding (2004) finds that comparative advantage is endogenously determined by the past technological changes and innovation. To justify national policies to stimulate and support industries that have comparative advantage, it appears as a reality "ex ante", which provides reliable performance. But this theory is contradicted by the reality of market dynamics which states that comparative advantage is either gained or lost. În schimb, țările care, în lipsa unei teorii mai bune a competitivității, mai utilizează în proiectarea politicilor lor teoria avantajelor comparative, riscă să neglijeze o gamă largă de opțiuni politice privind creșterea eficienței și promovării creșterii care țin cont de prezența (pervasiveness) eșecurilor de piață în economiile moderne (Stiglitz, 1989a).

The dynamics of comparative advantage might be also caused by the role of input trade (Jones, 2000), the friction in international trade and investment flows due to geography, institutions, transport, and information cost (Venables, 2001), the transmission of knowledge across borders (Grossman and Helpman, 1991), the technological differences across border (Trefler, 1995), and the monopolistic competition in differentiated products with increasing return to scale (Krugman, 1979). Indeed, many applied economists, e.g. Liesner (1958), Kanamori (1964), Balassa (1965), Donges and Riedel (1977), Bowen (1983), Vollrath (1991), Dalum et al. (1998) and Laursen (1998), among others, have tried to make various empirical measures to "reveal" countries' comparative advantage. Also, countries may very much differ in the quantity of products they export through the export prices of similar goods [Schott (2002), Hummels and Klenow (2002)]. The Balassa index has been subject to several critiques, leading some authors to propose several modified versions. For instance, Laursen (1998) suggests a transformation that produces a symmetric outcome, ranging from -1 to 1 and with a threshold of 0; Proudman and Redding (1997, 2000) suggest a transformation that results in a constant mean across the different sectors for a given country. Nevertheless, the popularity of the original index remains in place and the traditional Balassa index has been used extensively in the literature. As in the Proudman and Redding (1997, 2000) contribution, the product specialization index suggested here has a clear and well-defined link with the original Balassa index. In his study, entitled „Convergence of the Export Structure of Romania, Croatia, Serbia and Bosnia-Herzegovina to the Structure of Import Demand in Developed Countries” (2010), Goran Nikolić is analyzing the export structures of observed transitional countries (Romania, Croatia, Serbia and Bosnia-Herzegovina) with the import structure of developed economies (EU) to examine if there is convergence, and the level of that convergence. The study points out that in Romania, between 2000 and 2009 was registered a poor, but significant convergence, due to the share of 20.1% of goods belonging to sections 0- Food and live animals and 6-Manufactured Foods Classified by Material (especially the early stage of processing of goods, especially products), in total exports. In Romania, the share of 47,9% of the sections 7-Machinery, Transport Equipment and 5-Chemical Products was very high, mainly due to the numerous subdivisions 78-Road Vehicles and 77-Electrical Machinery, which includes the production of motor vehicles and electrical machines, intensified after 2000 along with increasing of foreign direct investment flows. The main difference between the export structures of developing countries considered in the study and trade structures of the EU27 remains the technology intensive products.

Some economists argue that the nature of international trade is in a continuous change (Grossman and Rossi-Hansberg 2006, 2008, Blinder 2006, 2009, Hanson, Mataloni and Slaughter 2005). Instead of simply creating more trade in goods, global integration is increasingly marked by "trade in tasks" (Grossman and Rossi-Hansberg 2006), meaning more trade of intermediate goods and services due to the widespread emergence of offshoring. Other economists bring into discussion the public choice theory. Oates and Schwab (1988) stated that governments can set

“weak” or “strong” standards and by employing public choice theory, government officials may want to impose weak environmental standards in order to attract capital investment.

III. Methodology

A way to highlight a country's degree of specialization in a particular product or industry, is the determination of Comparative Advantage Index (CAI). CAI compares the share of production / exports of a country for a specific product / industry in its total production / export with the share in production / world exports (or a group of countries) of that product / industry. Before Balassa introduced his famous index of comparative advantage in 1965, Liesner (1958) was the one who contributed to the empirical literature of AC. In this sense, Liesner (1958) developed the first empirical study in the area of CA. The simple measure proposed by Liesner for calculating CA was:

$$RCA_1 = \frac{X_{ij}}{X_{nj}} \quad (1)$$

where x represents exports, i is a country, j is a commodity (or industry), and n is a set of countries (e.g. the EU). An advanced formula of the CA was later presented by Balassa (1965) and was widely accepted in the literature:

$$RCA_2 = \frac{\frac{X_{ij}}{X_{it}}}{\frac{X_{nj}}{X_{nt}}} = \frac{X_{ij}/X_{nj}}{X_{it}/X_{nt}} \quad (2)$$

where x represents exports, i is a country, j is a commodity (or industry), t is a set of commodities (or industries) and n is a set of countries. RCA_2 measures a country's exports of a commodity (or industry) relative to its total exports and to the corresponding exports of a set of countries, e.g. the EU. Comparative advantage is "revealed" if $RCA_2 > 1$. If RCA_2 is less than unity, it is said that the country has a comparative disadvantage in that good/industry. But RCA_2 index is considered to be biased because of omission of imports, especially when the country has an important dimension (Greenaway and Milner, 1993). An alternative RCA index (RCA_3 in equation 3) is calculated only to make reference to country's own trade performance. This type of measuring country's comparative advantage also allows the simultaneous calculation of exports and imports of a good or industry:

$$RCA_3 = \frac{(X_{ij} - M_{ij})}{(X_{ij} + M_{ij})} \quad (3)$$

In the case of equation 3, index ratio ranges from -1 ($X_{ij} = 0$ and revealed comparative disadvantage) to +1 ($M_{ij} = 0$ and revealed comparative advantage). However, regarding RCA_3 , exists ambiguity around zero value (Greenaway and Milner, 1993). You can get another version of the Balassa RCA (1965) derived the following equation:

$$RCA_4 = \frac{\frac{X_{ij}}{X_{it}}}{\frac{M_{ij}}{M_{it}}} = \frac{X_{ij}/M_{ij}}{X_{it}/M_{it}} \quad (4)$$

where X and M are exports and respectively imports, i is a country, j is a product (or industry), t is a set of commodities (or industries). A similar version of equation 4 derived from Balassa (1965) is as follows:

$$RCA_5 = \ln \left[\frac{(X_{ij}/X_{it})}{(M_{ij}/M_{it})} * 100 \right] \quad (5)$$

The RCA_3 , RCA_4 , RCA_5 indices point out the bilateral competitiveness between Romania and EU. In our study, we will concentrate only on bilateral competitiveness.

To analyze the Revealed Comparative Advantage for Romania using Balassas alternative measures of RCA, I used Combined Nomenclature (CN) which is the European Community's

classification of goods, which meets requirements in terms of external trade statistics (both intra- and extra-Community) covering Romania's exports and imports on bilateral level with the EU-27 for the period 2007-2009 from the Romanian National Institute of Statistics.

IV. Results and main findings

The followings are the basic points and outcomes on our alternative RCA calculations. The following classifications are based on the common characteristics of commodity groups, and are taken into account RCA_3 , RCA_4 , RCA_5 indices.

Table 1: Outcomes based on the common characteristics of commodity groups

CN Code	Sectors with RCA in all (three) indices (Section)
01	• live animals
27	• mineral fuels and oils; bituminous substances; mineral waxes
31	• fertilizers
42	• leather goods
44	• wood, charcoal and articles of wood
61	• knitted or crocheted clothing and accessories
62	• not knitted or crocheted clothing and accessories
64	• footwear and parts thereof
76	• aluminium and articles thereof
86	• railways or tramway locomotives and rolling-stock
89	• ships, boats and floating structures
94	• furniture; lighting fittings and other similar articles; prefabricated buildings

Table 2: Outcomes based on the common characteristics of commodity groups

Sectors with "increasing" RCA in time period (year-by-year) Romania vis-à-vis the EU market		Sectors with "decreasing" RCA in time period year-by-year observation Romania vis-à-vis the EU market	
CN Code	Section	CN Code	Section
44	• wood, charcoal and articles of wood	01	• live animals
94	• furniture; lighting fittings and other similar articles; prefabricated buildings	31	• fertilizers
		42	• leather goods
		61	• knitted or crocheted clothing and accessories
		62	• not knitted or crocheted clothing and accessories
		64	• footwear and parts thereof

V. Conclusions

Romania has the 11th largest economy in the European Union by total nominal GDP and the 8th largest based on purchasing power parity (PPP). With annual GDP growth rates consistently above 6%, Romania was one of the fastest growing markets in the European Union (EU) until 2009. The country has also been referred as a "Tiger" given its rapid development and high economic growth rates and compensates the structural gaps with a high commercial integration with the rest of the EU-27 countries, while 2009-2010 registered a slight decrease.

Given that about half of Romania's trade with EU-27 is done with the core of the euro area (Germany, France and Italy), then their macroeconomic developments will decisively influence the industrial activity and exports of the Romanian economy. Economic shocks that will affect these economies will be transmitted through trade in the Romanian economy and these will become more symmetrical. In 2009, in terms of orientation of the foreign investors towards the economic sectors, according to NACE Rev. 2 Classification, the direct foreign investments were directed mainly to *Manufactured goods* (31,1% of total), within its best represented branches: *oil, chemicals, rubber and plastic processing* (6,3% of total), *metallurgy* (5,2%), *transport industry* (4,7%), *food, beverage and tobacco industry* (4,1%) and *cement, glass, ceramic* (3,3%). There are areas with a low weight to the potential, such as textiles, clothing and leather (1.4%), decreasing their attractiveness due to the convergence of non-tradable goods prices towards Eurozone prices, according to the Balassa-Samuelson effect. Development of sections referring to intensive technology products should be a priority in the economic transformation of the countries converging to Euro Zone, especially Romania. These sections are: XVI: „*Machinery and mechanical appliances; electrical equipment; sound and image recorders and reproducers*” and XVIII „*Optical, photographic, cinematographic, medical or surgical instruments and apparatus and similar; clocks and watches; musical instruments; parts and accessories thereof*”. An increase in exports of these products may have beneficial effects on trade balance, balancing it by reducing the imports of these goods.

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ATTRACTIVENESS OF PUBLIC POLICIES FOR FDI IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

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The paper builds on the burning issue of the attractiveness of the location for foreign direct investments (FDI), assuming its positive and substantial economic impact on the development of the host country. The location decision for FDI in Central and Eastern European (CEE) countries is investigated based on the attractiveness framework designed by policy makers: infrastructure endowment, institutions' quality, labour market conditions and level of taxation. The analysis assesses the FDI inflows in a country in three years: 2004, 2007 and 2010. Thus the FDI evolution relative to public policies attractiveness is seized starting with the European Union (EU) integration and after the crisis started. The paper follows the literature on the determinants of the FDI related to the L (location) factor described in the eclectic paradigm of Dunning (the OLI model), but focuses on the role of public policies in attracting FDI and captures two of the recent major turning points faced by the CEE countries, scarcely tackled in the literature: the EU integration and the recent economic crisis.

We compute a public policy index, constructed as a composite measure, based on the four pillars mentioned above, in order to test the public policies attractiveness in the CEE countries. Moreover, we develop an attractiveness matrix starting from the public policy index, and we rank the most attractive countries for FDI in the three years. We analyze the matrix based on the FDI inflows per capita.

We found a positive relation between the increase in the public policies attractiveness and the inward FDI. The increase of the FDI per capita since the EU accession year is, at least partially, due to the increasing attractiveness of the public policies. The crises worsened the CEE countries' attractiveness. Still, the winners in the race for FDI remained those countries that improved the infrastructure, the institutions' quality and the labor market conditions. Therefore, short and medium term policy directions can be emphasized. Infrastructure and institutions' quality can be improved for further attracting FDI during rough budgetary constraints. The literature is enriched with the empirical analysis of the FDI determinants in the recent years. Our paper takes into account the major events faced by the CEE countries in the last years and checks for potential methods of attracting FDI even during difficult economic conditions.

Keywords: foreign direct investments, public policy, Central and Eastern Europe countries, attractiveness matrix

JEL code: C43, F21, H11, O52

I. Introduction

There is a wide literature on the positive and substantial economic impact of FDI on the development of both the host and the home country of FDI. In times when the economic stability is endangered and growth remains under pressure, foreign investments are the gate to a healthy economic development. Enhancing attractiveness for FDI became a priority on the national agenda, especially as the crisis tested the strength of the traditional determinants of FDI and

enhanced the occurrence of new opportunities. For the CEE countries, relying only on the market size and low wages is no more an option.

The signal of entering in a new era of FDI determinants was drawn years ago. In the attempt to determine the decisive factors for attracting FDI, a number of studies have illustrated the growing importance of political factors, especially the institutional determinants in the host country. Other papers developed at the beginning of this decade revealed that the factors influencing the attractiveness of a region, particularly for the East European countries, are no longer the natural resource endowments, but the created resources, such as the quality of infrastructure and institutions. Goodspeed, Martinez-Vazquez and Zhang points out that in order to be more effective in attracting FDI, government officials in developing countries should pay more attention to policy programs aimed at improving governance institutions and public infrastructure (Goodspeed, Martinez-Vazquez and Zhang 2009: 22). The taxation is important for FDI choices, but only after more fundamental institutional governance issues are addressed and public infrastructure is developed. The countries, especially those in CEE, started to tackle the public policy instruments in order to attract more FDI: to improve the infrastructure, to reduce the administrative burden and to increase the efficiency of institutions, to make more flexible the labor market and, where possible, to address the taxation and the cost level for companies. The EU adhesion facilitated their approach and the results corresponded to the expectations, but the crisis hampered the FDI inflows.

The aim of this paper is to analyze the impact of infrastructure, of institutions' quality, of labor market and of taxes on CEE strategies for attracting FDI since the EU adhesion year and during the crisis; it also aims to determine if there is room for further improvements on the public policies side. As all these factors are under the immediate control of the public officials, the paper's objective is to assess the state's role in attracting FDI. The study employs a composite index to rank the most attractive countries for FDI, as regard the public policy framework.

II. Literature review

Dunning eclectic paradigm or the OLI model sets the basic framework for the analysis of the FDI determinants. This paper focuses mainly on the L (location) factor, explaining where a multinational company will locate its activity.

Some FDI theories point out the companies' behavior of searching attractive environments. The theory of international production states that a firm decision to initiate foreign production depends on the specific attractions in its own country compared to the resources and benefits involved by locating in another country (Morgan and Katsikeas, 1997). Therefore, the foreign government actions significantly affect the attractiveness of a country. In describing the public policy actions for attracting FDI, the studies focus on the infrastructure, good governance, level of taxation and labor market (Bellak, Leibrecht and Liebensteiner, 2010: 38; Goodspeed, Martinez-Vazquez and Zhang, 2009: 5; Bellak, Leibrecht and Stehrer, 2008: 1). Groh and Wich compute a comprehensive composite measure to determine a host country's attractiveness for FDI and take into account the labor costs, the quality and endowment of infrastructure and the quality of the legal system (Groh and Wich, 2009: 7).

We assist today at a "caravan capitalism". For the transitional economies in CEE, the level of wages was one of the most important factors affecting the investment decision. The re-location of labor-intensive activities in countries with low wages was and remains a common trend nowadays. This evolution is captured by the literature. Benacek, Gronicki, Holland and Sass survey the literature until 2000 and found that the CEE countries were targeted for investments due to their favorable combination of low wages and relatively skilled workforce (Benacek, Gronicki, Holland and Sass, 2000: 15). Since then, other studies revealed the same results. Botric and Skuflic signal that labor costs, represented by wages, are still important for foreign investors (Botric and Skuflic, 2006: 20). The labor market costs, expressed as the compensation of

employees per total hours worked, discourage FDI (Bellak, Leibrecht and Stehrer, 2008: 11). Also for assessing the attractiveness of the labor market, several proxies are used to express skilled workforce, such as the average years of schooling or the number of technical workers (Benacek, Gronicki, Holland and Sass, 2000:4).

In assessing the impact of institutions on FDI, one indicator is the freedom of FDI as calculated by the Heritage Foundation. The indicator captures the legal barriers to inward FDI, namely the restrictions on FDI limiting the inflow of capital and thus hampering the economic freedom. The econometric results show that more restrictions are equivalent to a reduced level of foreign investment (Bellak, Leibrecht and Stehrer, 2008: 11). A relevant proxy in the literature for measuring good governance is the corruption level, as provided by “Corruption Perception Index” from Transparency International (Goodspeed, Martinez-Vazquez and Zhang, 2009: 6).

The infrastructure endowment is a precondition for firms to conduct their businesses in a foreign country. A larger infrastructure endowment, including both transport infrastructure and Information and Communications Technology (ICT) is generally considered to have a positive impact on FDI. The countries on the top positions for FDI attractiveness are those with a better infrastructure for ICT (Botric and Skuflic, 2006: 20; Goodspeed, Martinez-Vazquez and Zhang, 2009: 6). A positive result is obtained between FDI and ICT-infrastructure, measured as the sum of telephone mainlines, mobile phone subscribers, internet connections and personal computers per 1000 inhabitants (Bellak, Leibrecht and Stehrer, 2008: 11). Other results indicate that information and telecommunication infrastructure, followed by the transport infrastructure, are of a special significance in attracting FDI (Bellack, Leibrecht and Damijan, 2009).

At the same time, econometric studies of the past 15 years show that both the level and location of FDI are highly sensitive to the treatment of taxes (Gordon and Hines, 2002: 42-49). Bénassy-Quéré, Fontagné and Lahrèche-Révil indicate that high relative corporate taxation discourage FDI inflows and maintain a significant role in the attractiveness of a country (Bénassy-Quéré, Fontagné and Lahrèche-Révil, 2003). Anastassopoulos takes into account the effect of the corporate tax rate on profit and find a negative and statistically significant impact on FDI (Anastassopoulos, 2007: 45). Among the most problematic factors for doing business in the CEE countries are tax rates and tax regulations, accompanied by the inefficient government bureaucracy or corruption (the Global Competitiveness Report 2010-2011).

III. Methodology

The present study assesses the attractiveness of 10 CEE countries (Bulgaria – BG, the Czech Republic – CZ, Estonia – EE, Latvia – LV, Lithuania – LT, Hungary – HU, Poland – PL, Romania – RO, Slovakia – SK and Slovenia – SI) based on the public policy approach in the EU accession year (2004 or 2007) and in 2010. The analysis allows the taking into account of the impact of both EU integration and crisis in evaluating the countries’ evolution.

The attractiveness matrix is constructed based on the public policy attractiveness index, which aggregates four sub-indices, identified as key-drivers for this study, representing the institutions’ quality, the infrastructure endowment, the labor market conditions and the taxation level. This approach allows a deeper analysis of the strengths and weaknesses of the policies carried out by the governments. Each sub-index consists of relevant proxies identified in the literature for reflecting the above mentioned key drivers.

The infrastructure index (II) is proxied by the number of main telephone lines per 1000 inhabitants and the level of internet access of households as percent of the total population, both provided by Eurostat. For the first variable, we use the last data available for 2009.

The institutions’ quality index (IQI) is a measure of the accuracy and efficiency of public administration. For assessing the institutions’ quality, we use the Corruption Perception Index developed by Transparency International, which measures the perceived levels of public sector

corruption, and the investment freedom index obtained from the Heritage Foundation's Index of Economic Freedom. This index evaluates the restrictions typically imposed on investments.

The index expressing the labor market conditions (ILM) is measured using the labor cost index and the tertiary education graduates which allows for checking the degree of labor force qualification. The labor cost index indicate the short-term development of the total cost affecting the employer (including gross wages and salaries, employers social contributions and other taxes connected to employment), on an hourly basis, for employing the labor force. The tertiary education graduates per 1000 of population aged 20-29 allows for checking the degree of qualification for the labor force. For this variable, last data is available until 2009. All necessary data are provided by Eurostat.

The taxation index (IT) measures the fiscal burden borne by the investors. We firstly use the statutory level of the corporate income tax rate because it affects directly the profits generated from conducting a business. Data can be found in the Annual report of the Romanian Fiscal Council and in the study of Mintz and Weichenrieder (2010). The second proxy used is the value added tax (VAT) level, as it represents an important tool for economic and fiscal policy and it is a cost incurred by all the economic agents. The European Commission documents provide all the data needed.

The first step is to establish a common basis for data evaluation, as the actual data are differently expressed. This is done for each variable, by establishing the ratio of the value recorded by each country in the value of the best performing country. We use equal weighting for computing the sub indexes, as there is no significant difference as compared to the results obtained from factor analyses (Groh and Wich, 2009: 13). The public policy attractiveness index (IPPA) is also computed as weighted average, based on the equation:

$$IPPA = (II + IQI + ILM + IT) \times 0.25 \quad (1)$$

Finally, in order to evaluate the ranking accuracy, the results will be compared with the inward FDI flows in USD at current prices and current exchange rates per capita in 2004, 2007 and 2012, as obtained from the United Nations Conference on Trade and Development (UNCTAD).

IV. Results

The attractiveness matrix (Table no. 1) is created by ranking the countries according to the results obtained in the three years, from the most attractive (the country with the highest score) to the least attractive (the country with the lowest score).

Table no. 1. Public policy attractiveness matrix

		Rank/ Year	1	2	3	4	5	6	7	8	9	10
Attractiveness Index	2004	PL	LV	LT	EE	SK	HU	SI	CZ	BG	RO	
		0.73	0.72	0.71	0.71	0.68	0.62	0.59	0.58	0.57	0.53	
	2007	PL	EE	LV	LT	SK	SI	HU	BG	CZ	RO	
	0.76	0.76	0.75	0.75	0.71	0.69	0.67	0.65	0.65	0.65		
	2010	PL	LT	SI	EE	RO	LV	CZ	SK	HU	BG	
	0.83	0.76	0.76	0.75	0.73	0.72	0.70	0.70	0.70	0.64		

Source: Authors' work

According to the results, all governments carried out policies for enhancing attractiveness in their countries since their EU accession. The intermediate results show that the infrastructure endowment improved the most.

Poland ranks first in 2010 and maintains its leader position since EU accession (2004). Slovenia improved the most its public policy attractiveness, by 0.17 points during the 6 years of its accession. The ranking obtained in 2007 allows checking for the impact of the crisis. If the ranking is almost the same in 2004 and 2007, as a consequence of the crisis, 2010 saw a total

turmoil and rearrangement of the ranking. Again, Poland leads the race of attractiveness, continuously improving its score. The result obtained can be correlated with the fine route of Poland during crisis. Still, most of the other countries worsened their score, mainly due to a rise in the taxation level (Estonia and Latvia) and the quality of institutions (Bulgaria and Slovakia). The winners relied on improvements mainly regarding the infrastructure endowments (the Czech Republic, Lithuania, Poland, Romania, Slovenia), institution quality (Poland and Romania again) and labor market conditions (Slovenia), according to the evolution of sub-indexes (Table no. 2).

Table no. 2. Evolution of sub-indexes

Index	Year	BG	CZ	EE	HU	LV	LT	PL	RO	SK	SI
I _T	2004	0,83	0,74	0,79	0,83	1,00	1,00	0,80	0,77	0,87	0,75
	2007	0,95	0,68	0,73	0,70	0,83	0,83	0,67	0,79	0,74	0,67
	2010	0,98	0,74	0,71	0,69	0,79	0,79	0,69	0,71	0,76	0,71
I _{QI}	2004	0,63	0,74	0,97	0,80	0,73	0,78	0,57	0,41	0,73	0,78
	2007	0,64	0,78	0,99	0,79	0,75	0,75	0,60	0,56	0,76	0,89
	2010	0,55	0,74	1,00	0,78	0,78	0,80	0,74	0,70	0,72	0,88
I _{LM}	2004	0,60	0,49	0,72	0,57	0,95	0,92	0,78	0,70	0,59	0,53
	2007	0,75	0,73	0,83	0,71	0,95	0,98	0,93	0,84	0,78	0,72
	2010	0,65	0,77	0,76	0,71	0,86	0,98	0,91	0,88	0,77	0,88
I _I	2004	0,22	0,34	0,35	0,29	0,18	0,16	0,78	0,24	0,53	0,29
	2007	0,28	0,42	0,48	0,49	0,47	0,42	0,85	0,40	0,55	0,46
	2010	0,37	0,57	0,53	0,62	0,48	0,49	0,96	0,62	0,56	0,56

Source: Authors' work

In order to assess the accuracy of the public policy ranking, we compared it with the ranking provided by the inward FDI flows per capita (Table no. 3), a measure for evaluating the FDI inflows, given the different size of the analyzed countries. The first observation is that the two rankings are not perfectly corresponding, pointing that there are other stronger determinants influencing the FDI, such as the macroeconomic and political stability. At the same time, it must be signaled that it is difficult to measure the fiscal facilities or state aids offered by the governments to the foreign investors. In this respect, the pillar on taxation lacks information. Still, each improvement in the attractiveness score is followed by a higher FDI per capita in 2007, the year before the crisis. This time, as the FDI level is lower due to the crisis, we will compare the countries' change of position in the ranking. Therefore, comparing 2007 with 2010, a worsening of the attractiveness score is followed by a worsening in the FDI per capita ranking in the case of Slovakia, Latvia and Bulgaria. The sole exception is Hungary and Estonia. Similarly, an increase in the ranking is observed for Lithuania, Slovenia, the Czech Republic and Romania, that also improved their attractiveness score. Poland maintained its first place in the FDI inflows ranking, as a result of its attractiveness increase.

Table no. 3. Inward FDI inflow rankings

	Rank/ Year	1	2	3	4	5	6	7	8	9	10
Inward FDI inflows	2004	EE	SK	CZ	BG	HU	SI	PL	RO	LV	LT
		710,11	560,02	487,62	436,13	421,92	413,38	337,25	294,60	274,48	225,43
	2007	EE	BG	LV	CZ	SI	SK	PL	LT	RO	HU
		2028,97	1621,52	1017,81	1012,63	752,50	659,32	616,94	596,33	458,37	393,41
	2010	EE	CZ	SI	BG	PL	HU	LT	RO	LV	SK
		1147,81	646,29	410,96	289,58	252,93	238,10	189,39	166,31	155,19	96,21

Source: UNCTAD, Authors' work

V. Conclusions

In the present paper we have examined the impact of one country's public policies in the areas of infrastructure, institutions' quality, labor market and taxation on the FDI attractiveness. The study has examined the role of the state in creating the appropriate framework for attracting FDI. We have found that the public policies show an obvious impact on FDI, as market forces cannot substitute for the role of governments in this area. Thus, the governments in all countries must keep an eye open and pay more attention to measures aimed at improving institutions' efficiency and infrastructure in order to build sustainable basis for further attracting FDI and increasing their performance by climbing up on the value chain.

Compared with other studies in the literature, our empirical analysis takes into account the major events faced by the CEE countries in the last years. The paper adds to the literature by assessing the impact of the public policies on FDI during the crisis. The role of the governments in attracting FDI was tested during the crisis. Our main result, in accordance with the literature, is that public policies continue to influence FDI. Still, the sharp decrease in FDI inflows during the crisis was mainly determined by the investors' lack of confidence in the national economies or in the financial system.

Moreover, we have evaluated the evolution of the public policies since the year of the EU accession. A positive relation was found between the increase of the public policies attractiveness and the inward FDI.

The results underline the fact that the CEE countries have a powerful policy instrument at hand to increase FDI inflows. Some short and medium term policy issues can be emphasized. The FDI inflows rise where the local capabilities are strengthened and new capabilities are created. The economic and financial crisis has pointed out that the created resources are at least as important as the natural endowments. In the midst of the crisis, most countries seized the opportunity to improve public policies in order to attract FDI. There is room for improvements especially in the infrastructure and institutions' quality on the short run. The two areas offer in times of crisis valuable maneuvering space for attracting investors.

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GLOBAL ECONOMIC GOVERNANCE AND STATES: STILL IMPORTANT AS LEADERS?

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The importance of countries as actors in international economy is the basis of global economic governance. Though the world has increasingly become more integrated in terms of economics, it continues to be politically fragmented in independent states, which follow their own interests. In general, the countries choose the organizations which serve best their interests. But they seek also to achieve their goals through building coalitions with other states, seeking to solve problems of mutual interest directly and in a pragmatic way. Global economic governance requires the development of agreements and coalitions of states or groups of states and, also, the creation of ad-hoc multilateralism, which has to deal, in particular, with peace and security problems.

Keywords: state strategies, international organizations, global economic governance

JEL Classification: F13, F15, F53, O24, O43

Introduction

Regional and global hegemonic powers have created interstate business organizations to strengthen their dominance and influence worldwide. As international relations critics say, the various models of economic governance are created for the rich and powerful ones, with privileges in a discriminatory manner for some countries than others. Decision-making process of the five permanent members of the United Nations Security Council gives them the power to influence others' opinions, like the International Monetary Fund and World Bank (Karns, Mingst, 2010).

The rich countries use their financial resources to influence international organizations, and decisions are not always taken in the distribution of wealth for everyone, of multilateral diplomacy to build coalitions among the less favored ones. Not all the states have a say in solving global and regional problems. The conventional image of power belongs to the powerful states or to the most powerful one, that dominates its neighbors and the smaller ones are reduced to the status of dependent states in the international system (Palan et al, 2007). But in an increasingly interconnected world, everyone has the power to be a modeler. Even without a global government, we can achieve better global governance (Friedman, 2008).

The importance of countries in global governance

International organizations and the mechanisms serving personal interests are involved in solving the practical problems between states, like the coordination of telecommunication and transportation infrastructure. But states can depend on these things when it comes to providing goods or health protection. The genius of the nation-states resides in their ability to provide a new collective identity for a growing number of free and autonomous agents that make up the world of private property relations in self-regulatory markets (Rifkin, 2006).

One of the main issues for debates when it comes to this type of relationship is the sovereignty. Sovereignty is the basis of the state's power supremacy within the country itself, exclusive control over the territory and power independence from other states, concept that is analyzed and criticized for centuries. Over time, sovereignty was limited by international agreements. The

world order is based on sovereignty, but the concept itself dates from the time when there were rulers and ruled (Soros, 2007).

Increased sovereignty is taken as assessing responsibility, including environmental or human health and not only the geographical territory. But the state has become an unnatural unit, sometimes dysfunctional in organizing the human activity and business management in a world without borders (Ohmae, 1995). After creating regional economic groups, states can no longer be considered the most effective and functional entities for growth. And the growing internationalization of production, trade and finance, combined with the increasingly global nature of economic and environmental issues rise the question related to the functional capacity of the states. No matter how different and incompatible are the social issues, one of the most important task of the states is to create consistency in its policies (Gilpin, 1987).

When it comes to international organizations, a key question is whether states are willing to give some of their sovereignty to supranational institutions. Some studies show that only a small number of organizations have decision-making power and states are willing to delegate this authority legally speaking: European Court of Justice, European Central Bank or the mechanism of dispute resolution under World Trade Organization.

The various international forums provide the possibility to choose exactly where to discuss each problem and what mechanisms they need in taking a decision. Although certain thing belongs logically to certain specialized organizations, the correlation between problems in question is difficult to take into consideration when it comes to choose a specialization for a certain institution. For example, issues related to the rights for workers or international investments can be addressed using the norms provided by WTO or EU, and in environmental problems they can contact the World Bank or the Commission on Sustainable Development.

Some countries learn how to use the situations in their advantage and others develop by using a more holistic approach on their policies and institutions (Palan et al, 2007). The growing trend toward regional integration is almost at universal level, so we have a more pronounced integration in economic activities in a number of specific regional agreements (Gilpin, 2004). Regionalism is considered the economic strategy followed by countries in order to improve and enhance their competitiveness on global markets, and as a response to changing global economic environment, which undermines the tradition preeminence of the nation-state. Regionalism is not only an instrument for improving competition in the global game; its attraction is done by the fact that is a competitive strategy and an instrument of regional and global economic governance.

The growing number of the groups of states provides another important element of global governance. At the moment, the most important group seems to be G20, a coalition of finance ministers and the governors of central banks, whose purpose is to promote informal dialogue between developed and emerging countries. G20 includes 19 states and the EU, the IMF and World Bank as ex officio participants and represents about 90% of world gross product, 80% of world trade and 2/3 of global population. Until the beginning of the economic crises in 2008, the G20 was not so well known outside the WTO negotiations, where Brazil, Russia, India and China were using group policies to accelerate the economic reforms in developing countries. But with the crisis, the G20 held its first international summit and has engaged in finding and coordinating responses to global problems.

The strategic choices of countries

The states have to deal with choosing the best types of policies and strategies in line with global economic governance (Karns, Mingst, 2010). A strategy can be defined as a calculated and deliberated application in order to reach a specific policy. The debates and controversies concerning the appropriateness and effectiveness of these strategies offer interesting perspectives. The countries implement several strategies at once and they are not always complementary, but also contradictory and inconsistent.

A state can choose a strategy as a subject to the following factors: it must be based on a historical compromise, successful strategies are copied, selecting a strategy is based on the degree of development everyone state has. State strategies are tools for national restructuring and they do not only provide macroeconomic conditions in which certain business thrive, but they also create specific institutions, which manage and promote the expansion of social, economic and political values (Sklar, 1990).

The structure of the international system, especially its anarchic nature, helps in explaining the strategies chosen by states. The theory of hegemonic stability has dominated the world in '80s and '90s, explaining whether international organizations are being created or not, a decisive factor in taking a position (Keohane, 1984). The United States and the Western powers were dictating the regulation of the global economy, and the power distribution between states offered explanations of a certain type of strategy choice from the multitude of policy instruments and decisions taken at international forums. The immediate interest of the hegemony is market creation and ensuring a stable supply of raw materials (Williams, 1972).

Hegemony is controversial as an option in foreign policy, accessible to a just a few selected countries. It may take the form of a strong state, but the picture is more complicated; it is exercised in a constellation of social and political forces for a historical block (Gill, 1994). Hegemony is domination and power and is less a strategy for economic competitiveness since it proved to be costly in the long term (Palan et al, 2007). Hegemonic strategy dominates all other possible state strategies (Calleo, 1982).

Domestic policies play a key role in drawing a state strategy, international commitments and attitudes toward global governance. Understanding the fact why states choose to cooperate at multilateral level and their susceptibility toward global governance can depend on the domestic dynamics of the already adopted policies, rather than on the interactions between states, international organizations and NGOs. Great powers have included economic regionalism in the strategies they choose to increase their relative gains and protect themselves against external threats to their economic welfare and national security, but also to reap the benefits of an expanding global economy (Gilpin, 2004).

Countries and global economic governance

As the dominant hegemonic power after World War II, the United States played a critical role in shaping the structure of the postwar international system, including the creation of many international organizations like the United Nations, the institutions that emerged from the Bretton Woods system, NATO and GATT. The fact that this system is marked by the existence of international institutions and the promotion of international law is the result of the U.S. preferences, which gave birth to rules and regulations compatible with its own interests.

The U.S. unilateralism was often a threat to the global peace, and its increasing power makes United Nations to take decisions that ignore the less developed countries (Ikenberry, 2003). In response to these unilateral decisions, other countries have shown frustration and the desire to participate in global economic governance without the U.S. The researches have shown that anti-American sentiment may lead to the inability of international organizations to take any legitimate global decisions (Johnson, 2007).

American exceptionalism is based on the belief that American values and norms are universal, and the U.S. has the responsibility to promote them and use the international organizations as the main instruments of their development (Luck, 1999). But the U.S. hegemonic position is used incorrectly (Calleo, 1982), and the main challenge to the American leadership is to identify problems they can still solve alone, namely those it can solve with the help of its partners (Friedman, 2008).

The U.S. has easily embraced the multilateralism of the international financial institutions, because it had an immense power over their voting decisions by controlling both the IMF and the

World Bank and having well-trained scientists from educational system within them. The Americans have the power to act alone, but by taking unilateral actions they risk undermining the multilateral system, a system that is almost entirely consistent with U.S. interests (Friedman, 2008).

When a hegemonic power fails to act within its borders, the credibility of the established institutions and norms fail as well (Cronin, 2001). The international institutions, dominated for long time by the American money and ideas, were considered as influential vehicles of the U.S. and emerging economies, like China, Russia, India, Brazil, Saudi Arabia and South Korea, not only they do not longer need them, but are taking more and more the position of a direct competition with them (Zakaria, 2009). But the U.S. is no longer the only power in global governance. Other powerful states appeared on the arena of international relations and their weight considerably in global decision-making process.

The political ambitions of the Latin America depend entirely on Brazil, which is encouraged by the mythical similarities with the U.S. and is trying to become the vanguard of the Latin diplomacy (Khan, 2008). Brazil's global leadership is recently, the state is in this position due to its strong economy based on agriculture, mining and processing industry, and also its political stability since the early '90s. Brazil supports Pan-Americanism, but has adopted an independent position in the era of globalization, building MERCOSUR and resisting the U.S. desire to create a Free Trade Area of the Americas. To improve its global image, it has become a major contributor to the peace missions under United Nations and to assist technically the South-South agreements, especially in tropical agriculture, energy and transportation projects in southern African countries (Karns, Mingst, 2010). It is not just another South American country, but the continent's essential geographical key factor (Khan, 2008). Brazil took the lead of G20 with China, India, Russia and South Africa, showing diplomatic maturity in international trade arena. Emerging strategic alliance between them is illustrated by the fact that U.S. has unconditional allies on the geopolitical market, and the developing countries can effectively work together in finding a balance and redrawing the global economic governance.

During the Cold War, Russia has held the role of hegemonic power in the bipolar struggle for supremacy with the U.S. He created two multilateral organizations as response to the ones created by the American side: the Warsaw Pact in opposition to NATO and the Council for Mutual Economic Assistance in opposition to the Marshall Plan. In both of them, it dictated the operating policies and programs, being a coercive military power in order to maintain its domination. After the fall of the Soviet Union, the Russian power has been economically weakened, but still having strong influence in the United Nations. Its weakness is an imminent threat to the world stability (Friedman, 2008). After extended its multilateralism in international forums, such as OSCE and G8 and has developed a partnership with NATO, Russia has shown increasing nationalist tendencies. Instead of joining the global economic system, Russia prefers to be a regional power and provide a distinct alternative to the economic and political institutions (Karns, Mingst, 2010). But its transition is uncertain and even it has eliminated the central planning, still having an opaque communist culture, which lacks flexibility and transparency (Friedman, 2008).

Nowhere in the world there lies so provocative such a depopulated state as Russia with such a populated one as China. A huge demographic imbalance and China's growing needs for resources lead to the question: can Russia continue in its actual shape? Russia is the state whose map will change in the near future: while Europe absorb its former influence spheres in the West, China swallow it to the East; without Russia, the Western world do not have access to the headquarters of power in the Eastern part of the continent. If the West is not successful in addressing Russia, then China will be victorious (Khana, 2008).

Along with China, India is one of the most populated states, with a significant economic growth in the last decade and one of the declared nuclear powers. The backbone of its economic

development is the private sector, and the economic growth has nothing in common with the governmental activity, but exists despite it (Zakaria, 2009). Its foreign policy has incorporated significant elements of multilateralism and, also, unilateralism. India is an active participant in peacekeeping missions led by the United Nation and helps the poorest countries, providing diplomatic support in the redistribution of preferences to the disadvantaged areas (Cooper, Fues, 2008). India has refused to be part of treaties and other agreements that would emphasize its role as a powerful state, but is still an active member in ASEAN or APEC. It faces an interesting domestic paradox: although the society is open, energetic and ready to take its place in the world, the ruling class is hesitant, weak and suspicious in front of the changing realities around them (Zakaria, 2009).

China's role in the international arena has changed along with the transformation from a self-imposed isolation to the opening toward the global system. The awakening China is reshaping the economic and political landscape, being modeled by the rising world (Zakaria, 2009). As one of the most populous states in the world, as a nuclear power, as the largest borrower for the World Bank, as the largest aid donor to Africa and having the highest carbon dioxide emissions, China is a key player at global level (Kent, 2007). Its relations with the world are practical, reflecting the context of its interests and it declares itself as being a developing country, even if it is one of the major economic powers that redefine the global economic order. Multilateralism has become the center of its foreign policy. After avoiding multilateral agreements for a long time, China has recently come into as many as possible. Since the mid-'90s, it has proved unprecedented actions toward multilateralism in Southeast Asia, is an active member of ASEAN and it is taking the responsibility in solving regional and global problems.

Since 2000, China has shown self-confidence due to its economic growth, international experience and perception of U.S. vulnerability. In fact, its multilateralism contrasts sharply with the American unilateralism in a time when multilateral actions and consensual decisions are needed. Although he agreed to cede some sovereignty just like the U.S. and other important states did, China was selective in responding to challenges. It moved slowly in taking decisions regarding trade liberalization and implementation of the imposed standards by international organization (Karns, Mingst, 2010).

China's multilateralism is one with regional and global prerogatives and has become a convenient way to move in the direction of being a world superpower, to extend its influence, to promote multi-polarity and to assume proper responsibility in global decision-making process (Wu, Lansdowne, 2008). This way of thinking has contributed to the increasing interdependence, compromises in achieving targets and to embrace the institutionalized forms of cooperation not only to continue its growth, but also to address the arising challenges of globalization process. But, in reality, the globalized world pushes America and China into an alliance hard to materialize geopolitically speaking; for over three decades, China's foreign policy was geared towards satisfying the U.S., and the economic relationship is one of mutual dependency: China needs the U.S. market to sell its product, U.S. needs China to finance its debt (Zakaria, 2009).

Conclusions

The study of global economic governance allows the understanding of the complex interactions between states and other important international actors. Systemic shocks or rapid changes at the regional and global level in the distribution of power contribute to choosing a state strategy. Cold War, oil crises, financial and economic crises are just a few examples of systemic changes that contribute to taking a strategic position. In such cases, states may be willing to cede more of their authority to the new governance structures or to the ones already in place in order to protect themselves against side effects.

Groups and coalitions provide a certain coherence and order in the world of over 192 countries, with an extremely busy agenda of issues to be solved in no time. They put these issues on the

table and engage in negotiations with compromises in order to reach consensus. The countries remain active participants in the new global economy.

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RESEARCH ON THE IMPACT OF ICTS ON THE LOCATION AND SPATIAL DEVELOPMENT OF FIRMS

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This article resulted out of primary data produced on the basis of PhD level research of the use of information and communication technologies (ICTs) in, primarily, professional services firms located in Romania and the broader European spectrum. We have aimed at seeing whether ICTs produce a spatial effect on firms (such as their launching of new offices or hiring of remote workers, in places where the firm does not have branches. Among the chief conclusions of this paper, we have highlighted the idea of how companies should be encouraged to conceptualize the ease with which they can locate their branches wherever so as to capitalize on two aspects: a broader market for their services and products as well as tapping into reservoirs of talent in lower cost countries .

Keywords: ICTs, location, research, Internet, SMEs

JEL code: R1

I. Introduction

With gasoline prices skyrocketing around the world as a result of both increased demand and the instability of autocracies and teocracies in most OPEC countries, as well as with the added stimulus of having a reliable telecommunications network connecting most countries, many firms as well as their employees started looking, with the start of the latest financial crisis, into other, more modern, ways of working. One of the reasons was obviously reducing costs in their operation. Another was simply, doing things smarter and in a more efficient way.

Alternatives started then being implemented, such as transit subsidies, carpooling with other colleagues or other means through which the employees would commute to the company's HQ. The one other major new idea which was researched and implemented starting in the USA (either through careful strategy and planning or through the natural course of action of using the ICTs): telecommuting or telework (the later is the EU preferred term for the subject).

The proliferation of high-speed, broadband Internet connectivity and the existence of smartphones also occurred during the later half of the first decade of the 21st century, all this helped telework become a well accepted and, by many employees, desired way of working for many companies and individuals worldwide.

And last, but surely not the least, people started appreciating more and more a better balance between personal life and working time. All this could be facilitated via flexible-time, remote working.

II. Research methodology

We wanted to research some of the hypotheses presented in our introduction and the way we chose to do it was via applying a questionnaire. We have mostly used quantitative tools and data, to add volume to the perceptions which already resulted through some 1 on 1 interviews with managing directors of companies – that being the bulk of the qualitative information.

We've sent invitation letters for the questionnaire to over 950 individuals through the business network LinkedIn (www.linkedin.com). The response rate was surprisingly good for such a research project (close to 10%).

Other invites we've sent via the Timiș County Chamber of Commerce, Industry and Agriculture have been left unanswered, to our great disappointment and, thus, presenting complications and implications for our study and conclusions (and limitations we have tried to overcome).

We've presented some identifying data on the sample population we've researched in the tables below (Tables 1 through 3).

Table 1. Size of company - number of employees

Size of company	Percentage
0-10	22%
10-50	14%
50-300	22%
300-1000	11%
>1000	32%

Made by the author

Close to 60% of the respondents (adding up 22%+ 14%+22%) come from firms with less than 300 employees, making this sample population relevant, primarily for SMEs (Small and medium enterprises).

Table 2. Activity domain of the company

Industry	Percentage
Translation services	5%
IT/High-tech/software	30%
Design/Digital	2%
Marketing/PR/Communications	12%
NGOs	5%
Telecommunications	5%
Banking and finance; insurance	8%
Other professional services	33%

Made by the author

We can see that the majority of the firms represented in our study are in the tertiary area of the economy, being service providing firms.

In table 3 we have presented the geographical spread of respondents. Instead of presenting each country, we have highlighted the continents they represent.

Table 3. Location of respondents

Continent	Percentage
Europe	78.1%
Asia	9.6%
America	12.3%

Made by the author

Amongst countries, Romania is, obviously, the best represented territory, accounting for 29% of respondents.

III. The results of the research

Moving into the depth of our testing of the original hypotheses, we've directed at our respondents questions meant to reveal practices and perceptions related to the use of ICTs and their impact on location strategies.

We have highlighted a few questions and the statistics built upon the answers to these in the tables below.

Table 4. Do you have colleagues working (constantly) away from firm's headquarters (offices)? *
(those working from home, teleworking/remote-working)

Option	Percentage
Yes	74%
No	16%
No, but the firm takes this option into consideration	10%

Made by the author

We can notice how a large majority of companies have employees who work, with a certain degree of regularity we have not gotten into researching now, sometimes, away from company headquarters or offices.

Another question worth presenting conclusions for is about the means of communication (Table 5). We have looked at how the past few years have seen a shift from the fixed-line phone and fax model of communication of firms with their branches/offices and business partners (clients, suppliers, the Administration) to a much more diversified way of keeping in touch. Mobile phones are used by 77% of those polled in their business communication, versus only 18% still using regular/snail mail or the 27% who still operate a faxing machine. A tremendous change compared to 5-10 years ago; one which could favor flexible location strategies and teleworking.

Table 5. Communication with other branches and with customers is achieved through:
(* multiple choices allowed, hence the total being over 100%)

Means of communication	Percentage
Traditional phone systems - fixed lines (ex: Romtelecom, ATT, France Telecom)	73%
Mobile phone lines (ex: Vodafone, Orange, O2)	77%
Internet based phone/ VoIP (ex: Skype, Viber)	55%
Email	96%
Fax	27%
Regular/snail mail	18%
Text messages (SMS)	15%
Other	12%

Made by the author

Eurostat (2012), through (Table 6) provides reference statistics (vis-à-vis data in Table 4 and Table 5) on a much larger target population; this data can be used to verify the relevancy of the results of our PhD level research.

Table 6. Percentage of persons employed working part of their time away from enterprise premises and accessing enterprise's IT systems from there

GEO/TIME	2003	2004	2005	2006
European Union (27 countries)	:	35	44	47
European Union (25 countries)	:	37	44	48
European Union (15 countries)	22	42	50	53
Euro area	19	41	44	47
Belgium	58	52	58	62
Bulgaria	:	22	19	26

GEO/TIME	2003	2004	2005	2006
Czech Republic	10	7	10	27
Denmark	69	75	77	80
Germany (including former GDR from 1991)	5	48	54	61
Estonia	:	35	34	39
Ireland	42	40	35	35
Greece	34	27	29	42
Spain	25	28	27	31
Italy	29	28	33	20
Cyprus	:	33	37	39
Latvia	:	16	21	1
Lithuania	:	15	19	26
Luxembourg	42	37	35	45
Hungary	:	2	9	1
Malta	:	:	:	:
Netherlands	7	55	59	67
Austria	:	:	:	:
Poland	:	9	8	16
Portugal	25	28	28	36
Romania	:	0	:	24
Slovenia	:	29	39	55
Slovakia	:	28	43	53
Finland	:	66	67	70
Sweden	68	71	71	72
United Kingdom	:	:	65	71
Iceland	63	:	:	65
Norway	62	67	66	77

Source: Eurostat, 2012 (Last update 06.03.12
Extracted on 23.03.12)

We have identified a few trends in our research. People seem to, generally, be quite happy with the option of working from home for their companies, if this option does not cost them dearly in their pay slip at the end of each month. The proportion in this area is a telling 2:1.

Table 7. If you were offered a choice between the two options below which would you choose?

Choice	Percentage
Bigger salary (flexibility about the location from where you work is not so important)	64%
Flexibility in working from home (you would give up on a higher salary)	36%

We have presented the results of our question on the main benefits of technology in day to day work (Table 8).

Table 8. Main benefits of the Information and Communications Technologies (ICTs) in your company's activity are: (* multiple choice)

Benefit	Percentage
Provides a better quality of work	71%
Work becomes faster	89%
It offers all employees, regardless of location, easy access to common data (eg. via the Intranet, Google docs)	84%
The possibility of reducing the number of employees	22%
Greater job satisfaction for employees	33%
Makes the company a more attractive employer	40%
A policy to protect the environment more effectively (lower consumption of paper, fewer visits to customers by car/airplane)	53%
Being able to work away from firm offices	71%

A large portion of the population polled (71%) tells us that flexibility vis-à-vis location is indeed one of the benefits. 84% also tell us that easy access to centralized data, from any point in the world (connected to the Internet/phone line) is another of the clear pluses which come to mind when analyzing the role of technology.

One final question and its results are presented below (table 9).

Table 9. “In your opinion, the contribution of the existence of the IT/Telecommunications/Internet infrastructure to the company's development is:”

<20%	4%
20-40%	20%
40-60%	28%
60-80%	30%
80-100%	19%

The highest numbers of respondents (30% and 28%) believe that the contribution of ICTs to the development of the companies they work for is very significant (estimated at between 40 and 80%). Only 3% of those polled believe that the ICTs contribution is relatively insignificant (0-20%).

IV. Conclusions

This article presents a small excerpt of the data which we gathered and analyzed. Some of the conclusions on the linkages between the different variables have been checked through applying a regression. In its 7th iteration, the results are (Table 9):

Table 9. Regression – the influencing factors

Regression Statistics			
Multiple R	0.48726		
R Square	0.237422		
Adjusted R Square	0.199294		
Standard Error	0.614296		
	Coefficients	Standard	t

		Error	Stat
Intercept	1.760587	0.291572	6.03
(x1) Location of firm branches	-0.10328	0.07562	- 1.36
(x5) Employees working remotely/ teleworking, etc.	0.235006	0.094582	2.48
(x7) Proportion of clients attracted through the Internet	0.22098	0.06623	3.33
(x8)Number of employees:	0.204219	0.059157	3.45

One thing we can see is that many companies already use multiple locations in their activity, whether for research, production or sales activity. The use of the Internet as well as other ICT related tools can help firms expand, without the need for opening physical branches and offices. Sales can be achieved via localized websites and employees can be hired in countries the firm has never set foot in or in which they could not open a branch due to costs, legislation or other entry barriers. Companies in the UK who could not hire Romanian employees in the British Isles, due to employment barriers for these nationals, are, nevertheless, capable of contracting their services (as companies providing services, instead of the traditional role of full-time employee) via the Internet.

More firms should be encouraged by the Chambers of Commerce or national and local authorities to conceptualize the ease with which they can develop and locate their facilities anywhere (for example in lower cost regions or countries), capitalizing on the existence of the Internet and the ease with which branches can communicate and use the same set of information in real-time.

More firms should also understand that by offering (some of) their employees the opportunity of working remotely (from home or otherwise), they can benefit from higher productivity and ensure higher employee loyalty, which translates in higher returns on the hiring and training effort - one of the major business related costs. The office-centric working model is of the past, with the exception of certain industries (manufacturing, sensitive information, etc.) and functions (those which require daily interaction with clients, suppliers, other parties).

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THE EFFECTS OF FOREIGN DIRECT INVESTMENTS ON EMPLOYMENT IN CENTRAL AND EASTERN EUROPE. FOCUS ON ROMANIA AND POLAND

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Central and Eastern Europe has become a player on the international market of foreign direct investment (FDI) with the fall of communism in 1990. Liberalization of markets has brought both advantages and disadvantages to new states in transition. Despite modest values of FDI received, the share of the region in total global FDI is increasing. Any type of investment, foreign or domestic one, is considered crucial as it generates employment and contributes to the economic growth. This paper tries to provide an analysis of the effects of FDI on the labor force of this region, and specifically in Romania and Poland. We analyzed the quantitative effect on the labor force, more precisely the effect on the employment. Foreign subsidiaries hold an important part of the occupied population, although the number of foreign firms is lower than the domestic ones. Despite the destruction of jobs in the early transition in the process of restructuring, foreign subsidiaries, both directly and indirectly create jobs and usually at a higher rate than the domestic companies manage to do. During the recent financial crisis, foreign subsidiaries proved to be more resilient and the cut off jobs was lower than in domestic firms.

Keywords: foreign direct investments, employment, Central and Eastern Europe, Romania, Poland

Jel Classification: F21, F23

I. Introduction

Central and Eastern Europe has began to show interest to foreign investors with the fall of communism. Starting the transition process has led to major restructuring in all countries of the region and foreign investors have tried to take advantage of the opportunities. Although there was a fear at first because of uncertainty that these states presented, over time Central and Eastern Europe has become one of the favorite regions of foreign investors.

Many multinational companies decided to invest and relocate a large part of their activities to these countries. According to Ernst and Young's survey from 2010, in 2008 the CEE region was considered as attractive as the states of North America and West Europe being in top 3 among the investors' preferences. Among the strengths of Central and Eastern Europe we find: cheap labor and highly qualified labor force, membership to the single European market or proximity to it, large markets (Russia, Ukraine, Poland or Romania).

Not only foreign investors have taken advantages from realizing FDI in this area, but there are many benefits to host countries too. One of the most important effects is the one on the labor force. In particular, for this region this impact is particularly important because of the major features that characterize this region: the transition period and the creation of the private sector.

Workforce is an important problem also in the European Union, due to the existence of regional disparities which is manifested most in the transition states (Jurajda and Terrell, 2006).

This article presents an analysis of the effects of FDI on the employment in Central and Eastern Europe (CEEC), and tune the effect for two states: Poland and Romania. The impact of FDI on the employment can be analyzed from several points of view: quantitative (number of jobs created), qualitative (productivity, training), direct effects and indirect effects. This analysis will

focus on the quantitative effect of the employment, namely an analysis of job creation/destruction realized by foreign investors.

The paper is split in 3 parts: the first one presents the evolution of FDI in CEECs, while the second one analysis the effects on the employment, the last part focusing on Romania and Poland.

II. The growing importance of FDI for CEEC

In the first years of transition, CEE countries didn't attract many foreign investors, who had many fears regarding the changes these countries were passing through. Repatriation of profits from the region was an important reason of concern for all investors, and the lack of currency convertibility just added more reasons to choose carefully the host country for your investment. (Gray and Jarosz, 1993). Although FDI is increasing year by year, though their value was quite low in the first decade of transition. Countries of Central and Eastern were characterized by a poor economy, hyperinflation, low productivity, infrastructure virtually nonexistent, and often unclear legal situation (UNCTAD 1994).

Since the early years of transition, investors to Central and Eastern Europe have shown a preference for a small group of countries, probably those in which economic reforms were accomplishing their goals best. Hungary, Poland, Czech Republic and Slovakia were the favorite destinations of foreign investors, the four creating also the Visegrad group.

Thus, in the early transition, countries of Central and Eastern Europe, according to the FDI received can be divided into three categories:

- Visegrad-countries: Czech Republic, Hungary, Poland, which recorded the most part of the FDI stock (69%) (these are almost industrialized countries and have strong ties to Western Europe)

- Second wave: Bulgaria, Estonia, Romania, the Russian Federation, Slovakia, Slovenia, Ukraine and the Federal Republic of Yugoslavia which have about 29% of FDI stock

- Countries for which FDI negligible: Albania, Belarus, Latvia, Lithuania, the Republic of Moldova, 2% of the stock area. (UNCTAD, 1995).

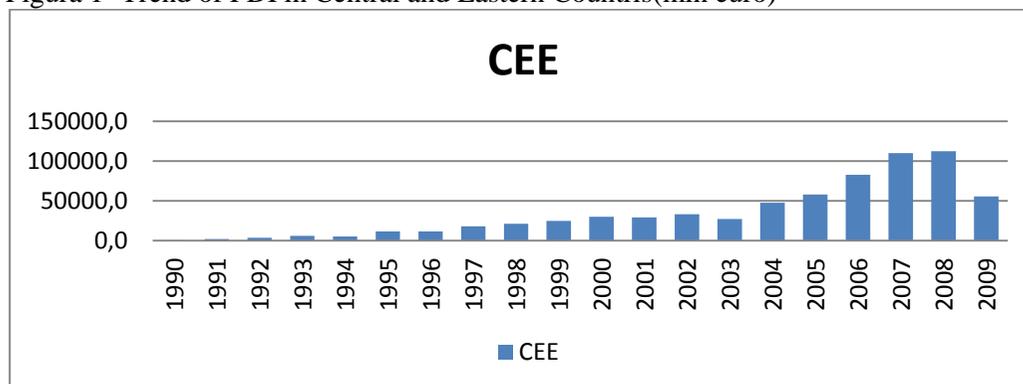
Between 1990 and 2001, CEEC have attracted 166.5 billion U.S. dollars, or 2.7% of total FDI. Accounting for 46% of the total population of Europe, CEE attracts only 5.7% of FDI, or per capita less than Spain. The largest stock of FDI in 2001 was in Poland, followed by Czech Republic and Hungary, while the highest stock per capita is found in the Czech Republic, Hungary and Estonia. (UNCTAD, 2001). Even if reported at global level, the stock is extremely low, yet the rate at which it increased in 10 years is impressive and the outlook is optimistic.

The first part of the transition process was characterized by an increase in privatization –related FDI. The challenge of the last decade was to attract greenfield FDI (Picciotto, 2003) The starting of the new millennium brings changes in the evolution and structure of FDI. 9 countries will become EU members, which means they met the criteria required by the European Union. This status gives credibility in front of foreign investors. Starting with 2004, we may notice an increase in the volume of FDI attracted by the region, but the highest FDI values are not reached in 2007 as happened at global level, but in 2008, when the crisis outbreak (figure 1). The negative effects of the crisis are felt in the next year, when we see a decrease of about 50% of the foreign investments attracted compared to 2008.

Between 1995-2004 FDI stock of the 10 new EU member states grew twice as fast than the world stock did. The highest stock is found in Poland, with 61 billion dollars, followed by Hungary and Czech Republic. The three countries accumulated 75% of FDI stock of the new EU member countries in 2004(UNCTAD, 2005). At individual level there are significant changes in the 20 years that past. The domination of the three countries: Poland, Hungary and Czech Republic is declining. Poland takes the leading place of FDI inflows in 1996, and keeps it until 2001, when records its first decline. In 2000, the FDI inflows in Poland were representing 34% of total FDI

directed to the region. Although the relative values decrease by 38% FDI in 2001, in absolute terms, they received the highest value. In 2002, however, lost for the first time since 1995 the leading position to Czech Republic si, but recovered the leadership in 2003 and never lost again this position so far. The share of FDI attracted by Poland in total FDI of the region has decreased in the last decade, with values between 12-15 % excepting for 2008, when only 8% of FDI of the region were recorded by Poland.

Figura 1- Trend of FDI in Central and Eastern Countris(mln euro)



Source: created by author(WIIW database)

Romania recorded modest values of FDI in the first decade of transition, recording a peak in 1995 and another one in 2000. The strong launch of privatization programs in 1997, brought some huge increases of FDI inflows between 2001 and 2003, period when took place the most important privatizations (Hunya, 2004). The macroeconomic stability, after 10 years of turbulent movements, and the possibility of joining the EU rose the attractiveness of Romania to foreign investors. Thus, since 2006, Romania has become the second host country after Poland, drawing that year about 11% of total FDI attracted by the region. The peak was reached in 2008, but immediately, next year, a decline of 60% was recorded due the outbreak of the financial crisis.

III. FDI and the impact on employment

For the former communist states, which until 1990 had only state-owned property, there was no unemployment problems, as well as there was no concept of efficiency. The transition process automatically led to the restructuring of enterprises and therefore of the workforce. Thus, countries have moved from no unemployment problem that didn't artificially exist to the cut off jobs and implicitly to unemployment. The new private sector created was not able to cover reductions of state sector and therefore negative effects were felt in the labor force.

Workforce is an important problem in the European Union too, due to the existence of regional disparities , which manifest most in the transition states (Jurajda and Terrell, 2006)

In 2006 global foreign subsidiaries had 73 million employees, ie 3% of total employment worldwide. A good part of this workforce is found in the states in transition as production of labor-intensive products is outsourced to these countries (OECD, 2008). Generally, capital intensive activities remain in the home country, while the labor intensive activities are moving to states that benefit from a reduced labor cost. (Konings, 2004).

Also the method of privatization is important in determining the effect on employment.

Voucher and insider privatizations offered the most benefits for labor, but there were negative effects by slowing the restructuring. (Radošević et al, 2003). In 1998, Romania recorded about 25% of all privatizations in the form voucher (unlike Poland which percentage was below 6%), which along with the unemployment rate (high in Poland and much lower in Romania) can support the above statement. Taking into account that privatization through vouchers lead to a

faster distribution of shares, some countries (Romania, Czech Republic and Bulgaria) have opted for this form of privatization, which led to a greater social equity (Kalotay and Hunya, 2000) .

Konings (2004), quoting on Blanchard (1997) presents the two extremes of the transition :

1) the fall of the state sector with "sluggish" growth of the private sector are the main forces carrying out the transition process. The growth and development of the private sector is not sufficient to cover layoffs made by the state, which leads to high unemployment rates and thus slow the process of restructuring.

2) the rapid growth of the private sector is the main driving force of transition, feature characterized by absorbing the dismissed labor force of the state sector.

Creation and destruction activities of workforce in CEE have been and are critically important (Konings, 2004). For Poland, creation and job destruction decreased in 1994 and became almost equal in 1997. During this time, the evolution of the same indicators in Romania, decreased modestly, and the net value is negative, job destruction was clearly superior to job creation in 1997. (Konings, 2004). Divided by type of ownership is seen that a strong discrepancy between the labor rate in the state sector and the one in foreign / private sector. For Romania and Poland, the foreign sector is by far the one that creates jobs. (Konings, 2004).

The effects on employment were divided by Hunya and Geishecker(2005) into two categories: direct effects and indirect effects.

1)Direct effects: - *Destruction of jobs due to restructuring of state enterprises* (Hunya and Geishecker, 2005) .

This was the first direct effect felt by countries in transition. Making acquisitions through privatization in the early years of transition was equivalent to the layoff of the workforce. But the alternative may lead to larger cuts in jobs (Meyer, 2003). Delaying privatization can lead only to a delay in the restructuring of the companies and, therefore, delay in redundancies and streamlining enterprises. At first, states have tried to provide incentives in terms of maintaining employment by making contacts and guarantees asking to maintain the number of jobs, in exchange for lower prices. But these practices have proved to be inefficient (Radosevic et al, 2003) For example, Poland has lost 40,000 jobs as a result of the privatization of the national telecommunications company TPSA by France Telecom (Lewis 2005 in Dufaux 2010). And despite many years have passed since the start of the restructuring, the number of jobs lost have not been recovered, at least not entirely. (Dufaux 2010)

Effects of destruction of jobs have been observed especially in the early days of transition and as the transition process has evolved, they reduced. Job cuts, absolutely necessary in restructuring is compensated by the foreign investors through the financial resources and especially the managerial one, that they provide and that do not exist at domestic level.. This will lead to streamline the company and soon create new jobs (both directly and indirectly) through the backwards and upwards links that foreign branch has in the global production network. (Meyer, 2003). Analyzing the unemployment we may notice an increase of this indicator for the former communist states during 1991-2000, ie in the first stage of transition. This is a direct cause of restructuring enterprises leading to job cuts and unemployment. For Hungary the unemployment rate has a tendency of decline, possibly due to completion of the privatization process and high economic performances that have contributed to mitigate the negative effects of transition. Romania kept unemployment rates low in early years due to delay of the restructuring process and achieve double-digit unemployment rates, even in 1998, the year privatization process started an upward trend. For Poland high unemployment during the first phase of transition was one of macroeconomic problems most severe. In the second decade of transition, unemployment is reduced in most countries of Central and Eastern Europe, including Poland (even if a reduction of this indicator was achieved much later compared to other states)

- *Job creation through greenfield investments* (Hunya and Geishecker, 2005)

FDI through acquisitions and mergers have mainly contributed to the transformation of state companies and creation in the host countries of the private sector. FDI as greenfield investments have a significant impact on jobs. If for the first category there was a reduction of jobs, the latter contributed to their increase.

Greenfield FDI is targeted by all states and in terms of job creation they are preferable to acquisitions. For ex-communist Europe, this type of investments was difficult to attract in the early years of transition, considering the non-existent private sector and the need to create it by privatizing state enterprises, the lack of regulations, the technological gap ecc. Foreign firms, had also their fears and had no knowledge of local business, so they preferred initial penetration of eastern markets through acquisitions.

2) Indirect effects (Hunya and Geishecker, 2005)

- *Loss of jobs for local suppliers*, once the takeover took place, due to faulty with them and pointing to the parent company's traditional suppliers

- *Loss of employment through the creation of subsidiaries* by large and technologically advanced foreign firms;

- *Job creation by creating new links with local suppliers*: if at first foreign subsidiary will import the necessary materials, as local suppliers will become competitive, foreign branches will focus on the latter

IV. An analysis of the evolution of employment in Romania and Poland

For Poland the first decade of transition has not been very good, the manufacturing sector has lost many jobs in both local and foreign companies. (Hunya and Geishecker, 2005) Romania, was just beginning massive restructuring that led to a loss of jobs, leading foreigners to recover only half of the jobs lost locally. (Hunya and Geishecker, 2005). In the second half of 2000s the situation has changed. In Romania the number of foreign subsidiaries dropped from 30,407 in 2003 to 25,835 in 2009. Meanwhile the number of employed people reached 916,869 people or about 24% of the total workforce nationwide in 2009. The outbreak of the crisis led to a reduction of about 500,000 jobs, of which approximately 10% were due to foreign branches. Between 2005 and 2009, the number of jobs created by foreign investors increased by 350,000, ie by 62%. In 2009, we notice the impact of the crisis, the number of jobs in foreign subsidiaries decreased by 5% over 2008 level, while nationally it was registered a decrease of 11%. This highlights the strong decline registered in the domestic companies once the crisis has erupted. The stronger decrease registered by the domestic firms suggests that they were more deeply impacted by the crisis and less efficient than foreign branches. The turnover of foreign companies is impressive if reported to the values obtained by domestic firms. Having 24% of total labor force employed in 2009, foreign companies reached 42% of the national turnover. These show that both productivity and skills of the employed people of foreign companies are superior to those of local companies. Most of the workforce of foreign subsidiaries is to be found in manufacturing, although the number of firms is not half of those recorded in other sectors.

Unlike Romania, in Poland the number of employees in foreign subsidiaries was about 10.6% in 2009 and the highest level was recorded in 2008 when the share was 10.91. While nationally the number of jobs has increased by 900,000 s from 2005 to 2009, foreign subsidiaries contributed with 274,000 jobs, which is about 30% of the increase at national level. Overall, the number of employed persons increased by 7% at national level between 2005-2009, while the increase recorded by foreign branch was of 23%, showing that the increase of jobs in local firms was lower. The outbreak of the crisis led to a reduction of 1 % of employees nationwide, while the reducing in foreign subsidiaries was by 4%. The number of foreign companies has increased by 37% between 2005-2009 and number of employees by 30%. The average of employed persons of the new firms that entered the market is about 50, which leads to the idea that most new investments were made by small and medium firms which have less than 50 employees. In 2009,

the number of foreign firms increased by 5% and the number of employees fell by 4%. These trends are explained by a resizing typologies of foreign companies present on the Polish market: companies with over 250 employees fell by 4%, while firms with less than 9 employees increased by 9%. Unlike Romania, domestic Polish companies were able to face better the crisis. Relatively modest reduction percentages of the employees in Poland are in line with the evolution of the Polish economy, one that managed to achieve a positive growth in 2009. The performance of Polish companies (both local and foreign), not to reduce the workforce was supported by domestic demand which stimulated economy and thus enabled to maintain jobs. (The data regarding the employees were taken from Central Statistical Office of Poland and Romanian National Institute of Romania and analyzed by the authors)

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Conclusions

FDI represents an important part for the transition economies. Although the values received are still modest, FDI inflows have been increasing year by year and this is reflected by the labor force employed. The particularity of the states in transition, namely the creation of the private sector led to significant restructuring of privatized enterprises and direct impacted the labor force. Once companies have become effective, the negative effect was reabsorbed. foreign subsidiaries had a major contribution in the workforce employed for both Romania and Poland. In 2009 foreign companies have 24% of the total workforce in Romania, while for Poland the percentage is lower than 10%. Last five years have led to higher growth of employment in foreign companies respecting to local ones.

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

INVESTMENTS IN THE REAL ESTATE SECTOR. A CASE STUDY ON CENTRAL EASTERN EUROPE

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This paper presents the evolution of real estate market in European Union. Romania's real estate sector passed through significant milestones during the last years – due to economic boom, integration in the European Union and affordable financing. But after the 2007 subprime crisis and the 2010 European sovereign debt crisis new ways of approaching the market have to be designed and implemented. The M&A transactions seem to be an investment driver in Romanian real estate as proven by Immofinanz /Adama Case Study

Key words: real estate market, investment decisions

J.E.L. classification: R31, G01

1.Introduction

A gradual economic recovery seems to be under way, even though limited by governments' efforts to deleverage. The compression of yields started to ease back in 2011, which would make development projects more attractive than acquisitions, also because of the fact that superior return on investments can be achieved. The option to either develop or trade rent generating assets could be the decisive factor in the performance of real estate companies in Europe.

However, even though European markets have been able to maintain a fragile balance between inflation and deflation, the growth pace is still suppressed. While Northern Europe has a healthier finances system and stronger competitive advantages, the Southern countries face higher unemployment rates and lack of consumer confidence, which makes the gap even higher – this has a direct impact on the real estate sector in these countries, making it less attractive.

2.The Real Estate Market UE

The growth rates in Southern Europe are below average, combined with the fact that the local governments are implementing medium term plans until 2014 – 2015 to cut expenditures in an attempt to rebalance the public debt, means that consumer spending is also kept to a minimum, which leads to stagnant rent levels for both retail and office properties. Moreover, the economic situation reflects directly in the decreasing occupancy level of office spaces, which traditionally also indicates economic downturn.

Also inflation and increasing energy prices have a direct impact on the real estate sector, affecting directly the occupancy costs and ability to afford higher rents, not to mention the discriminating choices of consumers for retail products.

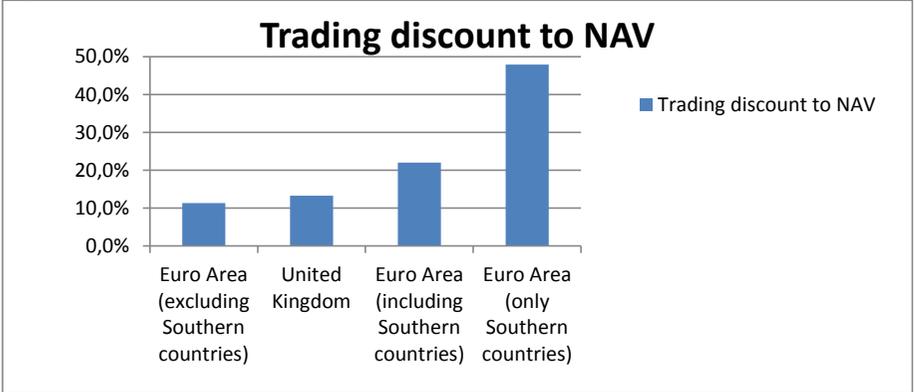
Basically, there is no big difference between listed European real estate companies, except for the regional exposure of their portfolios – because CEE markets are perceived as uncertain and undeveloped compared to Western European markets, companies invested in this region are trading with a higher discount to the net asset value (NAV). But what has been completely neglected prior to the subprime crisis was the size of the investment market – before 2008, Western Europe has a yearly investment volume up to EUR 100 Bn., while CEE (including Russia) had a maximum volume in the boom phase of EUR 14 Bn. This crucial aspect became obvious only after the bankruptcy of Lehman Brothers in 2008, when many real estate companies

decided to exit their CEE investments, in an effort to consolidate their portfolio and concentrate on more traditional European real estate markets. Because the CEE real estate market is a relatively young one, there is little knowledge among Western European companies about this region and corroborated with the devastating effects of the recent crisis, the regional exposure has an impact on the trading discounts to NAV.

For Austrian investors, heavily invested in CEE, a particular challenge in their expansion was opening up to markets much bigger in size compared to the local one – Romania for example is three times larger in size and by taking over the majority stake in Petrom by the Austrian OMV, suddenly a company with 10 times as many employees as in the headquarters had to be managed. Practice has proven that when implementing an investment strategy, the problems increase with the square of the distance and that each national border that has to be crossed potentially attracts new risks. This happens because of entering new cultures, new legal systems, new languages, new business practices and suddenly apparently familiar problems cannot be solved intuitively anymore. Whereas on the local market, business practices are intuitively understandable, this doesn't apply anymore in foreign markets which means a much higher level of information has to be assimilated without making the mistake of interpreting them, but processing them based on local customs.

According to Dick Boer - Executive Director Corporate Finance for European Real Estate at Kempen & Co. Merchant Bank during an EPRA news conference and captured in a Kemper & Co press release, London, September 2011, there is currently “an astonishing decoupling between the valuations of those real estate firms who are exposed to the full brunt of the sovereign debt crisis, and so also fears the Eurozone may disintegrate, and those who are largely sheltered from the storm” – thus we are speaking of a North / South axis of real estate investments within Europe, visible also in terms of investment return per share and trading discount relative to NAV. The listed companies in Southern Euro Area or with investment exposure in this region have seen dramatic decrease of their market capitalisation - the average discount to NAV for companies with portfolios in this region was 48%, for those with a limited exposure to this region 22% and for companies with no exposure in this area maximum 13%, as can be seen in the following chart.

Figure 1: Trading discount to NAV of European Real Estate Companies, based on their regional exposure



Source: own presentation based on historical market caps published by the European Public Real Estate Association www.epra.com and Kemper & Co press release, London, September 2011

There is definitely a new trend in investment decisions – as a result of the current financial and economic crisis and the need to consolidate the investment portfolios, managers became more cautious and realistic, adapting to the current phase of the business cycle. However, one

should not forget that we are currently in a cycle and that historically observed more prudent investment behaviour is typically evident at the beginning of a downturn and diminishes gradually as the economic situation improves, until the next crisis sets up.

Even the highly debated Austrian theory of business cycles could have a saying in the real estate sector as is today. Because of the time gap in the real estate between investment and production, meaning development phase, and consumption decision, meaning the completion of the development and renting out, the resources deployed in each stage of the pre-development, development and renting phase have to be carefully measured, such that when the completion of the development is brought to the market, there is still enough consumption demand for it (1). Generally, the completion of a development from investment decision and acquisition of land up to launching the project takes 3 to 5 years, which makes capital restructuring costly and corrections are only limited possible. The basic idea behind the Austrian theory is that strong expansion of credit activities fuels an unsustainable level of investments. This is actually what lies in the grounds of the subprime crisis started in 2008, when affordable and easy obtainable credits were used to finance consumption behind sustainable debt levels. The adepts of this theory believe that while recession is both inevitable and desirable, in order to clean the bad investments made in the boom phase and consolidate the portfolios, the loss of confidence in the banking system and the credit crunch can push the economy into a longer recession than initially forecasted.

Specifications of Real Estate Investments in CEE (focus Romania)

Investment activity is controlled by international investors, in the form of corporations, private property vehicles and stock listed property companies. Decreasing asset prices in combination with a deteriorating economic outlook have made buyers more selective in their search for real estate property profits, choosing smaller deals in terms of scale and risk, but with higher margins. Romania's real estate sector passed through significant milestones during the last years – due to economic boom, integration in the European Union and affordable financing, the land prices started to rise back in 2005 and reached a peak in 2008. The financial and economic crisis hit badly the real estate owners in the country, faced with the need to write-down drastically the value of their investments, prime properties loosing up to 30% and remote locations up to 80% in valuation. By analysing the loss in values, it can be concluded that the real estate sector has registered the most significant impact of the economic downturn.

Immofinanz Group (through Immoeast AG at that time), was hit just as bad as smaller investors, having to decrease the fair value its real estate projects in the financial year 2008/2009 with EUR 823 M¹³, out of which EUR 533 M directly attributable to CEE markets, and additional EUR 145.8 M¹⁴ were written off from the market value of financial investments in real estate companies with operations in Romania.

These changes led to an almost frozen year 2009 what regards real estate transactions, dropping in volume and value to the levels of 2005. The downsize of economic activity was obvious, demand being subdued in all sectors due to weaker purchasing power and tight monetary policy. Most investors concentrated on redefining their investment strategies and stopping the losses. Nevertheless, at the end of 2009, construction and real estate sector was the third largest invested in in Romania with a volume of EUR 6.5 Bn. representing 12.9% of total economy .

The new strategic orientation continued throughout 2010, when major players have shown a clear need of consolidating their portfolios, by disposing of non-core assets and / or terminating joint venture agreements. In addition to these, Immofinanz Group also concentrated on financial restructuring and cash flow optimization, by merging retroactively per 30.04.2009 Immoeast AG with Immofinanz AG, which simplified the capital structure and created new financing opportunities on the capital markets.

The year 2011 was an active year, in which major European real estate companies still pursued their efforts to consolidate portfolios and approached also mergers and acquisitions: TAG Immobilien AG completed in January 2011 the takeover of 50, 02% of Colonia Real Estate AG for the price of EUR 90.35 M , the merger of NSI and VastNed O/I was completed in October 2011 , Deutsche Wohnen and its competitor GSW are negotiation over the acquisition of the latter. Last but not least, Immofinanz Group, one of the biggest real estate investor in Romania and a major European stock listed player, completed on November 9th, 2011 the acquisition of the remaining 69.3% of the 100% share capital in the CEE residential developer Adama Holding Public Ltd. (“Adama”) for a price of EUR 42.4 M .

A careful analysis of statistical data gathered among active Austrian real estate investors gives a moderate, yet slights promising forecast for the year 2012 - 75% of them estimate a decrease in real estate activities due to the Euro-crisis and 32% of them expect financing difficulties due to implementation of Basel III regulatory standards, on the other hand 57% believe that increasing inflation will redirect investment preferences towards real estate, 56% see new opportunities in IPOs and capital increases and 32% believe business opportunities and increased real estate offer generated by the portfolio restructurings .

Investors in the real estate in Romania are now more prudent and discriminating than before, looking for better locations, better access and only quality constructions, that could return a sure profit over the medium and long term. The banks are also approaching a very conservative financing strategy after being forced to acknowledge on their balance sheet huge amounts of bad loans , which were subsequently written-off. In the case of Erste Bank, this meant an accounting loss of EUR 1.5 Bn., out of which EUR 692 M loss of BCR company value and EUR 762 M write down of Erste Bank Hungary goodwill. The positive reaction however to be expected on the market after such an accounting cleaning is the untightening of the financial sector and a boost of the real estate development pipeline thereof.

Development projects were the clear value drivers in the period 2004 – 2006 and seem now again to be even more attractive than mergers and acquisitions, the main reason being the solution to improve the portfolio quality and retain developer’s profit thus increasing the cash flow. In a market of customers, prime properties are the key to exit the crisis and secure a strong position on the market. According to estimates of investment banks, EUR 7 Bn. will be invested in 2012 in completing European developing projects - real estate companies with high exposure on development activities, i.e. at least 15% of their rent generating assets portfolio, mark the highest growth of cash flow per share and IRR on NAV.

Even though in CEE and SEE markets sustainable developments or green buildings are not yet a standard, the trend is also here increasingly present. Besides the reduced impact on the environmental, the investors benefit also from the longer life cycle and reduced operational costs of the buildings and can achieve a higher premium in case of trading activities. For a property to be certified as green building, it must withstand an integrated sustainability assessment, including high energy efficiency, resource-conserving materials or usage of existing transport infrastructure.

Investment Drivers in Romanian Real Estate - Case Study Immofinanz /Adama

The most recent and one of the most notable transactions was the acquisition of the CEE real estate developer Adama Holding Public Limited through the Austrian stock-listed real estate company Immofinanz Group. The acquisition of the remaining 69.22% of the 100% share capital of Adama was completed on November 9th, 2011 for a price of EUR 42.4 M . Immofinanz Group held a minority stake in Adama since 2007 and decided for the buy-out of renowned investors like the US hedge fund Tiger Global, investment bank Morgan Stanley and Lehman Brothers UK in order to fulfil its defined group strategy of expanding construction and development activities in the residential market. Moreover, the acquisition of Adama complies with Immofinanz’ portfolio consolidation strategy, which requires exit from all financial and

non-core investments and 100% takeover of such participations where synergies and strategic control can be achieved .

Immofinanz Group is one of the five largest listed property companies in Europe and is included in the leading ATX index of the Vienna Stock Exchange. The company has a high-quality portfolio of more than 1,600 investment properties with a carrying amount of approx. EUR 8.5 Bn. The core business of the IMMOFINANZ Group covers the acquisition and management of investment properties, the realisation of development projects and the sale of objects. The IMMOFINANZ Group concentrates its activities in the retail, office, logistics and residential segments of eight regional core markets: Austria, Germany, Czech Republic, Slovakia, Hungary, Romania, Poland and Russia.

This acquisition by Immofinanz Group was especially interesting for the Romanian and other South- Eastern European markets, Adama being a leading property developer, that focuses on real estate projects mainly for residential, but also office and commercial use, foremost in Romania, besides Ukraine, Turkey, Croatia and Moldavia. Adama covers the entire property development chain - from the acquisition of land to planning and approval processes as well as the realisation and marketing of projects. The company has ownership or use rights for more than 40 land plots in various stages of development or construction, with a total volume of 1.44 M sqm designated for approximately 22.000 residential units for the middle-class population and approximately 400.000 sqm of office and commercial space. At the moment of acquisition, Adama had 8% of the residential market share in Bucharest.

Adama is a well-known brand on the Romanian market, not only due to its high market share but mostly due to its image on the market. The social responsibility, the innovative orientation or the premium quality of the products are associations which may be utilized for designing of the brand activity . In this case, we talk about an allusive brand name which makes a cultural reference, allowing positive associations and giving leads about its principal benefits .

“Adama” is the Hebrew word for earth, traditionally standing for stability, quality and sustainability. For the product strategy, the company opted for the brand EVO, deriving from the key word Evolution. The message is that Adama is a stable, strong developer, evolving as a leading brand, in the here and now, capable of delivering tailored living solutions to its clients, by adapting according to the ever-changing demands and re-shaping regional urban landscapes. The product brand has been extended to Evocasa (residential), Evocenter (office) and Evomall (commercial).

Conclusions

We are still in the process of economic recovery after the 2007 subprime crisis and the 2010 European sovereign debt crisis and we are experiencing business decisions being taken with more precaution and decision-makers turning more realistic and risk averse.

The real estate sector being severely affected by the subprime crisis, we have seen an investment bubble in the mid 2000' years followed by an abrupt stop thereof and intense portfolio restructuring efforts up to the current period: strategic reorientation in 2010, disposals, mergers and acquisitions in 2011, fears of double-dipping but also new opportunities expected for 2012. There is definitely an on-going rethinking of real estate investment strategies, but they are not expected to be new ones, but just be reinvented – investors act within the cycle and are now, just like after every other crisis marked on the chart above, more aware of the fact that the business is being replayed, therefore are more conservative and discriminatory, but as time passes they are searching for new opportunities and accepting certain levels of risk in order to generate business.

According to statistical analysis of the crises timeline, a definite trend is evident that at some point we will be facing a replicated collapse and since the average interval decreased from 25 years in the 18th century to less than 10 in the 19th and 20th centuries and we are experiencing already the 3rd crisis in the new millennium, one should only hope that the frequency of the

cycles will be much slower than the recovery and that every business lesson learned will count towards a quicker and a better start in a booming phase.

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THE IMPLICATIONS OF STATE AID TO R&D ON ECONOMIC DEVELOPMENT IN THE EUROPEAN UNION

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In economic terms, the importance of state aid policy refers to the maintaining of an undistorted competition and the correction of inherent “market failures” which may occur in the economy, aiming at increasing economic efficiency, based on the traditional assumption that an effective competition will have a positive impact on economic development.

The main objective of the present paper is to establish a possible correlation between state aid to research and development (R&D) and GDP level in the EU. Our research hypothesis relates to considering state aid as a significant contribution to the economic development, measured by GDP level, which will be estimated as a function of state aid. Consequently, the main variables of this study are state aid to R&D and GDP level, considered in both relative and absolute terms.

The relationship between technological change and economic development has been at the centre of the interest in both theoretical and empirical literature. The role of institutions and government policies in stimulating technological change has been provided mainly by the evolutionary theory, which considers economic development as a technological change driven process featured by a complex pattern which includes both uniformity and idiosyncrasy across time and countries.

The relationship between these variables was estimated through a panel model which used seemingly unrelated regression (SUR) and ordinary least squares estimation (OLS). Taking into account that the economic value is likely to be realized after the innovation process took place we have interpreted this economic aspect in an econometric sense by using time lags. In analysing the relative importance of state aid to R&D, we have proposed an index which evaluates the relation between state aid and the relative size of the Member State’s economy.

The relationship between state aid and GDP level was found to be positive and statistically significant, suggesting that state aid is positively correlated with economic development and showing that state aid programs tend to have an incentive effect for the economic activity after they have been granted, due to the spillover effect of R&D activities assumed by the government funding incorporated in the state aid projects.

On the other hand, the analysis of state aid relative to GDP has demonstrated that significant levels of volatility indicate a persistence of disparities between Member States in the period considered (2004-2009), suggesting that national particularities remain an important determinant of government support through state aid, which implies the necessity of a better coordination in the economic policies targeting innovation in the Member States.

Keywords: state aid policy, economic development, GDP level, technological change, market failure.

JEL Classification: C22, F36, H23.

I. Introduction

In economic terms, the importance of state aid policy refers to the correction of inherent “market failure” situations which may occur in the economy, aiming at maintaining an undistorted competition in the economic environment. Although maintaining undistorted competition represents the only objective which is explicitly mentioned by the Treaty establishing the European Community and which is confirmed by decisions taken by the Commission, state aid policy cannot be reduced to removing distortions caused by anticompetitive practices, since economic literature has constantly argued in favour of an integrative approach which relates state

aid policy to improving the allocation of resources, increasing economic efficiency and supporting economic development (e.g. De Moor and Calamai 1997; Bilal and Nicolaidis 1999; Wishlade 2003).

The main objective of the present paper is to provide a contribution to the related literature, focusing primarily on establishing a possible correlation between state aid to R&D and GDP level in the EU. In this respect, our research hypothesis relates to considering state aid as a significant contribution to the economic development, quantified by GDP level, which will be estimated as a function of state aid, in order to evaluate whether there is a connection between these variables.

The paper is structured as follows: the second section provides a description of the related literature; the third section explains the main methodological aspects proposed by the research; the fourth section presents the empirical results of the paper, while the last section concludes and establishes future perspectives for research in this area.

II. Literature review

The economic literature provides very different conclusions concerning the problem of government support, ranging from keynesian economic policy, which stresses the importance of state interventions for stabilizing the business cycle, to neoclassical considerations, which regard the government interventions more as a complement of the self-regulating market mechanisms. Despite different approaches of the problem, one of the most important unifying aspects of this literature concerns the fact that state aid is used as a regulatory economic policy instrument, while its efficiency has been related to the support of economic development through the effects on innovation, investment or employment.

The role of institutions and government policies in stimulating technological change has been provided in the economic literature mainly by the evolutionary theory, which considers economic development as a technological change driven process featured by a complex pattern which includes both uniformity and idiosyncrasy across time and countries (Dosi et al. 1990; Chiaromonte and Dosi 1993: 40-55; Silverberg and Verspagen 1995: 210-225; Geels 2004: 902-915). Its empirical models provided a wide range of perspectives on the relationship between technological change and economic growth, focusing especially on patterns concerning technological diffusion (Conlisk, 1989: 791-794), growth effects of new technology, regarded as a stochastic phenomenon (Silverberg and Lehnert 1993: 9-37) and the nature of interactions between rational actors (Fagiolo and Dosi 2003: 267-271).

Recent historical developments, such as the increasing trend towards global and regional economic integration and the policy oriented approach of the EU for building a “knowledge-based economy” (European Commission 2005) have reinforced both the academic and political interest in technological change, expressed through R&D activities, as main engine in promoting long-run economic development.

While in the US the main direction of government support has been towards policies aimed at new capital formation and stimulation of demand (Eisinger 1988; Gray and Lowery 1990: 5-23), in the EU ambiguous Treaty rules and heterogeneous Member States’ preferences have enabled the Commission to act as a “supranational entrepreneur”, enforcing the prohibition of distortive state aid and at the same time creating positive integration by developing a model of what it considers to be “good” state aid policy (Blauberger 2009: 10-15).

This was pointed out by the Lisbon European Council of March 2000 that calls the Member States both to reduce the general level of State aid and to shift the emphasis from supporting individual sectors or companies towards horizontal objectives of common interest (“less and better targeted state aid”).

State aid to R&D, as a component of horizontal aid, is considered more acceptable by the Commission, because it does not cause distortion of competition in the internal market and can be efficiently used to create an incentive effect on innovation by tackling the market failures that

prevent markets from naturally delivering the best results in this respect (European Commission 2004).

III. Methodology

The relationship between state aid to R&D and economic development, expressed by GDP level, was analysed in both relative and absolute terms for the period considered (2004-2009) and was estimated through a panel model which used seemingly unrelated regression (SUR) and ordinary least squares estimation (OLS).

Taking into account that the economic value of knowledge progressively depreciates in time, the economic value is likely to be realized after the innovation process took place. As a result, we have interpreted this economic aspect in an econometric sense by using time lags, which are related to the fact that one of the most significant particularities of R&D activity is the time gap between the introduction of an innovation through a research project and the moment when the results of the research are embodied into a new product or process, which becomes profitable.

In analysing the relative importance of state aid to R&D, we have proposed an index which evaluates the relation between state aid and the relative size of the Member State's economy, designed to indicate the countries that support their domestic industries proportionally more and, respectively, less than EU average.

IV. Empirical results

In relative terms, the relationship between state aid to R&D and GDP level is evaluated using an index which relates the amount of national expenditure in the total EU aid, on the one hand, to the contribution of Member States to the aggregated level of GDP, on the other hand. Based on this relation, a country allocating proportionally more (less) state aid than the relative size of its economy would have a supraunitary (subunitary) index, while the EU average value would conventionally be equal to 1.

It can be noticed that while the countries situating above the EU average are: Belgium, the Czech Republic, Germany, Spain (from 2007-2009), France, Hungary (from 2006-2009), Austria, Slovenia (from 2004-2006 and 2009) and Finland, Belgium (from 2007-2009) and the Czech Republic (from 2006-2008) are the only countries that have supported their industries, relative to their size, more than twice as much as the EU average.

At the other side, the countries that during most of the period considered reported values below half of the EU average are: Bulgaria, Estonia, Greece, Cyprus, Latvia, Lithuania, Malta, Poland, Portugal, Slovakia and Sweden, indicating that they have granted significantly less aid than the relative size of their economy.

Furthermore, looking at the variation in index values (captured by the standard deviation), we notice that countries reporting more important modifications of their support to domestic industries, compared to other Member States, were the Czech Republic, Luxembourg and Hungary. In contrast, the Member States that encountered the smallest modifications in the relative amount of aid granted to their industries were: Bulgaria, Greece, Latvia, Poland, Slovakia, Sweden and the United Kingdom.

Table 1. Index of the relative importance of state aid to R&D

Country	Index 2004	Index 2005	Index 2006	Index 2007	Index 2008	Index 2009	Stdev 2004- 2006	Stdev 2007- 2009
Belgium	1.18	0.94	1.02	2.05	2.24	2.55	0.12	0.25
Bulgaria	0	0	0.11	0.42	0.23	0.38	0.06	0.10
Czech Republic	1.22	1.93	2.32	2.31	2.02	1.83	0.56	0.24
Denmark	0.23	0.27	0.40	0.46	0.85	0.77	0.09	0.21

Germany	1.52	1.40	1.50	1.43	1.33	1.15	0.06	0.14
Estonia	0.35	0.53	0.38	0.27	0.29	0.09	0.10	0.11
Ireland	0.49	0.49	0.66	0.65	0.82	1.07	0.10	0.21
Greece	0.07	0.08	0.04	0.06	0.09	0.04	0.02	0.03
Spain	0.96	0.66	0.73	1.09	1.17	1.45	0.16	0.19
France	1.34	1.55	1.67	1.51	1.31	1.29	0.17	0.12
Italy	0.92	1.16	0.85	0.59	0.83	0.73	0.16	0.12
Cyprus	0.47	0.53	0.42	0.23	0.08	0.02	0.06	0.11
Latvia	0	0	0.01	0.03	0.04	0.01	0	0.02
Lithuania	0.06	0.20	0.41	0	0	0.19	0.18	0.11
Luxembourg	0.57	0.71	0.65	0.75	0.70	1.76	0.07	0.60
Hungary	0.31	0.94	1.16	0.12	1.01	1.16	0.44	0.56
Malta	0	0.01	0.02	0.01	0	0.37	0.01	0.21
Netherlands	0.93	0.99	0.83	0.79	0.68	0.96	0.08	0.14
Austria	1.04	1.07	1.33	1.42	1.39	1.38	0.16	0.02
Poland	0.24	0.29	0.20	0.22	0.16	0.12	0.05	0.05
Portugal	0.40	0.12	0.11	0.18	0.15	0.36	0.16	0.11
Romania	0.71	0.38	0.37	0.58	0.67	0.26	0.19	0.22
Slovenia	1.75	1.55	1.07	0.98	0.82	2.16	0.35	0.73
Slovakia	0.03	0.10	0.15	0.12	0.08	0.16	0.06	0.04
Finland	1.86	1.81	1.65	1.49	1.98	1.61	0.11	0.26
Sweden	0.53	0.47	0.44	0.43	0.43	0.43	0.05	0
United Kingdom	0.55	0.43	0.40	0.53	0.49	0.51	0.08	0.02

Source: author's own calculations based on data from European Commission and Eurostat

Note: The index is calculated as follows: $\text{Index} = \frac{(\text{Member State's aid})}{(\text{EU-27 aid})} \cdot \frac{(\text{Member State's GDP})}{(\text{EU-27 GDP})}$

However, when comparing the average variations experienced by Member States, we found that most of the countries follow an ascendant trend in the period considered, indicating a growing level of disparity in the relative importance of state aid to R&D. The higher variability in the granting of state aid by some countries could indicate that national prerogatives are still determinant in supporting their domestic industries. This aspect suggests that state aid to R&D does not appear to be of a general nature or designed to address general economic problems, but rather of a specific nature aiming at addressing economic and social particularities, showing that national traditions seem to remain a significant factor in shaping the development of state aid to R&D in the EU Member States.

When analysing the relationship between mean values of state aid to R&D and GDP in absolute terms, we found a positive correlation, with a 0.63 R² value, which means that the relationship between these variables is robust. This seems to confirm the fact that countries with higher GDP tend to finance state aid to R&D to a greater extent than the countries that have reported lower values of GDP.

Table 2. The relationship between State aid to R&D and GDP

$$\text{Equation : } \text{GDP}(t) = C(1) + C(2) * \text{State aid}(t)$$

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	114968.90	27830.47	4.1310	0.0001
C(2)	830.9055	54.7456	15.1776	0.0000

Source: author's own calculations based on data from European Commission and Eurostat

Weighted Statistics

R ²	Adjusted R ²	F-statistic	Prob (F-statistic)	Mean dependent var	Sum squared resid
0.6355	0.6332	278.9340	0.000000	0.5569	132.1367

Source: author's own calculations based on data from European Commission and Eurostat

When using state aid values from the previous year, we have found a relationship which maintains its statistical significance and has a 0.68 R², which shows that the investment has continued to exert an effect on economic activity after the government support was made. While government support through state aid significantly contributes to the development of economic activity after the grant has been provided, we appreciate that it is reasonable to expect even longer lags for spillover effects because of the additional diffusion lag and also for the basic research because of the longer invention to innovation lag.

Table 3. The relationship between State aid to R&D and GDP (lagged)

$$\text{Equation : } \text{GDP}(t) = C(1) + C(2) * \text{State aid}(t-1)$$

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	207754.4	35111.63	5.9170	0.0000
C(2)	902.7413	58.8934	15.3284	0.0000

Source: author's own calculations based on data from European Commission and Eurostat

Weighted Statistics

R ²	Adjusted R ²	F-statistic	Prob (F-statistic)	Mean dependent var	Sum squared resid
0.6951	0.6828	56.5298	0.000000	0.7666	107.9369

Source: author's own calculations based on data from European Commission and Eurostat

V. Conclusions

The present paper provided an analysis of the relationship between state aid to R&D and economic growth in the EU Member States. In this respect, we have assumed that state aid contributes in a significant manner to the economic development, measured by GDP level, which was estimated as a function of state aid, in order to evaluate the nature of the connection between these variables. The relationship between state aid and GDP level was found to be positive and statistically significant, suggesting that state aid is positively correlated with economic development. We have proved that state aid has the potential to act as a relevant determinant for the GDP level, which has also been confirmed by the econometric results showing that state aid programs tend to have an incentive effect for the economic activity after they have been granted, due to the spillover effect of R&D activities assumed by the government funding.

When analysing state aid relative to the GDP, we have noticed that significant levels of volatility indicate a persistence of disparities between Member States in the period considered, suggesting that national particularities remain an important determinant of government support through state aid, which implies the necessity of a better coordination in the economic policies targeting innovation in the Member States.

Admitting that this analysis of the relationship between state aid to R&D and economic growth has been limited to the application of basic empirical instruments to a very complex topic, we appreciate that further research could evaluate the extent to which the differences between sectors and countries with regard to government policies directed at R&D influence the economic growth in the EU Member States.

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THE COSTS OF THE ELECTRICAL ENERGY IN THE ALUMINIUM INDUSTRY

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The economic crisis has given the opportunity to reconsider the use of resources, so the subject of competitive advantage has become actual. In the aluminium industry the cost of electrical energy is critical not only for competitive reasons but for the mere existence and performance of numerous production facilities. Several ways of resisting the pressure of high energy costs have been experimented the most promising being those based on different forms of public-private partnership/co-operation. In many countries the big industrial producers benefit from a special treatment concerning the energy acquisition and are supported by the government in order to remain competitive.

Key words: energy, energy market, aluminium price

JEL classification: Q40, Q48, L10

1. Introduction

The expenses connected to the electrical energy represents the most important component of the aluminium production process. To the global level, in 2009, the electrical energy represented 36% of the aluminium production cost, 5 percents more than in 2008. Thus, the electrical energy represents the biggest part of the total costs followed by alumina -Al₂O₃ (by 34% of the costs in 2009). From now until 2015, it is foreseen that for the aluminium production the non-energetic costs will decrease and thus the rate of the energy cost in the aluminium production cost will increase.

2. Types of energy

The energy used in aluminium industry is produced mostly from coal (50%) and hydro energy (40%). During the last years the use of the hydro energy in aluminium industry decreased. For instance, in 2000, the hydro energy represented 54% of the energy used in aluminium industry compared to 40% in 2009. The percentage of the energy produced using the gas increased from 6% to 8% in the same period and that of the nuclear energy decreased from 5% to 2%.

The increase of the aluminium quantity ratio produced by using coal based energy and the decrease of the aluminium ratio produced by using hydro energy come mainly from the development of the Chinese market that generally use coal based energy. Since the Chinese aluminium production ratio will increase in the future, it is assumed that for the aluminium industry will be used more and more coal based energy. Furthermore, the increase of aluminium production in the Middle East will lead to an increase of the gas based energy ratio.

3. The energy price

A characteristic of the energy market, in a liberalised context, is the rise of price volatility. This volatility introduces additional costs for supply and presents many challenges for producers, consumers companies and policymakers. But the general trend in the energy price during the last years was a the rise.

The energy unit price increased by almost 110% from 2001 until 2008, from 18.8 USD / MWh to 40 USD / MWh. In 2009 because of the global financial crisis the energy unit price decreased by almost 5% to the international level and after that increased to approx. 41 USD/MWh in 2010. The energy price in China is much more higher than in the rest of the world. This is why the above mentioned unit price was smaller if the China production would not be taken into consideration.

In 2009, the electrical energy for aluminium production was bought in medium by 32 USD / MWh that represents a decrease of 12% compared to the average from 2008 of 36.4 USD / MWh. To the international level the electrical energy price decreased in 2009 and 2011 because of the following reasons:

- The metals price decreased that led to a decrease of the energy price because the energy price established by the contract is connected to that of the metals (excepting China).
- During the last quarter of the year 2011, a lot of companies decreased their production, they decided not to start a part of their capacities stopped in 2009 or they even closed certain production activities. This is valid especially for the old installations that are less efficient and for which the energy was more expensive.
- The decrease registered to the electrical energy unit cost in 2009 would have been much more higher if it had not been taken into account the aluminium production from China where the energy is more expensive.

The energy tariffs connected to the aluminium price represented 36% of the total energy bought 2009 for aluminium production. These tariffs decreased by 32% from 2008 in 2009 from 31.2 USD/ MWh to 21.2 USD / MWh. Regarding the energy tariffs that are not connected to the metals price , these decreased from 38.5 USD / MWh in 2008 to 35.9 USD / MWh in 2009 that represents a diminution of 7%.

Before 2004 the production achieved from the bought energy represented 79-81% of the total aluminium production. After 2004 this ratio decreased considerably especially due to the increase of the aluminium quantity produced in China by using the own energy (from internal power plants).

It is estimated that (1) to the global level the percentage of the aluminium produced using the own energy increased to 40% in 2009 compared to 35% in 2008. After 1995 the quantity produced using the own energy increased in average by approx. 10%. According to Brook Hunt (1), in 2009 the average price of the own energy used to produce the aluminium was of 47 USD / MWh, by 2% more than in 2008.

Between 2009 and 2015, the electricity specific consumption is estimated (1) to decrease by 0.8% from 14.7 MWh / ton to 14.6 MWh / ton of aluminium. In 2009 it was estimated that (1) an increase of the energy costs will follow in 2010 and 2011 in order to decrease to approx. 596 USD / ton of aluminium in 2015.

Types of contracts

Also, there are many types of contracts that the aluminium producers have with the energy companies. The type of the contract influences both the energy tariff and its variation. Generally, there are three types of contracts:

- a) Fixed price
- b) Cost-plus
- c) Partial or total increase compared to the aluminium price or compare to other parameters.

The fixed price contracts remains fixed in local currency (for instance in RON). The price of energy expressed in USD modifies when the local currency/USD exchange rate fluctuates. An exemple of fixed contract in USD is offered by Mozal company. A fixed tariff has the advantage that it offers to the producer a high certitude on the costs. .

When the energy supply contract is a cost-plus type the price paid by the energy producer varies like the energy production cost born by the energy producer. Thus, the energy price will depend on the fuel price (oil, gas, coal). Generally, this type of contract is not attractive for the aluminium producers because the variance in the energy production price may not corresponds with the variance in the aluminium price. In spite of all this it is possible that the energy price obtained by a such a contract to be , in average, smaller than the price obtained with a fixed tariff contract or a contract where the price depends on the LME. Examples of producers using cost-plus contracts are Warrick Alcoa in the SUA or partially in Portland from Australia.

There are many companies in which the energy acquisition price depends on the aluminium price. For the aluminium producer this type of contract has the advantage that the raw material price decreases when the aluminium price is low thus reducing the costs and assuring the production continuation. For the electricity producer this type of contract generally is a beneficial one. When the aluminium price is low the marginal price of the energy production is generally covered (usually by using an inferior limit of the energy selling price). When the aluminium price is high the electricity producer benefits from this fact. In spite of all this there were situations where the electricity producer suffered important losses when the aluminium price (and consequently the price of the sold energy) mentained to a lower level than the foreseen one.

Ussually, in order to protect both the electricity producer and the aluminium producer a such an energy contract contains both an inferior and a superior limit. The inferior limit (floor) offers protection for the energy producer and the superior limit of the tariff protects the aluminium producer.

Generally, in the aluminium industry the contracts where the energy tariff is connected to the aluminium price are very diversified. The tariff type can vary from linear relations (for instance Hillside in South Africa) up to very complicated formulas (Portland in Australia) in which the limits (superior and inferior) can at their turn depend on the aluminium price or other idices like inflation or fuels price.

Brook Hunt estimates that in 1996, the contracts in which the energy tariff depends partially or totally on the aluminium price represented 35% of the total aluminium quantity produced. Accordingly (1) this ratio decreased along the time to approx. 21% in 2003. The decrease is due especially to the significant increase of the Chinese production during the last years, the Chinese producers not using contracts where the energy tariff depends on the aluminium price. In 2009, the number of the producers buying energy at a tariff influenced by the metals price was of 28, one less than in 2008.

Table 1
Examples (according to CRU analysis (2))

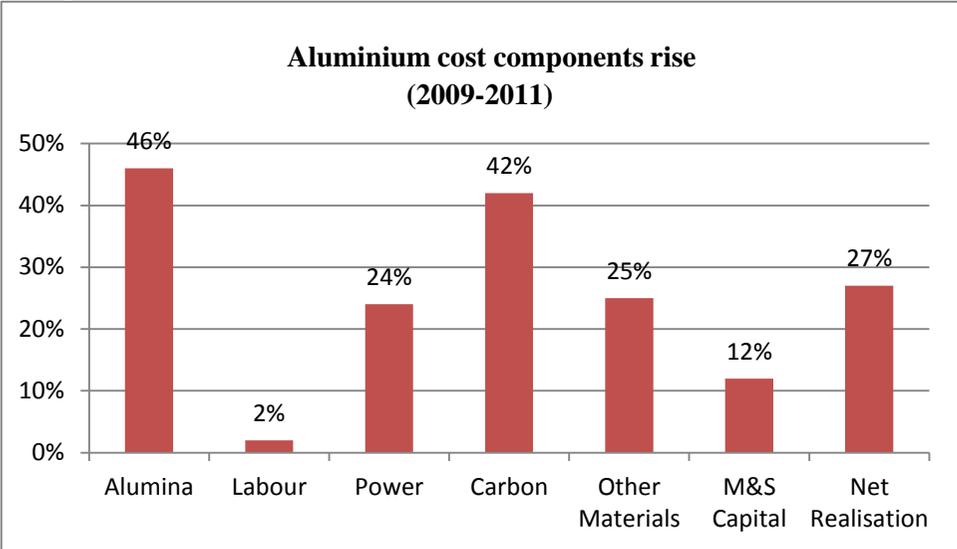
Producer	Energy Cost in electrolysis (\$/ton of metal)
Alro, Romania	728*
Sunddal, Norsk Hydro, Norway	546
Mosjoen, Alcoa, Norway	645
KAP, Podgorica, Montenegro	764
St Jean de Maurienne, Rio Tinto Alcan, France	367
Bratsk, Russia	253
Irkutsk, Russia	239

*The energy costs at ALRO do not include the new taxes for the cogeneration tax and green energy . These data are valid for the year 2010, when ALRO was accused that they bought the cheapest energy in Romania.

The table above represents different costs for a diversified aluminium producers sample. Out of the companies from this table higher tariffs for energy have the two energy producers in China and KAP plant (Muntnegru). The cheapest energy is that of the two plants from Russia followed by the one from France and than the two from Norway.

Between 2009-2011 aluminium business costs increase from \$1456/t to \$2009/t. The rise of the components of the total business costs during that period is shown in Fig. 1

Figure 1



Source: Driscoll, Kelly (2011), Trends in the costs of production throughout the aluminium value chain, 15th ARABAL, Oman

Possible measures to support the aluminium industry

Implementation of a policy and coherent strategy in order to create a special treatment concerning the energy acquisition for all electrical energy band consumers (distinctly from the other industrial consumers and intermediate traders) whose prices to be differentiated depending on the level of the individual consumption and the capitalization degree of the energy.

Bonus granting for the consumers in band during the weekend and at night (it is known that there is a very reduced demand for the weekend and reduced during the night).

Opening of OPCOM market for the long-term contracts (a compulsory condition for the drafting of the business plans on at least 5 years) otherwise development plans cannot be achieved for no company.

4. Conclusions

In many countries of Europe and from the world is normal that the big industrial producers to benefit of lower energy tariffs than the rest of the consumers. These big producers (as are for instance in Romania, Alro or Arcelor Mittal) need cheap energy in order to keep their costs down and in order to be able to compete on the international market. Consuming big quantities of energy it is normal that they to be able to negotiate lower tariffs.

At present the plus-value created by ALRO and Arcelor Mital assures directly or indirectly the existence of over 500 000 people. Consequently, it is very important that such kind of companies to be supported by the government in order to remain competitive.

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CONSIDERATIONS REGARDING THE COMPETITIVENESS INDEXES COMPATIBILITY WITH THE STRATEGIES AND INDEXES OF SUSTAINABLE DEVELOPMENT IN THE EU CONTEXT

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This paper is structured in three parts. The first part refers to the topicality of the concepts and of the concerns related to sustainable development and competitiveness. The second part of the article presents the results of the compatibility analysis and the impact study of EU's sustainable development strategies on the competitiveness indexes.

The analysis is based on the indicators and values used and developed by the World Economic Forum, published in the Global Competitiveness Report and used to depict a nation's competitiveness and also based on the objectives published in the European Union's Sustainable Development Strategy and on the indexes used by Eurostat. In the last part of the article we presented the relevant conclusions of the analysis conducted.

Key words: sustainable development, competitiveness, indicators, strategies, compatibility

JEL codes: F23

Introduction

Competitiveness is the main objective of the contemporary socio-economic strategies, and it is more and more integrated in the complex concept of sustainable development, that gathers all the forms and methods of socio economic development, whose foundation is represented by ensuring a balance between these socio – economic systems and the elements of natural capital.

Competitiveness is a complex economic concept, with various interpretations and quantification methods, using aggregate indicators and systems of indicators on which not all the researchers totally agreed.

Throughout the development of the society, there were developed and published many various theories and perspectives regarding the competitiveness. Also, there are some theories that contradict the ones mentioned before.

On the other side, for these theories to be applied, a series of reports were developed, published by certain international organisms, that identified a series of factors that determine the measuring of competitiveness, based on certain criteria. Thus, there were developed different models for measuring the economic competitiveness [1, 2, 3].

Regarded from an international perspective, the national competitiveness evaluation is based on the studies conducted by the World Economic Forum (WEF), that publishes the annual report called 'The Global Competitiveness Report'; the Institute for Management Development (IMD), that publishes 'The World Competitiveness Yearbook'; the World Bank, that publishes the report entitled 'Doing Business', OCDE publishes "The New Economy Report" and the European Commission, that publishes "The European Competitiveness Report" [4].

The WEF publishes every year the Global Competitiveness Report. In the 2010 – 2011 edition, 139 countries were analysed from the perspective of different states of development, according to different criteria. In the end, there were 12 pillars identified and on this basis the countries analysed were classified.

This article refers to the indicators developed by the WEF in analysing the compatibility between the competitiveness indicators and sustainable development indicators [5].

The sustainable development concept is defined as comprising all forms and methods of socio – economic development, based on ensuring a healthy balance between the socio – economic systems and the elements of the natural capital [6].

The most famous definition of sustainable development is the one developed by the World Commission for Environment and Development (WCED) in the report entitled “Our common future”, also known as the Brundland Report: “sustainable development is defined as being that development that leads to satisfying the present needs, without compromising the future generations’ possibility to satisfy its own needs” [7].

Due to the complexity of the concept of sustainable development (SD) and for identifying in time the effects of sustainable development strategies, it was necessary to create a series of criteria, that could monitor and evaluate the effects of certain decisions. That is how certain indicators were defined.

Choosing the right indicators is directly connected with the way the concept of sustainable development is regarded. For example, a dogmatic approach of the concept would point out the fact that the natural resources are scarce and the tendency would be to impose some absolute limitations on collective and individual usage of the environment.

On the contrary, a more relaxed approach would point out the juggle between the social, economic and environment resources.

The main purpose of the indicators is to allow the monitoring and the evaluation of different aspects of sustainable development and to offer clear indications for the policies to use, to verify and to correct.

For this purpose, the indicators chosen must satisfy some of the requirements as the relevance for policy formulation, utility, the scientific basis, and the quantification possibility.

For analysing the compatibility between the sustainable development indicators and the competitiveness indicators we will refer to the indicators published by the statistical office of the EU, Eurostat [8].

Throughout the EU’s evolution, several approaches were chosen, regarding the subject of sustainable development. Due to the complexity of the concept and maybe due to the frequent changes that took place, the European Union developed a series of strategies and programmes to eventually implement a part of the objectives expressed over the years [9].

The EU’s Sustainable Development Strategy (EUSDS) is formed out of 45 points and it is structured in 5 sections, the one regarding the seven key challenges being of massive importance, and it includes the targets, the operational objectives and the associated actions.

Economic competitiveness is stated under the objective of “economic prosperity” that regards “promoting a prosperous, innovative, rigorous, competitive and eco – efficient economy, that offers higher living standards and more employment opportunities”.

This article is trying to analyse the impact degree of the actions stated by the EUSDS on the competitiveness indicators published by wef.

A systematic analysis of competitiveness

Table 1 presents in a synthetic manner the analysis of the impact of EUSDS targets on competitiveness indicators (CI). The number of targets and competitiveness indicators is made according to statement [4].

Table 1 : EUSDS targets that have impact on CI

EUSDS/Key challenges (KC)	CI/WEF/Pillars	Effect
KC1 – Climate change and green energy Targets 1, 2 and 6	Infrastructure Indicators 2.01 and 2.07	↓
KC2 – Sustainable transport Targets 1 and 3 Target 2	Infrastructure Indicators 2.01-2.05 Indicator 2.07	↓
KC3 – Sustainable consumption and production Target 1 Targets 1,2 and 4 Targets 1,2 and 4	Infrastructure Indicators 2.01-2.09 Degree of technological training I Indicators 9.01, 9.03, 9.04 and 9.05 Degree of business sophistication Indicator 11.07	↓ ↑ ↑
KC4 – Resources conservation and management Target 2	Innovation Indicator 12.01	↑
KC5 – Public health Targets 1-8	Health and primary education Indicators 4.01-4.08	↑
KC6 – Social inclusion, demography and migration Target 7 Target 4	Academic education and training I Indicator 5.01 Labour market efficiency Indicator 7.09	↑ ↑
KC7 – Global poverty and sustainable development challenges Targets 1 and 2	Degree of business sophistication Indicators 11.06 and 11.08	↑

Source: author's calculation based on the information published by EUSDS and WEF GCR 2011

The indicators published by Eurostat for measuring the level of attaining the sustainable development objectives proposed [8] associates to every strategic approach a representative indicator (Level 1), a series of indicators for the subordinated operational objectives (Level 2) and descriptive indicators of intervention fields for the associated policies (Level 3).

Table 2 presents the correspondence between the two sets of indicators.

Table 2: The correspondence between sustainable development indicators (SDI) and competitiveness indicators (CI)

Theme / Level 3 SDI	CI
T1. Economic Development 6. Inflation rate 7 9 10, 11 12 13, 14	Pillar 3 3.03 Inflation level 3.02 Pillar 5 5.08 Pillar 2 12.03 Pillar 4 and Pillar 5 4.09, 4.10, 5.01, 5.02, 5.03 Pillar 7 7.03, 7.09
T2. Poverty and social exclusion 5 9	Pillar 7 7.09 Pillar 4 and Pillar 5 4.10, 5.01
T4. Public Health 1	Pillar 4 4.08
T5. Climate change and energy 3 4, 5, 6	Pillar 9 9.01 9.03
T6. Consumption and production models 12	Pillar 9 9.01, 9.03
T7. Human resources management 2, 3 4, 6 10	Pillar 2 2.04 2.01 2.02, 2.03
T8. Transport 4 7	Pillar 2 2.02 2.02, 2.03, 2.04, 2.05

Source: author's calculation based on the information published by Eurostat and WEF GCR 2011

Conclusions

The conducted analysis reflects the low level of the impact of the targets set by EUSDS on the competitiveness indicators. Out of all 110 indicators operated by WEF only 27 are being used, meaning 24,5%, the competitiveness indicators under the pillar “Infrastructure” being negatively affected by some targets set under the first three key challenges of EUSDS.

The other 18 competitiveness indicators may be positively affected, meaning that the targets set by the EUSDS stimulate the growth of the competitiveness indicators.

Out of the conducted analysis results that the seven key challenges have targets that may have a certain impact on the competitiveness indicators, but there are five pillars that are not affected: the pillar Institutions, Macroeconomic environment, Commodity market efficiency, Financial markets development, and Market dimension.

The correspondence degree between the two sets of indicators is very low. For only 19 out of all 110 competitiveness indicators there has been identified a correspondence, meaning approximately 17.3%. The conducted analysis for Level 3 SDI reflects the fact that out of the 98 indicators used at this level, 23 have a correspondent within the competitiveness indicators, meaning almost 23,5% of them.

The highest correspondence degree between the two sets of indicators may be with reference to theme 1 – Economic development, sub – theme “competitiveness”. Referring to the three main themes of sustainable development (the ageing of population, quality governance and global partnership) there were no correspondences found between the two types of indicators. Five of the competitiveness pillars are not involved in the correspondences between the two sets of indicators: institutions, commodity market efficiency, financial market development, market dimension and the degree of business sophistication.

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SOCIAL PERFORMANCE ENHANCES FINANCIAL PERFORMANCE. BENEFITS FROM CSR

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The research aims to show how Corporate Social Responsibility (CSR) should not be considered a cost to bear as an economic social actor but an investment that will contribute to the competitiveness and growth of the firm.

In the first part we consider capitalistic firm as systems for the creation of economic and financial value for their shareholders. We measure their performance by a system of monetary values.

In the second part we do not limit our view to simply the shareholders, but we consider, instead a vast group of stakeholders because it is important not only to make profits, but also how companies make them. In these years characterized by the financial crisis, where many big companies went bankrupt, more and more companies are speaking about ethics and CSR. For a firm, acting socially responsible, means for example having fair compensations, promoting transparency and the respect of employees, neutralizing conflicts of interest, as well as taking care of the environment.

CSR is today a topic for discussion not only for business people but also for politicians, media, researchers, NGOs and consumers. Growing awareness of CSR is evident in the growth of voluntary codes of corporate conduct, in the growth of companies that are using self-reporting on social and environmental practices, and in increasingly social and ethical investment funds.

The public and governments of the world have been steadily increasing pressure on corporations to increase their CSR. Recently the European Commission has put forward a new, simpler definition of corporate social responsibility as “the responsibility of enterprises for their impacts on society” (European Commission 25/10/2011).

Companies have realized that to increase their market share or keep their market share, they must adopt CSR, but the synergy between social performance and financial performance is not automatic; rather it is the result of efforts that combine managerial professionalism and business creativity for the purpose of business growth that also takes into account the social groups.

Our research considers the conditions for the effectiveness of CSR actions in creating a positive feedback that can produce ever greater economic and social-environmental results. Thus a firm must set a system of objectives for itself which is centered on its sustainable growth, and must therefore tend toward a multi-dimensional growth that encompasses the economic, social and environmental dimensions. In the last part we explain how socially responsible business practices can enhance a company's value.

Keywords: CSR, creation of value, performance, intangible assets, stakeholders.

JEL codes: M14, M41

1. Introduction: the firm as a vital open system

Every firm can be viewed as a permanent organization (Mella 2003) or as an open socio-technical system that is structurally linked, by means of input and/or output flows, to a macro system that represents its vital environment.

In this sense, it is a *cognitive and viable agent* (Beer 1981), in that we must assume that the firm-economic agent carries out a cognitive activity aimed at giving significance to the environmental stimuli, translating these into information that is structured in knowledge (de Geus 1988, 1997), to produce a *reactive* and *proactive* behaviour aimed at reproducing the economic processes in a lasting way, thereby adapting itself to changes in its environment while maintaining its identity in a long-lasting autopoietic process. (Maturana and Varela 1980; Mingers 1994; Uribe 1981; Varela 1981).

In order to maintain its teleonomy, the capitalist firm, viewed as an open system, is conceived of as a system of transformation that carries out the following transformations:

1. The productive transformation; this is a transformation of utility: volumes of factors of production having a given utility are transformed into volumes of products able to provide a greater utility based on rules of efficiency aimed at maximizing productivity and quality.

2. The economic transformation; this is a transformation of values: firms try to maximize economic efficiency through market choices that yield the maximum gap between revenue and cost of production, and thus the maximum operating result.
3. The financial transformation, through which the firm finances its economic processes with risk capital and debt capital, thereby raising the invested capital that optimizes the operating leverage, taking account of the cost of capital and its yield.
4. The managerial transformation, through which the operating objectives and the internal and external information are transformed into decisions aimed at maximizing efficiency (Davenport 1993; Lax and Sebenius 1986).
5. The business transformation, through which information is transformed into strategies to modify the strategic position of the firm and permit it to remain vital for an indefinite period.

With regard to the first four technical transformations the firm can be viewed as a *rational agent*, in that the managerial cognitive activity is aimed at maximizing its *fitness*, indicated by a system of performance measures – analytical (businesses and the various cycles of the economic processes) as well as synthetic (entire firm) – which express the entrepreneur’s ability to maintain or improve the autopoiesis of the system-economic agent in a given area and over a definite interval of time.

With regard to the business transformation, the firm appears as an *economic social actor* that operates in an ethical, social, political environment to which it belongs and interacts not only through a system of physical, monetary and financial exchanges but also through human and communication flows through which knowledge, trust and reputation are produced (Prahalad and Bettis 1986; Harrison and St. John, 1998).

Firms, as social actors, always operate within a multitude of networks along with many other actors: economic, political and social.

Thus firms, in a context of growing social and political interconnections, are no longer considered solely as systems that produce economic and financial values but as actors and driving forces that are responsible for environmental development (Wilson 1999) and are capable of producing environmental and positive social value and, in some cases, even environmental and social negative value in the form of environmental damage.

The reputation of the firm as a social actor is formed and strengthened precisely on the basis of a positive evaluation of this capacity to interact with the environment, on the ability of the business transformation not to limit itself to the growth of the firm but to produce an internal growth that is sustainable and compatible with environmental growth.

The creation and management of CSR finds a place within this context.

2. The capitalistic firm as a system that produces values.

The capitalistic firm (Gazzola and Mella 2004; Mella 2011) can be described as:

1. a *productive* organization that transforms utility, since it carries out a *productive* transformation of factors (QF) into production (QP);
2. a *business* organization, since it is preordained to develop an economic transformation of values by selling its production, QP, in markets at prices, pP, at least equal to the unit average cost of production, cP; if it is preordained to supply its production without a price, or if it recovers only a share of the production cost, it is a *no-business*;
3. a *profit* organization: if the operating logic of the business organization is to achieve the maximum *economic efficiency* by seeking $\{[\max](pP - cP) > 0\}$, then it becomes a profit organization; if, instead, the operating logic of its processes is to achieve $\{[\min](pP - cP) > 0\}$, then it becomes a non-profit (not-for-profit) organization;
4. a *capitalistic enterprise*, if the profit organization carries out a *financial* transformation, in the sense that the firm finances its economic processes with external capital in the form of *Equity* [E] and *Debt* [D], forming the *Invested Capital* ($IC = D + E$);

5. an *economic social actor*, in the sense that it interfaces and interacts with a set of *external*, or *institutional* interlocutors, or stakeholders – in an ethical, social and political (ethical) environment – which influence the organization's structure and processes through a system of *corporate governance*.

Once they have grown large enough and completed the third phase of Greiner's model (1972, 1998), which entails the separation of the ownership of capital from management, firms can be considered *teleonomic organizations* according to Monod's definition (1971), where the *teleonomic plan* necessary for surviving indefinitely is to guarantee an adequate profit and a sufficient degree of liquidity for the invested capital and to satisfy stakeholder expectations (and constraints) (Freeman and Phillips 2003).

3. The social performance

A suitable system of *economic and financial ratios* translate the values produced into performance indicators in order to assess whether or not the economic-financial objectives of the business and profit organization have been achieved.

These indicators allow those stakeholders (Donaldson and Preston 1995) who have an interest in the production of value to compare the numerical data with the initial objectives and with the organization's mission (Pellicelli 2002), highlighting the corporation's efficiency in developing its businesses with respect to its competitors within its particular market and environmental context.

Nowadays, firms should not be considered merely as systems for the production of economic and financial values but also as economic social actors which operate in a social environment to which they belong and with which they interact, not only through a system of monetary and financial exchanges but also through physical, human and communication flows that produce knowledge, trust and reputation. The quality of the products and processes, which is fundamental to the creation of economic values, is not in and of itself synonymous with the quality of the firm when the latter must be judged and appreciated on the basis of its social and environmental impact.

It is important to "Encompass not only what companies do with their profits, but also how they make them". CSR "goes beyond philanthropy and compliance to address the manner in which companies manage their economic, social and environmental impacts and their stakeholder relationship in all their key spheres of influence: the workplace, the marketplace, the supply chain, the community and the public policy realm (Kytile and Ruggie 2005: 9)."

To maintain an effective process for the creation of economic and financial values is necessary to create also social value for the firm (Siregar and Bachtiar 2010: 241-252).

A firm that focusses not only on the quality of the product but also on the safety of its employees, the social impact of its activities and the use of ethically-correct procedures is (Bowen 1953) creating value (Zadek, Pruzan and Evans 1997) by gaining the trust of its workers, the market and its collectivity of reference (Tencati 2002).

The social responsibility of the firm cannot be merely a fact of philanthropism or good intentions. We cannot separate the responsibility to earn profits from that of protecting the health of employees, their safety, and from protecting the surrounding social and environmental context.

The firm, as a social agent, must base its growth on ethical behaviour (Crivelli 2001) which involves safeguarding as much as possible the environmental conditions that will be "passed on" to the future generations. Thus the firm must compete on the social and environmental front as well as the economic-financial one.

In fact, in developing its strategies the firm must take into account the concept of *sustainable growth*, which defines the ability of the present generation to achieve a type of growth that, while satisfying the needs of the present, does not compromise the ability of future generations to satisfy to their own needs.

Sustainable growth does not represent an option but a necessary condition to obtain medium- to long-term success (Clarkson 1995). For the firm, going down the road of sustainable growth means managing its businesses so as to improve its economic results; but at the same time it also means safeguarding the natural environment and promoting social justice.

4. The dialogue with the stakeholders as a condition for the creation of value

In order to enhance its reputation (Figge and Schaltegger 2000) and trust, which are the fundamental elements for the production of social value by the firm, it is thus important for the firm to be able to demonstrate the extent and limits of its own social responsibility (Simon 2000). The autopoiesis of the firm, when viewed as an *economic social actor*, depends on its capacity to earn the appreciation of the stakeholders who are not components of the organization but who gain external advantages, individual or social, from its existence (Toffler 1985).

The social unit must produce social shared “value” (Harrison et. al. 1998) in the broader sense that its economic existence as a producer of economic and financial values must be appreciated, in terms of the *sustainability* (WCED 1987) of the development path of the firm, and evaluated by a wide range of social performance measures of *outcome* or *benefit*: the efficiency of materials; technical innovation; energy efficiency; community relations; eco design; product recyclability; and employee relations.

This interaction leads to a systematic dialogue with the social agents by means of meetings and other exchanges (“stakeholder dialogue”), in order to grasp in advance the opportunities for an economic development and growth that respects society, without interfering with or changing the objectives (Seabright and Kurke 1997) of the stakeholders, which often differ from those of the firm (Schmidheiny and Zorraquin 2000).

The occasions for meaningful exchanges aim to create interactive, shared and transparent communications that result in strong relations with the social actors on the part of both the internal staff as well as the various outside contacts:

1 - internally, through the virtuous process of shared strategy formation and accountable co-planning, utilizing communication together with training to vertically and transversely “contaminate” the organization and stimulate the feedback flows;

2 - externally, through the greatest involvement possible of all those with an interest in the firm, whatever their formal relation may be. This should demonstrate that the firm is able to understand and satisfy the expectations of the stakeholders, making these coincide as much as possible with those of the firm. The common objective is to harmonize the various interests in order to improve the quality of life.

The attainment of perceived levels of social performance produces reputation, brand and confidence, so that the environment itself sets the conditions for the firm’s legitimation and consent, which favours autopoiesis and thus a lasting existence for the enterprise as a social unit as well as an organizational type.

This implies, on the one hand, the organizational ability to recognize the set of relevant stakeholders as well as to identify their expectations and, on the other, the capability to communicate the global “value” produced in terms of social benefits and prevented damage to the physical environment (Gazzola and Meo Colombo 2011).

The European Commission has put forward a new, simpler definition of CSR as “the responsibility of enterprises for their impacts on society”. This new definition requires the spread of a culture of enterprise-oriented dialogue with all stakeholders, with the aim of creating an environment marked by trust and mutual satisfaction of needs. The performance of firms in fact depend increasingly on the ability to collect information on the needs of stakeholders (listen permanent) and the ability to govern relations with all audiences, no exceptions. The firm's ability to establish positive relationships with stakeholders and opinion leaders, can lead to several competitive advantages.

5. The relationship between CSR and company performance

The CSR give four types of benefits (Molteni 2004) for the firm:

1. increase in visibility, fame and reputation;
2. development of the capacity to anticipate trends ;
3. increase in motivation and involvement of personnel;
4. increase in the level of safety, and thus in the ability to prevent crises.

The benefits in terms of *visibility and reputation* (Fombrum and Van Riel 2003) lead to an advantage with regard to differentiation, which impacts in particular the number and loyalty of clients, with positive effects on sales.

Secondly, investments in CSR have an *anticipatory value* (Russo and Fouts 1997). In a narrow sense CSR specifically concerns taking on behaviours for which there is no legal obligation but that correspond to the expectations of important or emerging social and economic groups. Over time these expectations that are being expressed are often directly safeguarded through the introduction of new laws. In this case those firms already committed in those areas are able to adapt to the laws rapidly and with lower costs, gaining for a certain period of time a competitive advantage over their less farsighted competitors.

The impact on personnel is quite complex. The highest level of *motivation and involvement* can improve the internal processes, both directly as well as through a reduction in *turnover* (Soloman and Hansen 1985). This improvement effects the quality of the product/service (and thus the differentiation advantage) and/or productivity (thus the cost advantage). Moreover, the lower *turnover* reduces the need to sustain selection and training costs for the new personnel. A cost reduction is also obtained through lower absenteeism linked to greater job satisfaction.

Lastly, investment in CSR reduces the *risk level* of the firm. Here we refer above all to the probability of catastrophic events such as: environmental disasters, which have an enormous economic impact on the firm and its image; social scandals, such as the use of child labor, often the cause behind consumer boycotts; corporate crises due to a lack of transparency and the failure of the system of controls. A second type of risk has a less pervasive impact, but one that is equally important: workplace injuries. Safety measures that go beyond the legal obligations produce satisfaction in the personnel and help sustain productivity in the company. The reduction in the level of risk brings with it a cost benefit, since recognition by the financial operators of the effectiveness of the policies leads to a decrease in insurance premiums and passive interest rates, as well as a diminution in the average weighted cost of invested capital following the reduction in the cost of equity which, with conditions being equal, leads to an increase in the economic capital of the firm.

Let us now consider the chain of variables that link these initial effects – which are directly connected to the investment in CSR – to the firm's economic performance. The growth of sales and the reduction in costs leads to a more or less perceptible increase in income. In the case of listed companies, profit and the growth in sales are two of the main measures that effect the performance of the stock, together with the faith of investors.

The increase in the firm's economic and financial performance can have a positive feedback effect on investment in CSR. The greater availability of financial resources allows the legitimate needs of the various interested parties to be more fully satisfied. In this sense a sort of positive feedback arises that leads to increasingly better economic, social and environmental results.

6. The case of Luxottica Group

Luxottica characterizes the Italian present day society with its welfare program. It is a pioneer in its commitment to social responsibility towards the reality in which it operates, the environment and people. Responsibility and innovation are central to the history of Luxottica; they are the daily guidelines in business decisions and relationships with their stakeholders.

Their mission is: to protect the eyes and enhance the looks of women and men throughout the world by making and marketing sun and optical eyewear of high technical and stylistic quality whilst respecting the environment in which Luxottica operates. As a market leader, Luxottica has the expertise, potential and responsibility to directly help people throughout the world to see better, including people who can't afford eyewear.

This is why they created OneSight, a family of philanthropic programs designed to improve or restore people's sight through research and education, employee volunteering missions to developing nations, and donations. OneSight represents the soul of Luxottica and is based on 20 years of innovation and commitment.

Social responsibility is the main lever with which Luxottica Group is committed to sustainable development of their business. It has shown great interest in people and this interest has declined in a vast corporate welfare program, characterized by a strong attachment to the environment and the desire for involvement of workers and trade union.

Luxottica has created a new system of industrial relations that seeks to improve productive capacity, to improve the real wages of all workers and advocates promoting services for the workers themselves.

Luxottica assume primary importance in the human aspects of organizational life, the quality of relationships between people, the satisfaction of their needs and satisfies their aspirations. The basic idea is that all these aspects affect the daily operation of company performance and therefore on the same market (Salomoni 2011).

The company has focused primarily on "involvement" with the conviction that the organization is to make everyone feel part of them as belonging to a large family in which the contribution of the individual is precious for the good of all. All these concepts revolves around the idea that the sense of identification, the will of commitment and the personal adherence of the employees' to the activities and objectives of the company form, especially on the uncertainty of today's market scene, vital resources for business competitiveness.

7. Conclusion: reputation like intangible assets

Social responsibility and profitability are not two opposing terms: sustainability can bring to the firm both new business opportunities, than cost savings in addition to increasing consumer confidence towards responsible choices by companies.

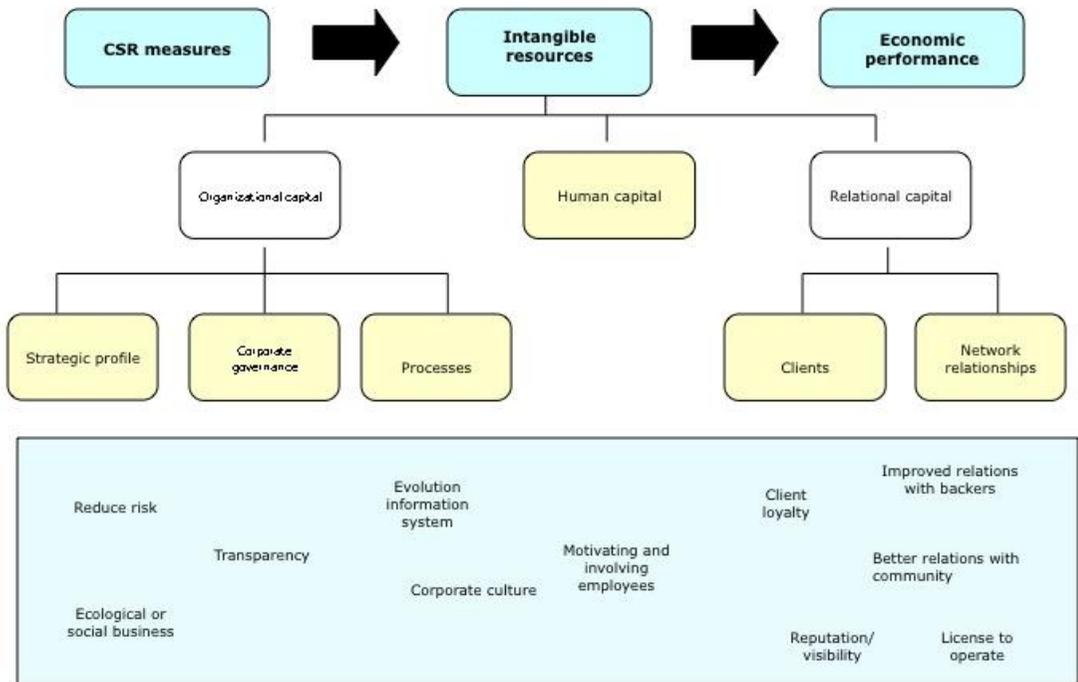
The CSR then has a double meaning:

- economic in terms of social responsibility to consumers, of profit and improving relations with financial institutions;
- social, in terms of responsibility to the community, a better management of human resources, more effective prevention of risks, more efficient management of environmental resources and, in conclusion, in terms of improved corporate reputation.

From this perspective a comprehensive relational process and a continuing dialogue with the other social agents become essential elements for strategy formation (Grant 2002), which are necessary to create a relationship of trust with the stakeholders (Vaccari 1998) and a context of shared values. This allows the stakeholders to identify the role, values and the social objectives expected by those who directly or indirectly interact with the firm itself.

The duty to maximize profits by managers refers to a capital that is not only economically, but also human, social, environmental, this observation makes less absolute property rights of shareholders, which are related only to economic capital. (Young 2010).

Fig. 1 – The link between CSR and economic performance (source Molteni 2004)



We can link CSR to the firm's economic performance through a causal network whose elements are for the most part *intangible resources* (Molteni 2004) capable of providing a fundamental contribution to the economic performance over time and that, according to time-tested views, can be divided into three classes (Edvinsson 2002) (Fig. no 1).

Organizational-structural capital, given by the structures, processes and technologies used by the firm; this also includes the organizational culture: that is, the set of values that characterize, unite and guide the organization;

human capital, which involves the knowledge competences and skills of those working in the organization;

C) relational capital; that is, the quality and quantity of relations that the business transformation has with the firm's stakeholders; good relations with suppliers, clients, institutions, and all the other stakeholders represent in general an intangible asset that can turn out to be of great value (Frey, 2003).

This shows the relevance of human capital and intangible assets (Gazzola and Meo Colombo 2011) in capitalist production (Griliches 1996) and the need for:

- *creativity*, by which products and processes are continually innovated (Christensen 1997; Deephouse 1999), thereby favouring applied scientific research and technological innovation (Von Hippel 1995);
- *intelligence* in understanding internal and external processes, in order to rationalize the technical processes of production;
- *organizational learning* and the formation of learning organizations to meet the competitive challenges through new work rules (Schmitz Jr 2001)

- *management control* (from the Decision Support System to Just-In-Time production) (Wilcox and Al.);

- *a good reputation* for the firm in its environment (Carter and Manaster 1990).

The sharing and pursuit of objectives by means of the trust that is generated (Chirieleison 2002) through the development of long-lasting relations leads to the spread of a culture (Kotter and Heskett 1992) of shared responsibility. This culture is the condition for the organization's success (Parolin 2002) as well as a source of long-term competitive advantage, which are useful and effective elements for the creation of value in the organization.

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THE GROWTH SUSTAINABILITY CONCEPT IN THE EUROPEAN UNION, UNIVERSITY OF REIMS CHAMPAGNE-ARDENNE

Jubénot Marie-Noëlle

Abstract:

Definitions or approaches to sustainable growth are numerous, varied and often controversial. Despite, the three priorities (smart, sustainable and social growth) of Europe 2020's strategy, there are fears that the Lisbon Agenda could place sustainable development beneath an overarching aim of increasing economic growth. In addition, this ambitious and new strategy is strangely built with old theoretical foundations. The general goals are divided into several sub-targets supposed to apply to all countries of the European Union. This necessarily requires adequate institutions to manage, and the creation of easily measurable indicators. However, the problem lies in the shared governance between the EU institutions and national governments.

Key words: sustainable growth, Brundtland announcement, Europe 2020's goals, the 'win-win-win' scenario.

JEL codes: O, E

Introduction

The first objective of this paper is to show the originality of the European concept of sustainable growth from a variety of conceptual and theoretical approaches. The second is to analyze the possibility of achieving such a goal. In fact, the problems do not just come from the recent financial crisis and its consequences, but also practical difficulties in managing this strategy. In the first section, we will discuss the genesis of the concept of sustainable growth and some definitions that are commonly associated. In the second part, we will explain the concept of sustainable growth adopted by the European Union. And finally, in a last part we will analyze the feasibility of such a project

Concepts of sustainability

The term sustainable development was brought into common usage by the World Commission on Environment and Development (The Brundtland Commission) in 1987. Since the conclusion of the Brundtland Commission (World Commission on Environment and Development, 1985), the two competing notions of *strong* and *weak* sustainability have dominated the theoretical debate on sustainable development. Loosely speaking, *strong* sustainability argues that we must live within the environmental and ecological limits that the planet clearly has. A position which accepts that non-ecospheric natural capital (minerals) can be depleted but the ecosphere must be protected absolutely – ‘there is no substitute to the planet’ – a planet over people approach. *Weak* sustainability argues that humanity will replace the natural capital we have used, and that we depend on, with human-made capital. A position that propounds that human made capital (e.g. technology) will substitute for natural capital so this can be run down, providing a critical minimum level is maintained – essentially a willingness to pay approach. Theorists virtually unanimously agree that the latter has formed the conceptual basis for sustainable development. Theorists are virtually unanimous in their assessment that *sustainable development* as a concept has largely evolved from the latter position. The all-pervasive nature of neo-classical economics has also come to permeate throughout thinking on sustainable development, with a broad acceptance that intra-generational and inter-generational equity can only be achieved within the confines of economic growth. Sustainable Development calls for development that “meets the need of present generation without compromising the needs of future generations.

In fact, sustainable Development generally combines three objectives:

- (i) Economic objectives (Growth; Equity and Efficiency);
- (ii) Social objectives (Empowerment; Participation; Social Mobility; Social Cohesion; Cultural Identity; Institutional Development);
- (iii) Ecological objectives (Ecosystem Integrity; Carrying Capacity; Biodiversity; Global Issues).

It constitutes a 'win-win-win' scenario for achieving progress within the economic, social and environmental pillars of sustainable development. The three are supposed mutually beneficial.

A great deal of both academic and policy literature in the ten years immediately following the Brundtland announcement (World Commission on Environment and Development, 1985) concerned itself with understanding and articulating the core principles of sustainable development.

However, one also speaks of sustainable growth when taking into account other factors such as debt sustainability, the sustainability of the tax burden.

The definition of sustainability may also vary depending on the country that is taken into account. Often rich countries are concerned about the environmental consequences of growth so that we highlight the benefits of social problems related to growth in developing countries.

After this brief overview, we can now address the European Union concept of sustainable growth.

II) The European Union approach

The European Union established a Strategy for Sustainable Development, the Europe 2020 Strategy, for the first time in May of 2001, in Gothenburg. This was laid out in the position represented at the World Summit on Sustainable Development that was held in Johannesburg in 2002. The Europe 2020 Strategy is based on stable, balanced, and sustainable growth, aimed at facilitating Europe's exit out of the current financial crisis and then laying out the foundations for future development. The Maastricht Treaty was already adopted the principle of cohesion. In which, explicitly the three objectives focused on convergence, namely: (1) harmonious and sustainable development; (2) high level of convergence of the economic performance; (3) economic and social cohesion and solidarity between the member countries. To implement the above principle, the Cohesion Fund, used for diminishing the disparities among regions and countries, was set up only for the countries with a GDP per capita below 90% of the EU average.

The still fragile situation of the financial system is holding back recovery as firms and households have difficulties to borrow, spend and invest. The public finances have been severely affected, with deficits at 7% of GDP on average and debt levels at over 80% of GDP – two years of crisis erasing twenty years of fiscal consolidation. Our growth potential has been halved during the crisis. Many investment plans, talents and ideas risk going to waste because of uncertainties, sluggish demand and lack of funding. In Europe, the crisis has wiped out years of economic and social progress and exposed structural weaknesses in Europe's economy. The steady gains in economic growth and job creation witnessed over the last decade have been wiped out – our GDP fell by 4% in 2009, our industrial production dropped back to the levels of the 1990s and 23 million people - or 10% of our active population - are now unemployed. The crisis has exposed some fundamental weaknesses of our economy.

Moving out of the crisis is the immediate challenge. The new European economic strategy for Europe—"Europe 2020"—includes three key growth drivers, namely:

- *Smart growth* (fostering knowledge, research and development, innovation, education, and a digital society),
- *Sustainable growth* (making production more resource efficient), and
- *Inclusive growth* (raising participation in the labour market, the acquisition of skills, and the fight against poverty).

These three priorities would mutually reinforce.

Sustainable growth means for example: a low-carbon economy, protection of the environment, preventing biodiversity loss, developing new green technologies and production methods, efficient smart electricity grids. In this end, all must be done to improving the business environment, in particular for SMEs and helping consumers make well-informed choices. The importance of integration of environmental programmes into European policy was reaffirmed in the Sixth Environmental Action Programme (European Commission, 2002).

19% of children in the EU are currently in or at risk of poverty. Welfare systems reduce the risk of poverty by 38% on average in the EU, but this impact varies from less than 10% to nearly 60% across the EU. To reduce social exclusion and aimed inclusive growth, Europe's employment rate must raise – especially for women, young people and older workers. Investment in skills and training must be developed and labour markets and welfare systems need to be modernised. Regional development and investment also support inclusive growth by helping disparities among regions diminish and making sure that the benefits of growth reach all corners of the EU. The social dimension of growth is also crucial to this effort through the promotion of employment opportunities, the creation and updating of skills, and the protection of the weakest by way of appropriate social safety nets and income support.

These targets are often interrelated. and it will take strong leadership, commitment and an effective delivery mechanism to change attitudes and practices in the EU. Despite disparities in levels of development and standards of living, the proposed targets take as relevant to all Member States, old and newer alike. The Commission proposes that these EU targets are translated into national targets and trajectories. The mix of EU and national efforts should be mutually reinforcing.

All EU policies, instruments and legal acts, as well as financial instruments, should be mobilised to pursue the strategy's objectives. The Commission intends to enhance key policies and instruments such as the single market, the budget and the EU's external economic agenda to focus on delivering Europe 2020's objectives.

To achieve the three goals, the European Commission proposes the following EU headline and measurable targets:

- 75 % of the population aged 20-64 should be employed, including through the greater involvement of women, older workers and the better integration of migrants in the work force;
- 3% of the EU's GDP should be invested in R&D.
- The "20/20/20" climate/energy targets should be met (Reduce greenhouse gas emissions by at least 20% compared to 1990 levels; increase the share of renewable energy sources in our final energy consumption to 20%; and a 20% increase in energy efficiency)
- The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree.
- 20 million less people should be at risk of poverty.

These targets must be not only measurable, but also capable of reflecting the diversity of Member States situations and based on sufficiently reliable data for purposes of comparison.

The crisis has added temptations of economic nationalism. Then, the single market, financial levers and external policy tools, will be fully mobilised to tackle bottlenecks and deliver the Europe 2020 goals. The Small and Medium Enterprises are in the heart of this new strategy. The Europe 2020 includes creating a business environment supportive of SME development: in developing SME competitiveness, improving the SME access to financing, improving the SME access to foreign markets, promoting an entrepreneurial culture and strengthening management

performance, creating a supportive legislative, regulatory and fiscal environment, to provide financial support to SME development and sustainability.

Is the European definition of sustainability sustainable?

Actually Crisis remains prominent. The recent unfolding of the European sovereign debt crisis has highlighted the risks arising from the rapid accumulation of public debt and the markets concern over long-term debt sustainability. Given that the reconstruction of the financial the unemployment rate remains high in major advanced economies, one would expect to observe a slower global economic growth.

The EU Sustainable Development Strategy involves combining a dynamic economy with social cohesion and high environmental standards. It requires a new emphasis on policy coordination and integration. A notable addition to theoretical conceptualisation of sustainable development over the past five years has been the incorporation of a fourth 'institutional' dimension. Sophisticated theoretical understandings are beginning to emerge, with greater emphasis on the social equity and participative aspects of delivery and the democratic and political processes for achieving this. Institutional inconsistencies can lead to fragmentation and a failure to integrate sustainable development with governance, so:

- Vertical inconsistencies can exist between every state and European policy intentions, or practices.
- Horizontal inconsistencies can exist between aspects of policy delivery, either between or within different sectors.

At a European level, the procurement is being used as a stand-alone policy instrument, given the erosion of state-level powers from international agreements and conventions. Procurement processes are being pulled in different directions by the drive for continued EU market integration, on one hand and the need for increased environmental policy integration and regulation on the other. There is a raft of legislation, which shapes procurement in member-states. The EU has in place a legal structure for procurement that is intended to harmonize with the fundamental freedoms of the common market, envisaging market integration and trade facilitation, though it remains to be seen if these changes will fit in with Environmental Policy Integration.

There is insufficient evidence knowledge about whether or how a policy or action could contribute to more sustainable forms of development. In addition, there is a lack of evaluation. In order to better monitoring the Lisbon Strategy, the World Economic Forum in 2008 constructed a composite index, the Lisbon Index (GIURCA VASILESCU, 2008). It includes 8 fields, each associated with one indicator associated. Then, these 8 indicators are aggregated to form the Lisbon index. The indicators chosen to compose the Lisbon index are:

1. The level of Information Society;
2. Dimension of innovation, research, development;
3. Liberalisation (related to the harmonization of competition rules, state aid, and single market);
4. Transport infrastructure, utilities and telecommunications;
5. Financial Services;
6. Enterprise;
7. Social inclusion;
8. Sustainable development.

The three priorities (smart, sustainable and social growth) of Europe 2020 and the Stability and Growth Pact evaluation would be achieved simultaneously. In fact, there are fears that the Lisbon Agenda, which was adopted in 2000 with the aim of making Europe the most competitive and dynamic knowledge-driven economy by 2010, could place sustainable development beneath an over-arching aim of increasing economic growth. Conceptually, there are different levels of sophistication (Scottish Executive Social Research, 2006) of this problem. Sustainable

development might be understood as the simple intersection between the economic, environmental and social pillars. However, in the Russian doll model or embedded model, all economic activity should be bent towards social progress and that this must be achieved within environmental limits. Therefore, there is a slight move away from the 'weak sustainability' model towards a more eco-essential approach. The 'win-win-win' scenario appears too simplistic and unattainable.

In addition, there is a necessary political compromise between the global environmental management and protectionism aims of the North and the human health and development needs of the South.

Purvis and Grainger (2004) denounce, cited by Scottish Executive Social Research (2006), the attempt to incorporate environmental and intergenerational dimensions within neo-classical economic development theory. That is intended to work within the existing economic system of production and distribution.

So, this sustainable development approach relies upon the traditional and often criticised belief that increased economic growth will deliver the necessary improvements to the human condition.

Conclusion

Combining, in the new European Strategy, both the usual criteria of sustainable growth, in other words: the ecological and social criteria (this latter not integrated in the sustainability definition) with a criterion on the development of the digital economy is not traditional. Moreover, measurable indicators have been created to evaluate the achievement of these targets. However, this growth priority both smart, sustainable and sociable seems difficult to maintain. For example, it is very complicated to achieve several objectives simultaneously, even if they are in part interrelated. Some criteria will necessarily be privileged over others. In addition, the conservation of traditional growth approach, based on neoclassical theory, seems paradoxical.

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THE WORLDS OF FLEXICURITY-LABOUR MARKET POLICIES IN EUROPE

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In the past, European integration has concentrated first of all on profound economic integration, creating the Single Market with common rules and regulations throughout the European Union. European integration has been more limited in the labour market and social field, where the national state remains the dominant level of regulation. Although linguistically somewhat strange, “flexicurity”, the combination of labour market flexibility and security for employees, has become recently a much praised cornerstone of European labour market policies. Obviously, in an environment with rapid technical progress and frequently changing market conditions, employers need to manage their labour force flexibly. In order to achieve this flexibility without creating an unbearable situation for employees, security is the second pillar of the concept. As such, the concept looks like an innovative European way of consolidating economic and social interests, although some argue that much flexibility is gained while the security aspect is being neglected. Flexicurity forms a part of efforts to experiment with new forms of governance in the social and employment law of the European Union. It is compatible with attempts to introduce policies at supranational level that can influence self-transformation processes at the level of Member States in order to reach overarching economic goals defined by the Lisbon agenda. It is central in the debate over the reform of labour law systems since it is a key, if not the key concept in the 2006 Green Paper on modernising labour law in the European Union. The concept has been successfully adopted in some European countries, notably Denmark and the Netherlands. The experience in these two countries will thus be described in some detail, followed by a review of flexicurity-type policies in other European countries. The current paper is realized in the doctoral programme entitled “PhD in economics at the standards of European knowledge-DoEsEc”, scientific coordinator Prof. PhD. Gabriela Drăgan, institution the Academy of Economic Studies Bucharest, Faculty of International Business and Economics, period of research 2009-2012.

*Keywords: flexicurity, European Social Model, labour market reform, Denmark, the Netherlands.
JEL classification: J08.*

I. Introduction

One of the main challenges the European Union is currently facing is how, in the era of globalization and ageing, to live up to European citizens’ expectation of providing a distinct European Social Model.

At the European level, the desire is expressed to maintain a solid balance between social and economic goals. The vexed question is how this model should be further developed in a concrete manner. As of 2006, this challenging question has specifically been dealt with under the heading of “flexicurity”. The objective of flexicurity strategies is to combine employment and income security with flexibility in labour markets, work organization and labour relations. This approach should transcend the simple trade-off between flexibility and security, where the former is seen to be in the exclusive interest of the employer and the latter in the interest of the employee. In a flexicurity strategy, flexibility and security should not be seen as opposites, but as mutually supportive labour market components.

Although initiated and formulated at the European level, for several reasons, the flexicurity approach has to be developed into concrete policies and regulations at the Member State level.

II. Flexicurity in Denmark

The Danish model of flexicurity rests on the combination of three elements: flexible labour markets, generous unemployment support and a strong emphasis on activation. This combination has become known as the “golden triangle” of Danish labour market policy (see, e.g., Clasen and Viebrock 2008: 440). In a nutshell, the model promotes high occupational and geographical labour mobility via low employment protection, compensated by generous unemployment benefits and ambitious active labour market policies aimed at skill improvement and activation of the unemployed. The Danish model combines high external-numerical flexibility (little protection against dismissal) with high levels of income security (generous unemployment benefits) and high levels of employment security (labour market policy based on a right for retraining). Crucially, the concept of job security is replaced by employment security (European Commission 2006: 5). Danish flexicurity policy might also be described as embracing all four components singled out by the EU, as it brings together flexible work arrangements with effective social security, active labour market policies and lifelong learning. Illustrative are policies introduced in the first half of the 1990s (and subsequently revised and scaled back), such as paid leave arrangements for childcare and sabbaticals, as well as for continued and supplementary professional development and training. The flexicurity idea here is that such policies can be beneficial to the firm, employees (on training leave), as well as unemployed persons because employers receive a grant which covers the cost of hiring an unemployed person replacing employees on leave (Wilthagen 2007: 62).

The role of the social partners in this model is pivotal. The liberal employment protection system with its relatively easy hiring and firing of workers became acceptable for trade unions due to the existence of a generous and state-supported but mainly trade-union based unemployment insurance system. Vice versa, for employers generous unemployment benefits became acceptable as they facilitate flexible responses to shifting market demands by laying off workers (Clasen and Viebrock 2008: 434). The third element in the form of active labour market policy is crucial as it supports the flow of workers between unemployment and employment by upgrading the skills of unemployed people through training.

As a model associated with a positive labour market performance it has attracted considerable international interest from policy makers and academics alike. Since the early 1990s, employment rates in Denmark in both the public and the private sector increased substantially and unemployment declined from more than 12% in 1993 to just about 5% in 2001. This trend has been attributed to the successful combination of flexibility measures, often linked to a globalized liberal market economy, and a traditional Scandinavian welfare state with its extensive systems of social security protecting citizens from the negative consequences of structural changes-hence “flexicurity”. Another notable feature of the Danish system is the avoidance of a low-wage segment of the labour market (the “working poor”), which is typical for many liberal economies as such the US.

III. Flexicurity in the Netherlands

The key feature of Dutch flexicurity is the combination of atypical, flexible types of work with social security rights which are similar to those for persons in standard employment. In short, the approach can be described as “normalizing non-standard work” (Visser 2003: 42; Wilthagen 2007: 3-5). Measures have been taken to spread work, care and education more evenly over the lifecycle. A fiscally supported voluntary savings scheme enables workers to save a percentage of their wage to cover periods of leave for care, education or other reasons (European Commission 2006: 6-8). Active labour market programmes have been extended and regulations have been introduced to provide temporary agency workers with employment protection, rights to training, wage guarantees and supplementary pensions (Wilthagen 2007: 10). In short, the position of

workers on temporary contracts has been strengthened without compromising labour market flexibility (European Commission 2007: 5).

The Dutch model of flexicurity has to be understood also in connection with changes to the system of dismissal law and regulation. In the Netherlands, a rather complicated dual system of dismissal law existed which granted strong protection for workers employed under traditional employment contracts while workers in flexible employment, in particular temporary agency workers, were faced with a high level of insecurity. Aiming to reconcile the interests of employers and workers, and strengthening both competitiveness and social protection (Auer 2002: 36), in 1997 the so-called “Flexibility and Security Bill” addressed this problem, introducing flexibilization (in the form of a slight reduction of dismissal protection in standard employment), far-reaching liberalization of the temporary work market and improving types of security (e.g. more employment and employability security for non-standard workers). However, critics have pointed out that whereas part-time workers have gained from better social protection, other groups such as so-called “flex-workers” have remained disadvantaged (see Visser 2003: 45). Recognizing once again the four components of flexicurity (flexible and reliable contractual arrangements, comprehensive lifelong learning strategies, effective active labour market policies, modern social security systems) as outlined by the European Expert Committee on Flexicurity (2007), there is perhaps less emphasis on activation strategies than in the Danish case and a more important role for other aspects such as temporary work agencies. However, as in Denmark, flexicurity policies have been portrayed as a prime cause for the positive labour market performance in the Netherlands (see, e.g. OECD 2006: 16). Similarly, the role of the social partners and social dialogue in developing and legitimising flexicurity policies has been emphasized in both countries (see, e.g., Visser 2003: 34-37).

In sum, both Denmark and the Netherlands illustrate that alternative ways of combining flexibility with security are not only theoretically but also practically feasible. It has to be noted, however, that what is now called “flexicurity” is not the result of a rational policy design in either country, but the outcome of gradual processes over time, as well as political struggles and compromises (Auer 2002: 70).

IV. Flexicurity in other European countries

While Denmark and the Netherlands have been at the centre of the debate on flexicurity, many other European countries have introduced policies or initiatives explicitly aimed at reconciling flexibility with security. Clearly, such initiatives cannot be reviewed in full here. However, a few examples from different European regions with different welfare state and labour market regimes have been selected here as illustration of the multiplicity of pathways to flexicurity as suggested by the European Commission. Here, I will refer to relevant policies in Austria, Central and Eastern European countries, Ireland and Spain.

A frequently cited country which has introduced successful flexicurity policies is Austria (European Commission 2007: 10). The Austrian approach is characterized by average levels of employment protection and unemployment benefits relative to the EU-15 countries, relatively high spending on active labour market programmes and a reliance on decentralized public employment services. Similar to other countries, the trend in Austria has been to shift an erstwhile emphasis on job security to employment security. Auer (2002) claims that despite Austria’s tighter employment protection system and a lower generosity of unemployment benefits, the actual trade-off between employment protection at firm level and social protection at macro level seems to work just as well as in Denmark (Auer 2002: 38). One facilitating factor here might be the deeply entrenched social partnership which smoothed the process of labour market adaptation and helped to promote the idea of flexicurity.

Initiatives to increase both flexibility and security have included life long learning measures. For example, in 1998, it was made possible for employees to take paid leave for up to 12 months for

further education without additional costs for the employers. Other policies include the right for parents of young children to switch to part-time work, covered by full redundancy protection and the right to revert back to the previous working time (European Commission 2006: 14-15). Another policy component is the easing of qualifying conditions for severance pay, which itself was reformed. Whereas in the former system workers would lose accumulated rights to severance pay when changing jobs, entitlements within new system are transferable, thus reducing disincentives to labour mobility. Furthermore, Labour Foundations are easing the transition between jobs in case of threatened mass dismissals, applying principles of early intervention and joint action by all public and private parties concerned (European Commission 2007: 11; OECD 2006: 26).

In many Central and Eastern European countries, economic recovery has often proved elusive or unsustainable, with negative consequences for employment (Cazes and Nesporova 2007: 14). Despite important cross-country differences, unemployment is still high and participation rates even declining in some countries. The sudden exposure to global market competition has forced enterprises to rationalise production and contain labour costs. This mainly took place in the form of downsizing, introducing fixed term contracts or resorting to informal employment. Addressing firms' flexibility needs measures were facilitated by still weak or newly established labour market institutions and policies. Tendencies towards increasingly flexible forms of employment and high informal employment and the consequent weakening of workers' employment and social security position put pressure on governments to find a better balance between the flexibility demanded by firms and effective assistance for employees (Cazes and Nesporova 2007: 23). The International Labour Office (ILO) has sponsored a large initiative to spread best practice on flexicurity in transition economies.

Legislative and institutional reform processes were thus influenced by typical Western labour market institutions and policies such as collective bargaining systems, labour taxation, unemployment benefit schemes and active labour market policies. The outcomes have been diverse across transition countries, influenced by economic performance, trade union strength, social dialogue and national cultures. For example, the Baltic States and some Central European countries have implemented flexibility/protection patterns similar to Western Europe, further supported by the EU accession process. By contrast, troubled by military conflicts and economic problems, labour market rigidities in the Balkan countries have persisted, as well as weak employment and income security for workers. Overall, given a low demand for labour and the perception of high job insecurity, there are considerable obstacles towards increasing labour mobility and flexibility in transition countries. Cazes and Nesporova (2007) conclude that stricter employment protection has at times contributed towards improved economic activity and employment performance, and positive effects have been identified for collective bargaining and active labour market policy, but there are indications of labour market segmentation between insiders and outsiders too (Cazes and Nesporova 2007: 80).

In contrast with transition countries, Ireland's employment growth has been remarkable, both in terms of in part-time and full-time jobs, mainly in the private sector (Auer 2002: 56). Unemployment benefit levels are modest but spending on active labour market programmes comparatively high, including subsidized employment. Similarly to Austria, Denmark and the Netherlands, public employment service structures have been changed dramatically in a move towards decentralization, localization and greater scope for private placement. Although Ireland has overcome past problems of high unemployment and a slow economic growth, a problem remains in low educational levels of older workers. In 2006, the so-called "Towards 2016" agreement was reached between the social partners to take up this challenge in a comprehensive way. It identified the need for participation, productivity and activation, with a special focus on the long-term unemployed, youths and those who are furthest from the labour market. Skills upgrading has been aimed at lower-skilled and vulnerable workers. Funding has

been increased for workplace learning and tackling illiterate and innumeracy problems (European Commission 2007: 18). In 2005, a “National Workplace Strategy” was launched with a view to managing change and innovation in a knowledge-based society. A key focus is on a good co-ordination between the different departments and agencies as well as the social partners with regard to policies of employment, labour market, training, education, social security and enterprise development (Wilthagen 2007: 42).

Finally, a policy process based on social dialogue facilitating flexicurity policies can be observed in Spain. Going back to the 1980s, reforms of a restrictive system of dismissal protection increased flexibility at the margins through liberalising fixed-term contracts and temporary work agencies, while regulations concerning core jobs remained virtually unchanged. Ensuing employment growth was mainly restricted to the flexible “outsider” labour market and transitions from fixed-term or part-time to open-ended or full-time contracts remained difficult, thus encouraging segmented labour markets. Fixed-term workers represent about a third of the total employment (European Commission 2007: 21) and mainly consist of the young. They often receive lower wages and have only limited access to internal further training (Wilthagen 2007: 129).

The strong growth of fixed-term employment not only gradually transformed the Spanish labour market, it also improved the political influence of fixed-term (and part-time) workers, thereby facilitating attempts at modifying employment protection (Valdés Dal-Ré 2004: 256). Indeed, subsequent reforms eased dismissal regulations of the insider labor market and introduced security elements for fixed-term employees, albeit not fully overcoming the dual character of the Spanish labour market. For example, following a breakthrough in Spanish industrial relations at the end of 2001, the social partners agreed on the need to reconcile flexibility and security (Valdés Dal-Ré 2004: 258). Since then, policy makers have been able to exploit potential policy complementarities not available before. Most labour markets reforms in Spain were formulated in trilateral negotiations and often implied trade-offs, such as easing dismissal protection in exchange for stricter regulation of temporary agency work. For example, in May 2008, the social partners signed a comprehensive agreement to curtail the excessive use of fixed-term contracts. Since then, employees having signed two or more fixed-term contracts with the same company and having worked in the same post for more than 24 months, automatically acquire an open-ended contract. In addition, while spending on passive and active labour market policies used to be comparatively low in Spain, activation policies began to be implemented in 2002, stimulated by EU recommendations and funding.

For flexicurity to work in Spain, it must first challenge the startling levels of unemployment and gain the consent of social partners. The implementation of flexicurity via the Labour Market Reform Package was strongly resisted by social partners, in particular the trade unions. This resistance culminated in a general strike in September 2010. In some the largest issue facing the implementation of flexicurity in Spain are the trade unions. Trade union support for further flexicurity implementation will be necessary if further labour market reforms are to transform the Spanish labour market.

V. Conclusions

Flexicurity as a concept fits well into the debate on a European Social Model. It gives guidance for welfare reform processes at the level of the Member States who have to balance existing systems of welfare and employment rights and institutions with demands for new forms of employment.

There is a danger, however, in the current debate at EU level. Just as with the notion of the European Social Model, the flexicurity concept can lose its meaning and become empty and then be used in a superficial manner. Despite the Commission’s efforts to translate the flexicurity concept into concrete policies through the identification of “common principles”, it cannot be

denied that there is a tendency in the current Barroso Commission to downplay social protection and to concentrate efforts on issues of transparency and the marketing of coordinated policies, instead of substantive discussions of policies. However, the success of coordination, including how flexicurity policies affect the welfare regimes of the Member States, ultimately depends on the ability of European policies to become reflexive by adequately taking into account the needs and conditions of self-regulation in the Member States themselves.

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THE DEVELOPMENT OF BIHOR – HAJDU-BIHAR COUNTIES BASED ON THEIR NATURAL RESOURCES

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Situated on the border line between Romania and Hungary, Bihor – Hajdu-Bihar counties are blessed with all natural types of terrain. There are mountains in the West, thermal water almost everywhere, caves and underground rivers that can be exploited for economic use.

In this paper, the main subject focuses on developing the counties into an international tourist attraction, based on their natural resources. Being able to extract thermal water that is rich in numerous minerals that the human body can absorb, it can offer these counties an important competitive advantage.

With age, comes a great deal of expenses in order to keep your body young. Having this natural resource, Bihor – Hajdu-Bihar counties can project its goals on the development of future spas, which can attract tourists as well as investors.

The methodology focuses first on identifying those areas that are rich in these thermal waters. Then, there will be presented a sketch of the ideal tourist profile for this type of activity. Then, based on the ideal tourist profile, there will be a selection of countries were these potential tourists live.

If the county desires to adopt this plan, there will be extensive structural modifications on all economical and educational sectors in order to obtain maximum performances.

The selection of future potential investors will be crucial for the future activities of the county. If the main objective will be the construction of spas, there will be an increase demand for qualified medical staff. This knowledge can be attained only in medical universities. The courses of a medical university can be followed only by those persons that have a bio-chemistry high school profile. If the investments will be made in this sector, the number of students of the medical university and of local high schools will have to increase exponentially.

The tourists that will come will have to benefit from a treatment based on different products. The strategy should include attracting those investors that produce goods designed for body enrichment, and not to import these products from abroad.

All these strategies that include investors, the education system, city halls, politicians and fiscal stimulus, can and will lead to a success story.

Key words: development, cooperation, thermal water, foreign direct investments, socio-economical impact

JEL codes:F18, F43, R11

Introduction

As people age, their body needs more and more minerals and vitamins in order to produce the same amount of work that it did, ten or twenty years ago, because in the ageing process, the bone structure starts to suffer, ligaments are becoming more rigid, all body functions start to deteriorate.

The euroregion Bihor – Hajdu-Bihar contains multiple springs of thermal water that can be used to cure different illnesses, or to rejuvenate the human body to its maximum capacity. Situated on a volcanic plate, all the underground waters are heated by magma, reaching temperatures that value approximately 100 degrees Celsius. Also, these waters contain high degrees of minerals such as iron, sulfur, selenium, magnesium and others, which have a direct impact on the human body, improving blood circulation, skin rejuvenation, alienating back pains, improving the bone structure, and calming the nervous system.

Corroborating these facts, people might say that the Bihor – Hajdu-Bihar euroregion has a competitive advantage in the tourism business, focusing on providing those services that can improve locomotors functions of the body.

Based on the following facts: both regions have thermal springs; proximity to one-another; funding through European Cohesion Funds, this euroregion can become the preferred destination not only for their national counterparts, but for international tourists in search for health benefits.

Identifying the potential: thermal water, clients, and countries

In order to attract international tourist and foreign direct investments, first we have to find those spots that benefit from an abundance of thermal water.

Based on geological surveys, both parties have identified and tried to develop on some extent, the following sites. Trying to be more precise, the sites will be presented separately for the two counties.

For Bihor we have: the city of Oradea, that sits on a bag of thermal water; the nearby village of Sânmartin, which has in its administrative jurisdiction two of the most biggest spa resorts in the country: Felix and 1 Mai.

On the other side, Hajdu-Bihar, has regions like Hajdusag that harness almost 16% of the thermal waters in Hungary, with the biggest resorts like Debrecen and Hajduszoboszlo.

All the places mentioned above have the capacity of providing optimal spa services for more than 10.000 daily clients.

The clients profile is also important. As far as you know your merchandise, you must identify to whom you will sell your product. In the case of thermal water and the adjacent services that are included it is hard to modify the specifications of the product according to the client's demands. So the clients profile must be precisely identified in order to ensure the best methods of promoting these services.

In general, the vast majority of the consumers of thermal waters don't have to be included in a standard age range. At any age you can benefit from the services of the above mentioned spa resorts. Referring to the gender, again, it can't be standardized, the clients could easily be women or men. On account of the studies of the potential clients, we are in the same situation. They don't need a university degree that testifies they completed a course of study, in order to benefit from specific services or products.

When it comes to the work field of activity, regarding the abovementioned persons there can be introduced customer segmentation. As far as it is known, the minerals contained in the thermal water can be utilized in the fast recovery of different types of injuries, so that athletes can benefit from therapeutically properties. Also it is recommended for those consumers that work in different fields that require intellectual effort, or in demanding environments where they have to take such treatments in order to benefit from stress release.

The medium income must be over 700 € per month for those who would like a 4-7 day trip in this spa resorts and over 300 € per month for those who live in the proximity and make only occasional visits for a 1 day trip.

Table nr.1: Criteria and results of the potential clients features

Nr.	Criteria	Results
1	Age	-all categories
2	Sex	-both categories
3	Studies	-all categories
4	Activity domain	-all categories
		-sports
		-stressful environment

Nr.	Criteria	Results
5	Income	-above 300 €/month for locals
		-above 700 €/month foreigners
6	Marital status	-all categories

Results based on my personal view

Based on Table nr.2, the countries where all these potential clients live, based on data from EuroStat that focuses on Purchasing power parities, can be all the countries from the European Union and some peripheral ones like Serbia, Croatia, Montenegro, Russia, with two small exceptions: Albania which has purchasing power parity of 6.800 € and Bosnia and Herzegovina with 7.500 €.

Table nr.2: Countries with a high tourist potential based on Purchasing power parities

Countries	PPPs	Countries	PPPs
Belgium	29.000	Poland	15.300
Bulgaria	10.700	Portugal	19.600
Czech Republic	19.400	Romania	11.200
Denmark	31.000	Slovenia	20.700
Germany	28.800	Slovakia	18.000
Estonia	15.700	Finland	28.200
Ireland	31.100	Sweden	30.100
Greece	21.900	United Kingdom	27.300
Spain	24.500	Iceland	27.200
France	26.300	Norway	44.200
Italy	24.600	Switzerland	35.900
Cyprus	24.200	Montenegro	10.100
Latvia	12.500	Croatia	14.800
Lithuania	14.000	Former Yugoslav Republic of Macedonia	8.700
Luxembourg	66.300	Serbia	8.400
Hungary	15.800	Turkey	12.000
Malta	20.200	Albania	6.800
Netherlands	32.500	Bosnia and Herzegovina	7.500
Austria	30.800		

EuroStat, Purchasing power parities (PPPs), price level indices and real expenditures for ESA95 aggregates

Attracting FDI and its implications on the socio-economical environment

To ensure the best services in maintaining a certain fitness level and also in the adjacent medical services, the region needs qualified staff corroborated with attracting foreign direct investments. The foreign direct investments should be concentrated in strategic areas, but all realized at the same time. The first area should be the hospitality industry. In order to attract a large number of tourists there must be a high usage rate in the accommodation facilities. At this moment, the accommodation facilities in Bihor county suffer from moral decay because of the lack of

investments in renovation and maintenance. During this period of time there have been built many new hospitality units such as boarding houses, but they can't accommodate thousand of persons. The same situation is on the Hungarian side, but only when regarding the accommodation possibilities. Although their hotels are in a better condition, the number must be increased. There is the need of building new hotels that can support and promote an "All Inclusive" type of business.

Another domain where investments must be encouraged is the sports domain. Being a plain region, almost every athlete or sport club can come here and place its training camp. In order to attract these types of customers, you need to build football fields, running tracks, and Olympic Swimming Pools. These entire infrastructure objects can be rented not only to athletes or sport clubs, but to anyone willingly to rent them. One basic requirement should be the following: the football fields and the Olympic Swimming Pools should be covered, in order to be used all the year, not only in the summer period. Removing this cyclical evolution, will increase the income substantially.

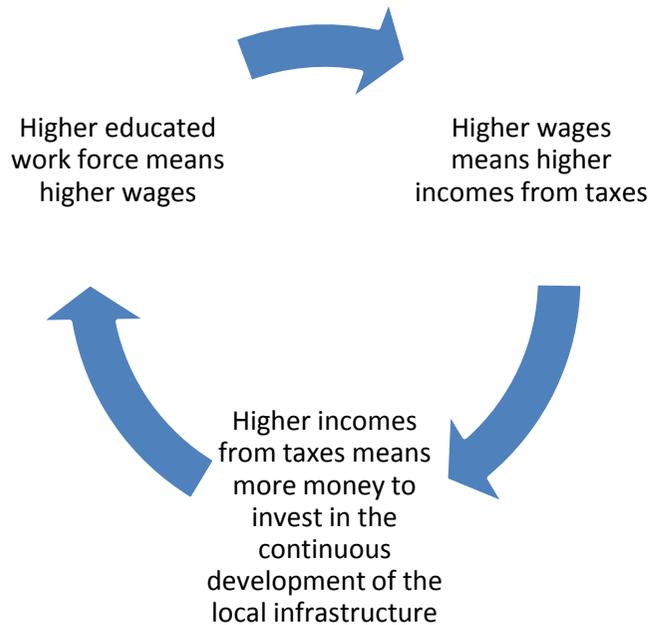
In the end, one of the most important fields that must attract foreign direct investments is the medical field. In order to provide a more suitable pallet of services, there is the need of introducing new body care medical products. The Bihor – Hajdu-Bihar euroregion needs to attract the investments of the pharmaceutical companies, that need to produce locally all the anti-aging or anti-cellulites crèmes destined for different consumers, or to develop modern high-tech medical equipment.

This field will have an important impact on the social and economical domain of the Bihor – Hajdu-Bihar euroregion. In order to provide the best products and services in the medical field, you need the best human resources available. There will be a great need for qualified staff that can develop all the products destined for a better body care. There will be a great need for specialists in the field of medical recovery of different athletes or other clients that suffered several traumatism; plenty of engineers that can develop in research & development projects different types of high-tech medical equipment; plenty of doctors in all types of fields. All these people will need to have a university degree in order to provide all the services and products that the clients demand. The impact on both medical faculties in both cities will be benefic. They will have to increase the number of students and teacher staff in order to comply with the new market requirements. They will have to develop new study programs, especially those dedicated to geriatrics, or medical recovery.

If the demand for a larger number of doctors increases, automatically the number for medical students increases. If the number for medical students increases, automatically the number for high school students increases. All the high schools in the Bihor – Hajdu-Bihar euroregion will have to supplement the classes with majors in biology or chemistry, in order to provide the local universities with a qualified human resource.

It is known that all these specialists earn wages above the national average, their services being paid according to the demand. If all the three major fields will be done at once, especially with investments in medical recovery, the development of new medicines and medical crèmes, the employees from the research & development department will register wages above the national average. The same trend is registered for the wages of the rest of the medical staff.

Based on these income increase in the euroregion means that the authorities will collect more taxes, that will be used in the continuous developing of the local infrastructure, that will attract new investments.



Conclusions

This development spiral can have a positive effect on the euroregion economy. More foreign direct investments means more money from taxes. More money from taxes means more money to invest in the local infrastructure. A better infrastructure means more bargaining power to attract future investments that can trigger a spiral effect furthermore.

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COMMON AGRICULTURAL POLICY POST-2013 IN THE VIEW OF ROMANIA AND FRANCE

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Summary

The paper belongs to the field of research “International Business and European Integration”. Entitled “Common Agricultural Policy Post-2013 in the View of Romania and France”, the paper aims to analyze the positions of both countries in the context of the Common Agricultural Policy (CAP) reform. The objectives of this paper are to emphasize the need for a strong CAP, based on two pillars, the position of different countries or groups of states regarding CAP reform and the allocation of European funds on four axes within the Rural Development policy. The paper is related to the research aiming to analyze some issues of the most debated, controversial and reformed European policy. In the same time, it continues my previous research consisting in different papers concerning CAP reforms, food security, agricultural market stability, Romanian agriculture with a view to the future reform and follows the theme of the doctoral thesis entitled “CAP Reform and its Implications for the Romanian Agriculture” (coordinator prof. dr. Gheorghe Hurduzeu, Bucharest Academy of Economic Studies, Faculty of International Business, doctoral studies within 2009-2012). The research method consists in collecting and analyzing data from internal and international publications, the use of statistical data in order to realize a comparative analysis between Romania and France regarding the agricultural output volume variation within a period of ten years and the distribution of the European Agricultural Fund for Rural Development (EAFRD) on four axis in the period 2007-2013. This paper tries to reflect the similarities and differences between one of the oldest Member States of the European Union (EU) - France which has a modern agriculture and belongs to the conservative group and a New Member State - Romania, whose agriculture has a deep dual character and where the medium size farm is not developed enough. The results of the research consist in the fact that Romania should consider French agriculture a model and should adopt a strategy focused on setting up of producers ‘organizations and of agricultural chambers, the encouraging of young farmers to settle down in the countryside, agro tourism with a view to increase the value of the Romanian village.

Key words: Common Agricultural Policy, reform, Rural Development, Romania, France

JEL Codes: Q18

I. Introduction

The cooperation between Romania and France has a long tradition. In the spirit of the strategic partnership dated February 2008, the political dialogue aims to express the common positions regarding CAP which has to be reformed in the perspective of 2013. Agriculture is the engine of rural development and has to contribute to the management of territories and to the increasing of the natural heritage of rural areas along the whole Europe. Since 2010, EU Member States have expressed a common position regarding one of the objectives of the CAP, namely to ensure EU citizens with high quality, diversified products at appropriate prices. In October 2011, the European Commission presented the legal proposals designed to make the CAP a more effective policy in order to enhance the competitiveness of agriculture and rural development. The proposals are going to be discussed with other European institutions so that the future CAP to be implemented on January 1st, 2014.

II. Literature/research review

Through the subject presented, the paper belongs to the research consisting in books, studies, documents and communications aiming to analyze issues of one of the oldest EU policy.

The CAP reform is an important need as it is stated in the Communication of the European Commission (2010, 2011) and in the research of many European think-tanks. In the study published by Romanian Centre for European Policies (RCEP), Luca (2009) highlights the dual character of the Romanian agriculture and the fact that the middle farm size is not developed enough. In the most recent Romanian study regarding CAP, Giurcă, Alexandri and Rusu (2012) make a retrospective analysis of the publications regarding CAP reform, the implications of implementing the proposals of the European Commission in Romania. Zahrt (2009) speaks about the winners and losers of CAP reform and later (2011) shows that EU Member States pay for wasting public money.

III. Research method

The research method consists in collecting and analyzing internal and international data from different publications as well as a comparative analysis between Romania and France in terms of:

- variation of the agricultural output volume over a period of ten years using statistical data;
- allocation of EAFRD on four axis.

IV. Results of the research

4.1. The position of EU member states on CAP reform

Most member states wish that a strong agricultural policy to be maintained, having a significant budget. Their position is against the renationalization of the CAP and the co-financing of the measures under the first Pillar.

France belongs to the **conservatory group** represented by the former EU-15 countries like Germany, Belgium, Luxembourg, Spain, Portugal, Greece, whose position advocates for keeping a CAP with a generous budget and maintaining the support for the first Pillar, especially for direct payments. **Franco-German Protocol** emphasizes the need to adjust closer the future CAP to the global realities, to meet better the requirements of the European citizens regarding food security and to provide them food at reasonable prices, to ensure environment preservation and rural development. Priorities are considered the following principles: simplification of the CAP, stability of financial resources and a stronger market-orientation. In terms of direct payments, their redistribution is considered inadequate considering the different economic conditions and contributions of the Member States to the community budget. World economic crisis began in 2008 in the United States and spread later to Europe - where the first country affected was Greece - and this implies that measures must be taken in order to cope with increased volatility of prices. It also highlights the need to increase the role of producers' organizations and the importance of farmers' income stability. With regard to the second Pillar, Rural Development, measures focused towards the diversification of the rural economy and quality of life are foreseen. It is emphasized the increase of farms' competitiveness, the environmental measures, climate changes and management of natural resources.

Romania has a similar position with the **New Member States** which favors a balanced distribution of direct payments, the progressive convergence of the subsidies to those received by farmers from EU-15 and the establishment of a loan fund based on equity in order to reduce the discrepancies occurred between farmers and the increase of competitiveness among farms. Therefore, Romania asks for the establishment of a convergence mechanism that should better reflect the equity principle with regard to the payments per hectare. Certain criteria should be used that take into account the utilized agricultural area and the number of animals, the rural population, labor employed in agriculture [Giurcă, Alexandri and Rusu 2012 : 226].

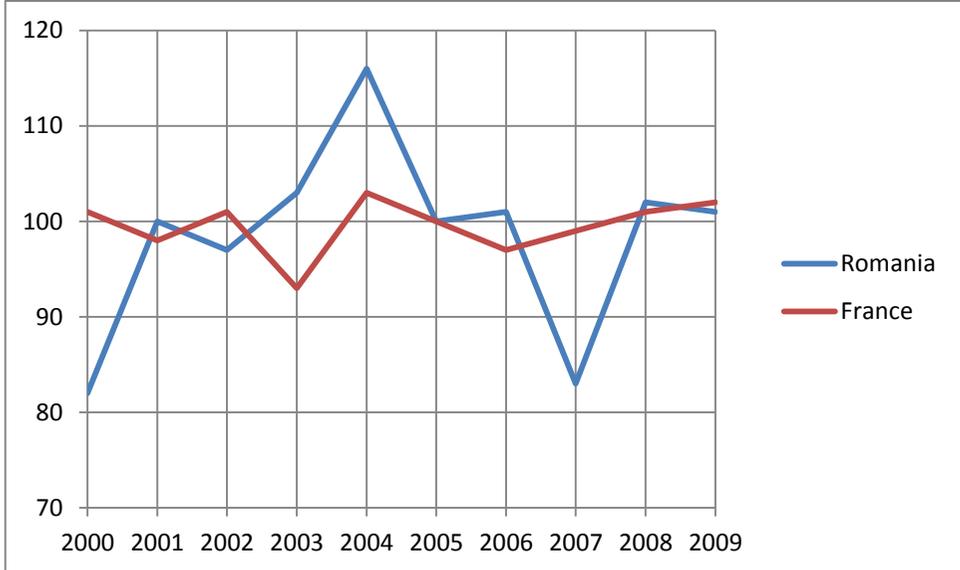
Romania does not agree with capping the direct payments for the large farms neither with greening of payments but shares the Commission’s proposal to create a mechanism for emergency crisis. With regard to the second Pillar, Romania supports the Commission’s proposal to have a Rural Development policy focused on competitiveness and innovation, climate and environmental changes. An important issue to be considered refers to the support for small farms in order to avoid land abandonment, depopulation and to attract young people in agriculture.

Poland, where the middle size farm is better represented in comparison with Romania, is interested **to modernize and consolidate farms**. Regarding direct payments, Romania agrees to give up the historical criteria (yields per hectare); these payments must be made according to the objectives set for them, have to be simplified, equally allocated; additional payments should be added. The future CAP must ensure food security, sustainable development and has to be more market-oriented. Subventions should provide income stability and the support of small, organic farms.

The **reforming group** includes countries like **Great Britain, Netherland, Denmark, Sweden**. Their position, with some differences, are in favor of phasing out the direct payments by 2020 and the transfer of funds to Rural Development. The most vehement position belongs to Great Britain - one of the biggest contributors to the EU agricultural budget - which supports the full liberalization of the CAP, considering that this policy distorts the market, is expensive, supplies expensive foodstuffs and is paid from European citizens’ money.

4.2. The need for a “Common” Agricultural Policy

The demographic growth, the changing diets in the emerging countries, the risks induced by climate changes, soil degradation and water supply shortages are reasons for the rising of the food global demand. EU is facing the challenge of maintenance and perpetuation of production capacities and a stable commercial relations system. In this way, the evolution of the Romanian and French agricultural output volume variation for ten years is shown in the figure below.



Source: Eurostat

Figure 1. Variation of the agricultural output volume in the period 2000-2009

The above figure shows that the Romanian agricultural output variation is higher than in case of French production. This reflects a higher exposure of the Romanian agriculture in front of risks, the availability of resources to manage these risks (irrigation, fertilization, etc.) being reduced. To

stabilize the production volumes in the context of food security is an important issue and this implies the modernization of agricultural holdings. Furthermore, the instability of production volumes leads to price volatility, having a negative impact towards the consumer's access to agricultural output.

With regard to the role of the CAP, Romanian public opinion distinguishes among EU Member States and considers that providing decent living standards for farmers is a priority. On the other side, French people focus on supplying high quality products.

A strong CAP can lead to a sustainable rural area that allows an economic activity even in less favored area (LFA). CAP reform is closely linked to the EU 2020 Strategy in terms of green, sustainable and inclusive growth.

Currently, in Romania 29% of the population is employed in agriculture and 45% lives in rural areas; the contribution of the rural area to the net added value is 30%. In France only 3% of the population deals with agricultural activities, 17% live in rural areas whose contribution to net added value is 13%. Romania has to develop its infrastructure to facilitate the access in the countryside and to increase the life standard of rural inhabitants.

Semi-subsistence farms represent a significant percent in the structure of the Romanian agriculture, the output being used mainly for own consumption. Therefore, Romania must adopt measures in order to integrate them into the market but also to develop medium size farms. In Romania, rural population is aging, farmers over 65 years represent more than 40% while in France only 13% belongs to this group of age. Therefore, Romania has to provide support for young farmers to settle down in rural areas. In this respect, the support for young farmers increased from 25,000 Euros to 40,000 Euros (Measure 112 "Settle down of young farmers").

Ensuring increased agricultural productivity and upgrading the agricultural equipment are other requirements that Romania has to apply in order to develop its agriculture and to align to EU standards.

4.3. Similarities and differences between Romania and France regarding CAP

At the public debate concerning the future CAP launched by the European Commission in June 2010, many EU citizens and institutions took part; the main views expressed focused on the supply of healthy, safe food at affordable prices, sustainable use of land, rural area support and food security.

The Romanian contribution to the public debate focused on the following areas: good quality, safe products at reasonable prices for health, development of short circuits in the food chain, the preservation of the environment, the promotion of the biological output and landscape management, new working places and appropriate revenues, food security for all Member States.

The position of French authorities revealed several future expectations such as: safe, healthy, diverse and high quality food, better environmental and natural resources preservation, fight against climate changes, landscape diversity and dynamism of rural areas.

The analysis of the opinions reflects that the order of priorities is different but the expectations of both countries regarding the reform in agriculture are comparable.

The position of Romania and France on the future CAP reflects several common points like:

- to provide the European citizens good quality, diverse food at affordable prices, food security being one of the objectives of the CAP;
- to keep a similar structure of agriculture based on two pillars (Pillar I – direct payments and market measures and Pillar II – Rural Development);
- the need to maintain the European CAP budget at least at the level of 2013; the budget allocated to the CAP should fulfill its important objectives and meet many challenges agriculture is facing today;
- both countries are against tax increase, renationalization of CAP and co-financing;
- a more transparent and simpler CAP;

- the coordination with other EU policies such as Cohesion Policy and Competition Policy
 In the field of expenses, the positions of Romania and France can be considered divergent. Romania might expect to an increase of funds allocated while France can expect to a decrease of funds, particularly Pillar I – direct payments can be directed to pay the social public goods (important criteria for Romania) and environmental (important option for France). With regard to Pillar II, both countries consider that the budget has to be at the same level or even increased.

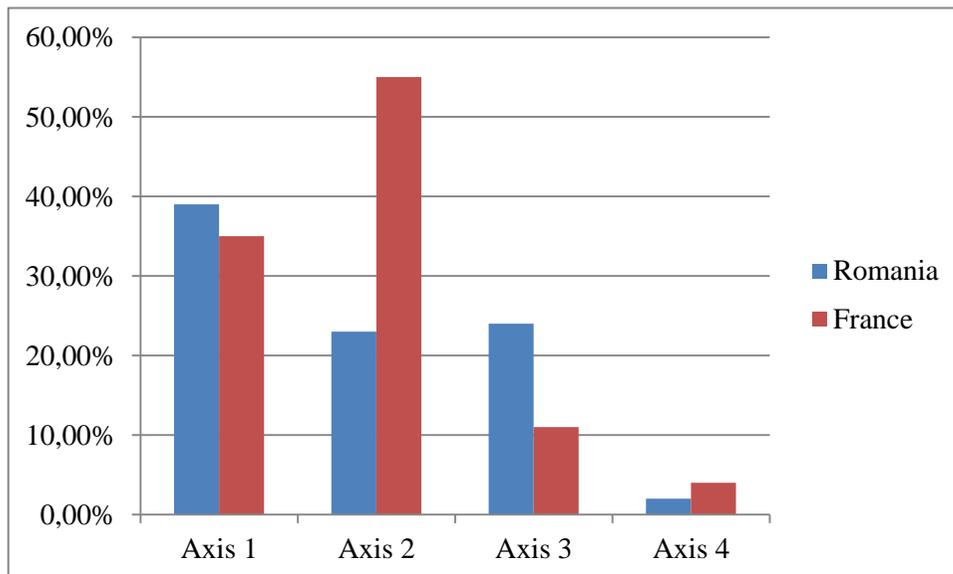
4.4. Rural Development Policy

The development of the second Pillar was made in the period 1999-2001 after Agenda 2000 put together, for the first time, under a common umbrella issues concerning rural development. European Agricultural Fund for Rural Development (EAFDR) is a financing instrument created by the EU in order to support member states in the implementation of the CAP. For Romania it represents an opportunity for the rural area in value of 7.5 billion Euros while in France the amount is 7.6 billion Euros. In Romania the European funds for agriculture can be accessed through the National Program for Rural Development (NPRD) which addresses to rural development and aims to decrease the economic and social disparities between Romania and other member states.

The priorities of the program translated in four axis are:

- Axis 1 „Improving the competitiveness of agriculture and forestry”;
- Axis 2 „Improving the environment and rural areas”;
- Axis 3 „Quality of life in the rural areas and the diversification of rural economy”;
- Axis 4 „LEADER”

The distribution of funds on axis in the period 2007-2013 reflects several differences between Romania and France. While in Romania most funds are allocated for axis 1, in France axis 2 ranks first; in both cases axis 4 represents a small percent as it is shown in the figure below. The distribution reflects the fact that, for Romania, the priority is the need to modernize farms and infrastructure while in France most of the funds are designed for the environment and for practicing agricultural activities in LFA.



Source: Own calculations based on the European Commission's data

Figure 2. Distribution of EAFRD on axis in the period 2007-2013

The second Pillar of the CAP must promote innovation and the transfer of technology in the benefit of agriculture and ensure a sustainable management of natural resources as well as to preserve biodiversity.

V. Conclusions

Even if Romania joined EU in 2007, Romanian agriculture has a strong dual character. Therefore, **Romania** has to adopt a strategy aiming to modernize the agricultural holdings, to develop medium size farms and to focus on the setting up of producers' organizations and of agricultural chambers, the support of young farmers to set up in the rural area, the development of agro tourism. **France**, whose agriculture is one of the most advanced in the EU, can adopt new measures in order to have a more attractive rural space.

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INTANGIBLE ASSETS THROUGH THE COHESION POLICY

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Intangible assets in general and intellectual capital in particular are important to both society and organizations. It can be a source of competitive advantage for business and stimulate innovation that leads to wealth generation. Technological revolutions, the rise of the knowledge-based economy and the networked society have all led to the same conclusion that intangibles and how they contribute to value creation have to be appreciated so that the appropriate decisions can be made to protect and enhance them. The Cohesion Policy represents the main EU measure to ensure a balanced and sustainable growth in Europe by promoting harmonious development and reducing the regional disparities. The general objective of the paper is to highlight the important role of the Cohesion Policy in the development of intangible assets. The objectives and the instruments of the Cohesion Policy are designed to support programs on regional development, economic change, enhanced competitiveness and territorial cooperation through the European Union, to develop human resources and employability.

Keywords: intangible assets, intellectual capital, Cohesion policy, development;

JEL Classification: O43, G32, D24, O34;

1.Introduction

Sustainable economic development, no matter the geographical area it is applied to, relates to improving living standards and incorporates a new focus and challenge for the economy: the measurement of intangible and social assets.

Growth in all the European economies must be supported by solidarity between all regions and citizens, and this is possible through the Union Cohesion policy.

The aim to ensure the harmonious development of the economies by reducing the differences existing between regions and the support of the less developed ones, exist since 1957 when Belgium, the Federal republic of Germany, France, Italy, Luxembourg and Netherlands signed the Treaty of Rome, through which they were determined to ensure the economic and social progress of their countries by common actions.

Later, the European Community, in order to promote its overall harmonious enlargement, developed its actions leading to the strengthening of its economic and social cohesion, as also stated in the Treaty of the Functioning of the European Union, article 158. On December 2009 entered into force the Treaty of Lisbon which amended the European Union treaties not replacing them, instead had improved them. The economic and social cohesion referred to in the article 158 of the European Union Treaty mentioned above, was modified with “economic, social and territorial cohesion” (Official Journal of European Union, C 306, 2007: 85).

The objectives of the Cohesion Policy are focused on convergence, regional competitiveness and employment and territorial cooperation among the European countries. These are the main determinants of the regional economic development.

2. Knowledge-based economy and society. Intangible assets – generators of sustainable competitive advantage and convergence

National economies are in a continuous transformation, influenced by globalization and structural change. The globalization process has been an important changes driver in the context of economic development. “Through its increased mobility of capital, workers, goods and services, globalization is changing the rules by which the economy has been governed during much of the post-war era” (Pike et al., 2006).

Our society is constantly changing at an increasing speed. We talk more and more about the New Economy or about Knowledge Economy which is characterized by a number of factors different from those that characterized the traditional economy.

Some of these features may be referred to as computerization, changing technologies, increasing uncertainty, sustainability, globalization and application of new knowledge. The quality and uniqueness of the knowledge component has become the most important source that someone may have in order to gain a competitive advantage.

The New Economy is developing a global network society where information and communication technologies (ICT) are reshaping communication both within and between organizations. Growing interest on intangible assets is closely related to the development of knowledge society and the undeniable importance of new knowledge-based workers (Porter, 1998). In this context, many authors discuss the importance of a firm to survive, highlighting the importance of human and social capital performance within the organization. Concepts such as intangible assets, intellectual capital, knowledge creation, basic skills and innovation, are now a centre stage in explaining economic assets that create continuous value to an organization, in exchange for financial and physical resources and gains (Ulrich, 1998).

In a broader perspective, the term knowledge society refers to any society where knowledge is the primary production resource instead of capital or labor. A knowledge society creates, shares and uses knowledge for the prosperity and welfare of the people who belong to it. Also, lately, the emerging concept of the “new economy” was revealed as a new approach of the economic science. A segment of economists consider that modern economies are dynamic and adaptive systems rather than closed systems struggling.

In Peter Drucker's (1993) vision, the future relies on other key success factors: “the traditional factors of production - land, labor and capital - have not disappeared. But they have become secondary”.

Knowledge, unlike labor, land and capital is an asset that becomes more valuable on the extent of its use. The more used, the knowledge becomes more effective and efficient. Knowledge is key component of the system of modern economic and social development.

The new economy involves giving a greater interest to the so-called knowledge society, the employees (who are the holders of knowledge), intellectual capital, intangible assets and learning organizations. A failure to value intangible assets into companies' management and control systems in a systemized way makes sustainable management impossible and endangers the achievement of any company's economic, social, and ecological goals in today's knowledge-based economy.

People are key aspects for the evolution of value and co-creation of products and services that add value. Their distinctive capabilities are the basis of the competitive advantage. According to the new resource-based perspective of a entity, competitive advantage is achieved by continuous developing existing resources and creating new resources and capabilities in response to constantly changing market conditions. Among these resources and capabilities in the new economy, knowledge is the most important value creation asset.

3.The instrument of the Cohesion Policy

At present, the Cohesion policy represents more than one third of the European Union overall budget, about 35% of spending, more than 80% of subsidies for the less-developed regions of the Member States. Half of these funds are invested in the Member States that joined European Union in 2004.

The objectives of the Cohesion Policy are supported by three funds: the European Regional Development Fund (abbreviated as ERDF), the Cohesion Fund (abbreviated as COH) and the European Social Fund (abbreviated as ESF), divided between them (Table 1). The ERDF and ESF are also referred to as Structural Funds.

The general rules governing those funds are settled by the Council Regulation of the European Commission no. 1083 of 11 July 2006, which not amends the provisions of other regulations, as Council Regulation no. 1081 in 2006 or Council Regulation no.1084 from the same year.

The European Regional Development Fund is one of the financial instruments of European Union Cohesion Policy, created in 1975 for supporting programs on regional development, economic change, enhanced competitiveness and territorial cooperation through the European Union.

The Cohesion Funds are focused on transport, environment, trans-European networks, energy efficiency and renewable energy, applying to Member States with a gross national income of less than 90% of the European Union average.

The European Social Fund was created in 1957 and is the main European Union source of financial support to develop human resources and employability. This fund increases the adaptability of workers and enterprises by strengthening access to employment and participation in the labor market, by combating discrimination and facilitating access to labor market for disadvantaged people, by improving education and training and helping develop the institutional capacity and efficiency of public administrations.

Table 1: The instruments of the Cohesion Policy, 2007-2013

Objectives	Structural Funds and instruments		
Convergence	ERDF	ESF	COHFunds
Regional Competitiveness and Employment	ERDF	ESF	
European Territorial Cooperation	ERDF		

Source: Introduction to the Structural Funds: 6, table available also at

http://ec.europa.eu/regional_policy/policy/object/index_en.htm

The Convergence objective, representing at least 81.54 % of total funds across the European Union, is the priority of the Funds. In order to complete their convergence process the regions under the Convergence objective receives significant financial aid until 2013.

The resources for the Convergence objective are distributed between the regions as follows: 70.51% for the regions corresponding to level 2 of the common classification of territorial units for statistics (NUTS level 2 regions) made by the Council Regulation no. 1059 in 26 May 2003 whose GDP per head is less than 75% of the average GDP of the 25 Member States before 1 January 2007 (excluding Bulgaria and Romania); 4.99% for the regions which lost the eligibility for this objective because their GDP per head will exceed 75% of the average GDP of the 25 Member States before 1 January 2007; 23.22% for the Member States whose GNI per head is less than 90% of the average GNI of the 25 Member States before 1 January 2007 1.29% for the Member States whose GNI per head will exceed 90% of the average GNI per head of the 25 Member States before 1 January 2007.

The Regional Competitiveness and Employment objective represent 15.95% of total funds. The resources for this objective are distributed between the regions of the European Community not covered by the Convergence objective (78.86%) and the NUTS 2 level regions covered by the

Convergence objective (21.14%). The later mentioned regions are those who were under Convergence objective in the period 2000 – 2006 and no longer meet the eligibility criteria of the mentioned objective because their GDP per head exceeded 75% of the average GDP of the 15 Member States (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom). These regions will also receive financial aid in the transitional phase.

The European Territorial Cooperation objective covers regions which have land or sea frontiers, in order to support actions promoting the territorial development, the interregional cooperation and the exchange of experience. These funds are representing 2.52% of total funds and are divided as follows: 73.86% for the financing of the regions corresponding to level 3 of the common classification of territorial units for statistics (NUTS 3 level regions) along their internal and certain external borders and those NUTS 3 regions which have maritime borders separated by a maximum of 150 km for the purpose of cross-border cooperation; 20.95% for the financing of transnational areas and 5.19 % for financing of interregional cooperation, cooperation networks and exchange of experience along the entire territory of the European Community.

4.Cohesion Policy’s main objectives to support development of intangible assets

Promoting employment and social cohesion

Global economic, social and environmental changes will have profound effects on the labor market and social situation in the Union. Cohesion policy has a key role to play in increasing employment, finding new ways to tackle rising unemployment, promoting self-employment, acquisition of new skills, social inclusion and the economic and social integration of migrants and vulnerable populations. Empowering people to effectively engage in transformation processes will be essential.

The equity (social inclusion) objective

It is uncontested that achieving an equitable distribution of well-being is one of the objectives of governments. There is also increasing agreement that development is about both efficiency and equity, and that public action, at whatever stage of development of an economy, should address social problems.

In Europe, pressure has mounted for greater attention to be given to social issues at EU level. A concern is that high and rising inequality, and increasing fear of globalization, could jeopardize economic integration (market-compensating motivation). Another is that national welfare systems are increasingly constrained by EU budgetary rules (political-economy motivation). A third is that the EU’s existence is based on the expectation that citizens should enjoy equal rights (federal motivation). The failure to reduce inequality in several European countries, and its rise in others, are signs of the extent of the problem.

The question relevant for this Report is not “whether” but rather “how” governments should pursue equity objectives. In particular, the issue is whether there is a rationale for inequality to be tackled by a place-based development policy rather than by financial transfers to people independently of where they live. Before addressing this question, it is first necessary to clarify the concept of inequality and to define the policy objective.

Multidimensionality and social inclusion

There is widespread agreement that no single dimension can capture a person’s well-being and the degree of inequality. A life worth living, including the opportunity both to achieve what an individual considers relevant and to widen her or his set of options, embraces labor skills, health, education, housing, security, income, working conditions, self-respect, a role in decision-making and so on. Income is a relevant component of these dimensions but it does not reflect them all, as empirical data confirm.

Income is one factor in achieving well-being, though it cannot achieve many aspects of well-being and, accordingly, cannot be seen as an end in itself. The capacity of any individual to

convert a given amount of any “commodity”, including money, into achievements that are relevant for their life depends on a combination of (social and physical) circumstances and on access to other “commodities” often produced by policy. Indeed, several dimensions of well-being strongly depend on public institutions performing essential tasks and provide public goods and services. These different dimensions are also interdependent in terms of their effect on well being.

This multidimensional perspective is gaining increasing acceptance, as documented by the findings of the OECD mind-opening “Global project to measure the progress of societies”. It has long been adopted by the European Union in promoting, through the Social Protection and Social Inclusion Process, the commitment and cooperation of Member States to reducing inequality. This political and methodological debate has utilized the concept of “social inclusion”, which includes access for all citizens to basic resources, social services, the labor market and the rights needed “to participate fully in economic, social and cultural life and to enjoy a standard of living and well-being that is considered normal in the society in which they live”. Together with the multidimensional approach, this concept also embodies both a threshold and an interpersonal notion of inequality and focuses strongly on the process through which greater equality is pursued.

Building on this perspective, the academic debate and various international policy Reports, it is possible to develop an operational definition of social inclusion. This can be defined as the extent to which, with reference to multidimensional outcomes, all individuals (and groups) can enjoy essential standards and the disparities between individuals (and groups) are socially acceptable, the process through which these results are achieved being participatory and fair.

This definition captures both a threshold and an interpersonal concept of inequality: a threshold concept, where the achievement of society consists of guaranteeing everyone some essential standards, which depend on (evolving) social preferences and attitudes⁹⁴; an interpersonal concept, where the achievement of society consists of ensuring that disparities between individuals (or groups) are socially acceptable. The two concepts are complementary but distinct. When disparities are reduced, the proportion of people falling under the threshold could increase and, conversely; when the essential standard is achieved by a growing proportion of people, disparities could increase.

The reference to “a participatory and fair process” captures the idea that both the dimensions and the thresholds used in defining social inclusion must be established through a democratic process, in which everyone is given a chance to form an expectation and to voice it, information is exchanged, public scrutiny and criticism take place; and a consensus emerges on which dimensions are relevant and what is “essential”. This is the condition for making local choices more informed and in line with people’s preferences and for allowing citizens and collective local actors the freedom to experiment with solutions while exercising mutual monitoring.

Multidimensional outcomes should identify people’s substantive opportunity to live according to their values and choices and to overcome their circumstances. The reference to circumstances underlines that social inclusion policies should focus so far as possible on those factors that are outside the control of the individual. These include both personal characteristics inherited or acquired through life (gender, physical traits, social background, etc) as well as contextual factors, including the functioning of public institutions, which can affect everyone, or particular groups, sharing certain features (religion, culture, outlook, etc).

On this basis, a “place-based policy aimed at social inclusion” can be defined as: a territorial strategy for improving social inclusion, in its various dimensions, through the provision of public goods and services, by guaranteeing socially agreed essential standards to all and by improving the well-being of the least advantaged.

What is the economic rationale for such a strategy? Why is an exogenous intervention in a place needed in order to promote social inclusion? Why, if an exogenous intervention occurs, should it

be centered on public goods and services? And why should the adoption and implementation of the policy be left to the local area?

5. Conclusion

The E.U. sustainable development strategy promotes the creation of a prosperous, innovative, rigorous, competitive and eco-efficient economy, which supplies high life standards and fully qualitative employment opportunities throughout the EU, thus also emphasizing the economic and intangible aspects as important for a sustainable development.

In consequence, sustainable competitive advantage is a central point, if not to say the core of both the national and corporate strategy. It allows maintenance and improvement of the company's competitive position in the market and enables the business to survive competitors for a long period of time. Quantitative and qualitative fundamental change in competition requires organizational changes to an unprecedented level. Current sustainable competitive advantage must be built on the organizational capabilities and must be constantly reinvented.

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THE RELATIONSHIP EUROPEAN UNION – BLACK SEA REGION FOLLOWING THE IMPACT OF THE ECONOMIC CRISIS

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This paper refers to the possible interaction between the European Union and the Black Sea region, following the consequences the international and financial crisis placed upon the Eastern neighbourhood of the Union. It provides a comprehensive picture on the economic situation in the Black Sea area, correlating the economic realities from the field with the required domains of policy actions.

The research performed tries to reveal the impact the economic crisis had on the Black Sea region, to identify the suitable sectors of cooperation following the recognition of the common challenges and problems. Moreover, it offers a quick insight for the possible future interaction of the region or the countries within with the European Union or at intra-region level.

The paper complements and enhances other researches (not that many though) on the subject. It studies previous researches, it uses the valuable information offered by the most comprehensive international economic data bases and it takes into account the present framework of dialogue developed by the European Union for its Eastern neighbours.

The research methodology included quantitative and qualitative approaches. The analyses of the international literature and the interpretation of the data covered a range of fields pertaining to the European economy. The reading of the information processed was made in a personal key and it was correlated in an integrated, systematic and interdisciplinary manner. The instrument of Opinion Survey was used in two circumstances: in one case, elements were extracted from an existent poll, while in another a personal Survey was created to further inquire on the theme.

The results of the research are of interim and final nature. The final results highlight the economic overview of the Black Sea region, pointing out the challenges and the risks on short, medium and long term. As a response to these challenges and risks, several common domains of dialogue can be identified, including a cooperation attempting to boost growth, competitiveness and productivity at the level of the entire region, through a sustainable development strategy. An important conclusion relates to the relevance of the European Union, as a main partner for the area. The Survey on the interaction European Union – Black Sea region generates interim results. Its limitation is given by the relatively small number of respondents.

The implications of the paper can be reflected in the political decision-makers field and in the policy-debate domain; the findings could be used by economic operators. The research offers a good portrait of the economic realities of the region, it tries to link the possible cooperation between the European Union and the Black Sea region with the concrete needs and it offers an insight from the region for an eventual future interaction of the above mentioned actors.

Keywords: Black Sea region, economic crisis impact, common problems, interaction, European Union.

JEL Codes: E0, F0, F50, F53, F55, H70, O10, O52, O57.

I. Introduction

The field of the research covers the domain of international relations. The theme of the paper relates to the cooperation between the European Union and the Black Sea region, area with a recognized growing strategic and economic relevance. It considers a neighbourhood composed by ten states: Bulgaria, Greece, Romania, Armenia, Azerbaijan, Georgia, Republic of Moldova, Ukraine, Turkey and Russian Federation.

The subject occupies a significant place on the international agenda. It became quite frequent in the European think-tanks policy-discussion, given the recognized role the region plays in the global energy equation, as well as in the context of the global political influence / power game. The paper represents a personal contribution to the research and to the debate in the field.

The objectives of the research are multiple. The questions the paper tries to respond refer to the following aspects: to what extent the economic crisis affected the Black Sea region, if so, are they common challenges encountered for all countries in the area so that various and specific (at the same time) sectors of cooperation could be envisaged in the relationship with the European Union? The research also indicates interim findings concerning the possible future interaction between the European Union and the region. The paper analyses the impact of the international economic crisis on the states and, hence, the region, determining similar concerns for the countries, even if in different degrees. It demonstrates that there are common risks on short, medium and longer term. These challenges can be associated (if there is willingness towards their resolution) with actions on same domains, in the attempt to pursue reforms, resolve common problems and generate sustainable economic growth, international competitiveness and improved productivity. Last, but not least, it indicates an advantageous approach for the intra-region cooperation.

II. Literature analysis

Despite the growing acknowledged importance of the Black Sea region, in the present, there is still little policy-oriented research on the state of play, challenges and opportunities for the interaction in and with this geographical area. Moreover, the impact of the recent international financial and economic crisis is less highlighted, this having a significant implication on the shaping and the concrete “business as usual” of the European Union - region interaction, as well as on the intra-region cooperation.

As reflected in a previous analysis (Gavras 2010: 5-29), the Black Sea region economic growth registered starting with the year 2000 suffered a strong negative impact due to the global economic crises. The damage (varying from country to country) begun to be noticed quite suddenly in the last quarter of 2008. The study reflects the important consequences on the financial systems of the countries in the region; it also indicates that the banking systems resisted better than expected and it highlights the need for changes (1). The recommendations regard the fiscal and individual bank level, some structural aspects and suggestions designed to promote economic development in the area through cooperation. Concerning the dialogue with the European Union, the study offers a brief highlight of the evolution of the relationship; very few recommendations are made. It is worth to mention that the analysis refers to the Black Sea region in general, without specifically indicating the countries taken into account. However, it can be deducted (Gavras 2010) that the area considered includes the countries the present article tackles. Regarding the cooperation at the regional level, a less positive outlook can be noticed, while a question mark is placed on the efficiency of the main structure operating in the area. There is no preference of the author for a future cooperation with a specific regional organization.

An extremely recent publication articulates a perspective on the Black Sea regional cooperation and the process of policy coordination amongst the countries, but not in an attempt to draw the interaction as a response to the economic crisis implication. It points out that there is no general definition of the Black Sea as a regional entity and it underlines the meaning of the Black Sea Economic Cooperation. It emphasizes the European Union as being the structure the region is looking to and examines the various cooperative schemes in the Black Sea sub-regionalism, including the role of the European Union (Manoli 2012: 1-12).

According to the Annual Report 2009 elaborated by the Black Sea Trade and Development Bank, there is a difference in the decline registered by the economies of the region as shown by the main financial and key economic indicators, as a consequence of the crisis. The prospects for

growth during next years are moderate, while it is foreseen a greater degree of variation in the growth rates. The report presents few recommendations in order to boost growth, along with the general advised line regarding measures taken by governments (structural reforms) to increase productivity and efficiency (Black Sea Trade and Development Bank). In the Annual Report 2010 elaborated by the Black Sea Trade and Development Bank, the economic and financial indicators reflect a process of recovery, even if the positive growth is situated at a lower level than the one observed during the crisis previous years. The recommendations envisage the need to develop local financial systems. As the Black Sea Trade and Development Bank represents the financial pillar of the Black Sea Economic Cooperation, the reports deal with a Black Sea region considered from the point of view of this inter-governmental regional structure (2).

The considerations related to the challenges the region faces and to the required reforms meant to preserve the gains, sustain long-term growth and strive for convergence with the European Union income levels and living standards contained by the Black Sea Trade and Development Bank in its vision for long-term strategic framework 2010-2020 are similar (even if more concise presented) to the ones evocated in the analysis belonging to Gavras.

The Global Competitiveness Report 2010-2011 and the Global Competitiveness Report 2011-2012 provided relevant information that proved useful in building a more comprehensible imagine of the picture represented by the economies of the countries in Black Sea region in the past years (World Economic Forum).

Last, but not least, for this paper were available pertinent elements on the official website of the European External Action Service. The framework of dialogue designed in less than a decade by Brussels with a heterogeneous region encompasses bilateral, as well as multilateral tracks, all trying to accommodate in a more or less successful manner, the needs of the individual actors and of the entire area in general (European External Action Service).

The present paper complements the research highlighted above, deepening the analysis related to the impact of economic crises on the Black Sea region. It identifies problems common to all countries (even if in a different degree), determining thus concerns relevant for the whole geographic area. In this context, the common challenges will generate possible future cooperation domains with the European Union or at intra-regional level. The paper does not reflect recommendations regarding the most appropriate way to interact between the actors mentioned here, this being an item treated separately by the author in a follow-up research.

III. Research methodology

The research methodology includes both quantitative, as well as qualitative approaches. They were applied seeking two purposes: to create the theoretical and scientific support for the research (mainly through documentary study) and to systemize, analyze and interpret the data reflecting the economic realities with a view to reach the proposed objectives. The literature studied belongs either to internationally recognized experts in the field or to international structures with well-known reputation in economic assessment. The works incorporate pertinent contributions both to the development of the subject, as well as to the perspective of the relationship between the European Union and the Black Sea region.

For an enhanced analysis of the economic current state of play of the region, including the impact of the international financial and economic crisis, the World Bank data system and the Reports on Global Competitiveness were accessed. Given the interdisciplinary feature of the theme, various domains were taken into account, especially related to European economy. The literature revision, the analysis and the interpretation of the data are personal and correlated in an integrated, systematic and interdisciplinary manner. A particular focus was placed on the examination of the economic evolutions in the region, associated with the relationship European Union – Black Sea region theme through the perspective of the supposed interest of the countries

from the region to obtain, on medium and long term, increased international competitiveness, higher productivity and economic efficiency, hence economic growth.

A significant relevance was also granted to the factors considered by managers as most problematic in conducting their businesses in the states belonging to the area. The information was extracted from the 2011 World Economic Forum's Executive Opinion Survey.

A quick insight on the interaction European Union – Black Sea region and its perspective was considered essential for the overall framework. For this purpose, an Opinion Survey with 16 questions was opened starting with February 2011 to respondents from the countries in the area. So far, 154 answers were received from subjects representing academia, private-sector operators, officials. The tool is useful, as it is expected to reflect the view and the ownership of the region on the future of the cooperation with the European Union.

IV. The results of the research

The results of the research can be placed in two categories: interim and final.

The conclusions drawn from the analysis of the economic indicators included in the World Bank data system are final, accurate and justify the evaluation of the impact of the economic crisis on the states of the Black Sea region and on the entire area. They also provide an engine in identifying the possible future sectors of cooperation.

One first conclusion of the economic research is that the region will continue to present, for a long time to come, the feature of heterogeneity. This will have a consequence on the attempt to design compact long-term policies for the area as a whole, to obtain the consent of the states to cooperate along those policies and to implement them.

The main economic overview conclusions can be summarized in the followings.

For the years following the crisis, the general trend at the regional level consisted in a slow recovery, with positive values for the annual economic growth (even if lower than in other similar developed regions of the world). The highest rate in 2010 was registered by Turkey (8.9%) and the lowest by Bulgaria (0.2%). The exception was Greece, the country pursuing the negative rate from previous years (- 4.5%). Even if the economic growth rates were mainly positive, few countries succeeded to notably advance in the global classification of the world most competitive economies for 2011: Turkey, Georgia, and, to a certain extent, Azerbaijan and Armenia. Romania and Greece had the worst drop amongst the world economies. That suggests a stringent need at the region level of economic measures destined to improve the productivity and the international competitiveness.

The inflation (GDP deflator), even if varied in the values registered, with few exceptions (Greece, Bulgaria) kept its negative influence of the prices instability (with impact on the social dimension), inducing a drop in the population purchasing power.

With the exception of Turkey, for the rest of the countries, the public foreign debt / GDP levels increased, as a result of the borrowings made in order to finance the governmental spending. Greece continued to maintain values over 100% for this indicator.

The unemployment stayed high, the significance being that an improvement in this sector depends on profound structural reforms.

The external performance of the economies in the region got better at the region level as a whole; the external trade continued to play an important role in the GDP formation. Pending on the economies' international ventilation, the countries of the Black Sea region demonstrate a very good degree of international openness of their economies (especially R. Moldova and Bulgaria, with values for the indicator over 100%).

The foreign direct investments show a general decreasing trend, with values under the previous years' levels. It is not expected a substantial improvement on short term if the economies of the western European countries, as well as the region ones (Russia for instance), do not recover from

the crisis and if the macroeconomic and business environment of the receiving states does not ameliorate.

The remittances from the migrant workers registered an increased dynamic, over the 2007 level in some cases (Georgia, Armenia, Azerbaijan, Ukraine), but with record drops for others (Greece and Romania).

The brain drain phenomena continued to affect the area, with the notable exception of Azerbaijan and, to a less extent, Georgia. There is an accentuated tendency in the migration of the potential labour force with pessimist forecasts for the years to come and negative impact on the economic development on longer term.

On short term, the region can face the same risks as the ones faced by other world similar economies: new tensions on European economies and financial markets, volatile capital inflows, rise in the food prices, escalation in the energy prices (the majority of the Black Sea region states being net energy importers). All these questions could be translated in a possible agenda of discussion between the European Union and the region.

On medium and longer term, there is a need to pass to actions meant to manage the structural challenges in all economies (associated with the longer term risks), even if in different degrees: the fiscal sustainability and the problem of the governmental spending, development of a sound local bank system, transformation or a mix of the social security, education and health system in order to tackle the labour force issue (quantity and quality), investments to ensure the foundation for further economic development.

Another important final conclusion is that the European Union remains the main commercial partner for the Black Sea region (primary destination for the exports and the imports), the main source generating foreign direct investments, the major loan provider, the principal supplier of official development assistance, the main source of remittances and the major destination for the brain drain phenomena. A recovery in the European Union's economy will have a positive impact on the economy of the Black Sea region.

The research individuated a series of factors common to all states (even though in a various weight), factors considered by managers as most problematic aspects in conducting their businesses in the region. These are as follows: policy instability, corruption, access to financing, inefficient government bureaucracy, government instability/coups, inadequate supply of infrastructure, inadequately educated workforce, tax regulations, tax rates, inflation, poor ethnic in national labour force, foreign currency regulations, restrictive labour regulations, crime and theft, poor public health.

That means that the problems, hence the potential areas of a further cooperation between the European Union and the Black Sea region consist in a mix of sectors encompassing and inter-linking the democracy and rule of law aspects with economic (including commercial) and financial themes, as well as social, education and health issues. The complexity of the framework and the multitude of the problems needing a solution induce the idea that for the area it would be useful an integrated regional vision seeking to achieve a sustainable development area, with an intelligent, competitive and coordinated economy. Such strategy would allow the region to obtain, on medium and long term, increased international competitiveness and higher productivity. This represents yet another possible field of future dialogue with the European Union.

Concerning the interaction European Union – Black Sea region, the available results of the Survey indicate the preference for a further coherent, unique and structured way of cooperation. They also show that the actual interaction is effective to certain extent (56.3%) and that a future cooperation could take place under the European Neighbourhood Policy chapeau (70%) on a bilateral, as well as a multilateral track. A format at the Black Sea region level as a whole is favoured (50%). The interaction should concentrate on economic aspects, but also on fields as infrastructure, environment and tourism. The development of the economies of the region lacks

adequate financing (68.8%), a harmonized /unified economic and commercial framework (25%), trained human resources (18.8%) and encounters political difficulties (12.5%).

The Survey on the interaction European Union – Black Sea region presents the limitation given by the relatively small number of respondents (despite the long period granted for answers and the various attempts to engage the addressees). However, it is relevant from a double angle: firstly, it shows that the general interest in the region a genuine and real cooperation European Union – Black Sea region is somehow diminished and, secondly, it indicates the need to better develop the interaction and to stronger disseminate the concrete cooperation exits. The results of this Survey are interim findings and could be used in a follow-up dedicated research.

V. Conclusions

The research has implications in the field of international economic relations, including for the political decision-makers interested in seeking and applying adequate foreign policy actions in the Eastern neighbourhood. In an equally important manner, it enriches the analysis on the most appropriated interaction sectors in the relationship European Union – Black Sea region with a contribution reflecting the needs derived from the economic realities in the field. It also confirms that the European Union should pursue its combined approach towards the region, on a multilateral track, developed in parallel with a bilateral dimension.

This paper complements similar preoccupations from other researchers in this area and contributes to the policy discussion on the theme. For the economic operators, it highlights the countries better situated from the perspective of a potential investment decision, as well as the factors posing problems for doing business and domains needing economic action.

The study can be seen as a unique source of insight and a qualitative portrait of each country's economic and business environment, as well as an understanding of the overall regional situation or how it compares with the state of play in other countries. The paper also draws the attention to the need of a greater coherence, determination and real, concrete action in practice regarding the cooperation between the countries in the Black Sea region. It points out that there is a need for an acknowledgment of the problems common to all (the crisis affected all). These can be solved even if the degree of impact on each country's economy is different, because the achievement of sustainable growth, increased international productivity and competitiveness are goals shared at region level. A new understanding and innovative concepts of interaction (perhaps solidarity principle) may prove useful in drawing the intra-region interaction.

VI. Notes

(1) The data reflect evolutions until 2008. The analysis includes projected figures for 2009 and few predictions for 2010.

(2) The countries considered in the Reports of the Black Sea Trade and Development Bank are: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Republic of Moldova, Romania, Russian Federation, Serbia, Turkey, Ukraine.

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FISCAL DISCIPLINE AND CONVERGENCE OF THE EURO AREA CANDIDATES. CLOSER TO THE PERFORMERS OR TO THE LAGGARDS?

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The objective of this paper is to examine how the current financial crisis has affected the fiscal discipline and convergence in the seven Central and Eastern European countries which have not yet joined the Euro Area (EA), namely Bulgaria, the Czech Republic, Hungary, Latvia, Lithuania, Poland and Romania. In the first part, we emphasize the importance of fiscal discipline for the effective functioning of the European Monetary Union (EMU). In the second part, by exploring the current status of the literature in this field, we identify scarce theoretical and empirical research on the non-EA countries' fiscal discipline and convergence. In the third one, we briefly present the data and methodology used in the paper. We report the fiscal discipline of the non-EA countries by analysing their distance from the Maastricht criteria regarding the budgetary deficit and the public debt as shares of GDP in the fourth part. We also assess the fiscal convergence of the seven candidates for Euro adoption in order to understand whether they add to the strengths or to the weaknesses of the EMU, from a fiscal point of view, by employing two benchmarks: the EA core and the EA periphery. The sovereign debt crisis emphasized the asymmetry between core and periphery countries. It is of major importance to know if the EA candidates will exacerbate the fiscal imbalances by joining the periphery group of countries or by contrast, will promote fiscal discipline and sustainability alongside the core EA member states. The fifth part concludes. The non-EA group of countries has not experienced major fiscal imbalances in the last four years, but the efforts must continue in reducing the budgetary deficits and controlling the public debts. In times of crisis, the EA candidates achieved more convergence with the EA core than with the EA periphery, by reducing the distance from the EA core. This is due to a deterioration in the fiscal performance of the EA core states and not to an improvement in the non-EA group of countries. The result is not encouraging for the fiscal convergence given the fact that we would expect an improvement in the non-EA countries' fiscal performance in order to catch-up with the best performers of the EA and not the reverse. In terms of public debt, the fiscal convergence with the EA core would not be desirable, due to the high levels of public debt achieved by these countries.

Keywords: Fiscal Discipline, Maastricht criteria, Fiscal Convergence, Euro Area, Euro Area candidates

JEL codes: E61, E62, E65, H60

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1. Fiscal discipline matters for the Euro Area

In the context of the EMU, the fiscal discipline has always been in attention, since the monetary policy is given to a central supranational authority, which has the main goal to provide price stability in the medium term in the EA, whereas the fiscal policy is still within the hands of the

national governments. Moreover, the recent international crisis and the European sovereign debt crisis have relaunched the debate on an appropriate fiscal framework at the European Union (EU) level. There are different views on this matter. On the one hand, there are voices that support a fiscal union for the EA in order to become sustainable. De Grauwe (2006) takes this view further, advocating for a political union needed to ensure the success of the EMU. On the other hand, there are voices blaming extended fiscal powers for Bruxelles (Mckay, 2005).

The fiscal discipline and convergence is a precondition for the effective functioning of a monetary union, since the existence of divergent national fiscal policies may generate divergent macroeconomic adjustments in a monetary union. The risk of fiscal imbalances and their consequences on the stability of the single currency was a matter of concern for the EMU architects from the beginning. The solution to control the fiscal imbalances emerged in the Maastricht Treaty (MT) and the Stability and Growth Pact (SGP). The European countries have experienced more than a decade under the rules stipulated in the MT and the SGP, which set numerical limits on government deficits (3% of GDP) and public debt (60% of GDP). Although these numerical rules are attractive because they are predictable and transparent, EU countries experience shows that national states, taken individually, are not very effective in providing fiscal discipline. Moreover, in the last years some issues concerning the EA came at the surface: the lack of fiscal discipline, the unsustainability of public finances and the loss of fiscal rules credibility (Schuknecht et al, 2010).

In this paper, we define the fiscal convergence as the reduction of the gap between an irresponsible country from a fiscal point of view (countries with excessive prolonged budgetary deficits and/or public debts) and the best performers of the EA. In addition, the concept of fiscal discipline highlights the fiscal performance of a country in fulfilling the Maastricht criteria.

Our study is important for three main reasons. First, fiscal convergence and discipline has become a subject of intense debate after the introduction of the Treaty on Stability, Coordination and Governance in Economic and Monetary Union (known as the Fiscal Treaty), which limits the structural deficit at 0.5% of GDP and requires automatic adjustment rules and penalties for countries exceeding the limits. Second, there are currently seven EU countries (except Great Britain, Denmark and Sweden, countries that benefit from the opt-out clause or temporary derogation from adopting the Euro) that must adopt the single currency sooner or later, which entails mandatory fulfillment of the nominal convergence criteria. Therefore, it is important to analyse their situation in order to understand whether they add to the strengths or to the weaknesses of the EMU, from a fiscal point of view. Third, the fiscal convergence in the non-EA countries is much less studied than in the EA.

2. Key findings in the literature up to present

Theoretical studies on fiscal convergence are very limited in number. The only papers we know so far that developed a theory of fiscal convergence are Skidmore et al. (2004) and Onorante (2004). The model of fiscal convergence proposed by Skidmore et al. (2004) is based on the government spending convergence, specifically states with low levels of government spending will experience an increase of the budgetary apparatus, while states with high levels of government spendings will experience a decrease, thus leading to convergence in time. We can not employ this model in our paper, since the MT criteria refers to budgetary deficit and public debt, not to government spendings. In the model proposed by Onorante (2004), the fiscal constraints lead to a default coordination among states, characterized by lower deficits, lower interest rates and inflation rates under control. Joining the monetary union increases the fiscal activism, so it is preferable an ex-ante fiscal convergence both for the new members benefits and the stability of the monetary union.

As regards the empirical studies, there is poor work concerning the fiscal convergence in the EU Member States. Sanz and Velazquez (2003) test for the EU convergence in government spending

compared with OECD countries, showing that the EU countries converge to a fixed state faster than the OECD countries. Arestis, Khan and Luintel (2002) argue that an arrangement for fiscal sustainability is a necessity for an effective monetary union, by analysing the budgetary deficits convergence within the EA and between the EA and the U.S. deficits. The main results show the existence of fiscal convergence in most European countries, reaching the 3% of GDP target for budgetary deficit immediately after the launch of the Euro and the existence of lower fiscal shocks in the EA than in the U.S. Mongelli and De Bandt (2000) suggest, by analysing the fiscal convergence in the EA countries before the creation of the EMU, that the highest level of fiscal convergence in this countries was achieved in 1992-1995, recording a decrease after that. The heterogeneity in fiscal convergence and the lack of discipline in the EU countries was highlighted by Kocenda et al. (2008), by assessing the fiscal discipline of the new EU members with respect to EU15, between 1995 and 2005. Thus, the ability of the monetary union to provide fiscal discipline for its members is under question.

The novelty of our study consists of at least two main characteristics. First of all, such an analysis on the fiscal discipline of the EA candidates is missing in the literature, as far as we know. Secondly, there is no such work regarding the fiscal convergence of the non-EA countries with the EA performers and EA laggards.

3. Data and Methodology

We test for the fiscal discipline of the non-EA countries in the last four years of economic and financial crisis by analysing their distances from the convergence criteria as set in the MT: fiscal deficit up to 3% of GDP and public debt up to 60% of GDP. In addition, we complement this approach with an alternative way of measuring the fiscal convergence by reporting the non-EA countries performance to two different benchmarks: 1) the core of the EA represented by Austria, Belgium, France, Germany, Netherlands and Finland and 2) the periphery of the EA represented by Greece, Portugal, Spain and Ireland. For each benchmark we compute the average of the budgetary deficit/public debt expressed as percentage of GDP. We use annual data series taken from Ameco, one of the European Commission databases. The budgetary deficits and the public debts are expressed as shares of the GDP.

4. Main findings

Overall, the fiscal performances of the analysed countries were deeply affected by the crisis, both in terms of budgetary deficits and public debts. The austerity measures adopted by the national governments in order to achieve macroeconomic stability led to higher levels of deficits and debts especially in the EA core and periphery countries (Table no.1).

Table no.1: Fiscal performance of the non-EA, EU core and EU periphery countries

EU Member States	Budgetary deficit (%GDP)		Public debt (%GDP)	
	2008	2011	2008	2011
EA core				
Austria	-0.93	-3.44	63.83	72.19
Belgium	-1.25	-3.56	89.33	97.19
Germany	-0.06	-1.33	66.66	81.75
France	-3.33	-5.84	68.21	85.38
Netherlands	0.52	-4.30	58.46	64.25
Finland	4.30	-0.97	33.94	49.06
Average	-0.13	-3.24	63.41	74.97
EA periphery				
Greece	-9.80	-8.91	112.97	162.83

EU Member States	Budgetary deficit (%GDP)		Public debt (%GDP)	
	2008	2011	2008	2011
Ireland	-7.34	-10.29	44.35	108.12
Spain	-4.50	-6.65	40.07	69.59
Portugal	-3.64	-5.83	71.58	101.56
Average	-6.32	-7.92	67.24	110.53
Non-EA Member States				
Czech Republic	-2.23	-4.13	28.7	39.93
Latvia	-4.24	-4.20	19.79	44.8
Lithuania	-3.27	-4.99	15.5	37.75
Hungary	-3.71	3.62	72.88	75.88
Bulgaria	1.67	-2.46	13.69	17.49
Poland	-3.68	-5.59	47.11	56.74
Romania	-5.68	-4.86	13.41	33.95
Average	-3.02	-3.23	30.15	43.79

Source: AMECO database, European Commission, Authors' work

As regards the EA core countries, in 2008, when the economic and financial crisis started, they were characterized by budgetary deficits lower than the 3% of GDP limit, except France. The average of the budgetary deficits in this group was of 0.13% of GDP, the best performance being achieved by Finland, with a budgetary surplus of over 4% of GDP. Even though the budgetary positions were not worrying, the average level of public debt was above the 60% of GDP limit when the crisis hit. The four years of crisis led to an increase by over 3 percentage points in the budgetary deficit average (from 0.13% of GDP in 2008 to 3.24% of GDP in 2011) and by over 10 percentage points in the public debt average (from 63.41% of GDP in 2008, to 74.97% of GDP in 2011), putting pressure on the public finances in the EA core.

As regards the EA peripheral countries, the sovereign debt crisis emphasized the asymmetry with respect to the core countries. The root of the debt crisis is considered by the European leaders to be the fiscal indiscipline in peripheral countries. The EA periphery (commonly known as the PIGS countries) was hardly hit by the crisis, due to the fiscal imbalances recorded in 2008: the budgetary deficits average over 6% of GDP and the public debts average over 67% of GDP. The recent crisis worsened the fiscal positions in this group, increasing the budgetary deficit from 6.32% of GDP in 2008 to 7.92% of GDP in 2011 and the public debt from 67.24% of GDP in 2008 to no less than 110.53% of GDP in 2011.

In the non-EA group of countries, the fiscal imbalances were not so worrying when the crisis started: the average of budgetary deficits was 3.02% of GDP, while the public debt average was 30.15% of GDP. Regarding the budgetary deficit, Bulgaria was the only country that fulfilled the Maastricht criteria both in 2008 and 2011. The austerity measures adopted by the Bulgarian government have shifted the budgetary balance from a positive position in 2008 to a negative one in 2011. On the opposite side, Hungary improved its budgetary position from a 3.6% of GDP deficit to a 3.7% of GDP surplus in the last four years. However, the Hungarian success is only theoretical, being the result of an increase in the cyclical revenues by over 10% of GDP, obtained through the nationalization of the second pension pillar. In 2008, the year when the economic and financial crisis started, only the Czech Republic and Bulgaria fulfilled the Maastricht criteria regarding the budgetary deficit. In 2011, Hungary and Bulgaria managed to comply with the Maastricht criteria regarding the deficits. The rest of the non-EA countries were under the Excessive deficit procedure both in 2008 and 2011, with national budgets under pressure because of the more or less effective austerity measures adopted in order to counteract the negative effects of the crisis.

All the non-EA countries fulfilled the public debt criteria in times of crisis, having the advantage of low public debt levels when the international crisis started, except Hungary which violated the 60% of GDP limit for public debt both in 2008 and 2011. However, we can observe an increase in the level of public debt in the seven countries due to the loans contracted to achieve macroeconomic stability. For example, in the case of Romania, the increase in public debt was over 20 percentage points in the last four years because of the agreement with the international financial institutions – International Monetary Fund, European Central Bank and World Bank – but still under the limit imposed by the MT.

In terms of budgetary deficits, the non-EA countries achieved more convergence with the EA core than with the EA periphery, by reducing their distance from the EA core from -2.89 to 0 (Table no.2). This is not because of a significant improvement in the non-EA group, but rather because of a higher increase in budgetary deficits recorded by the best EA performers. Thus, the two groups attained similar budgetary deficit averages of 3.2% of GDP in 2011. The gap between the non-EA countries and the EA peripheral countries has widened in the last four years, from 3.3 in 2008 to 4.7 in 2011. This implies a better fiscal performance in the non-EA group, bringing these countries closer to the EA core.

Table no.2: Fiscal discipline and convergence in the non-EA countries – budgetary deficit

Budgetary deficit (% GDP)	Distance from EA core		Distance from EA periphery		Distance from the Maastricht criteria	
	2008	2011	2008	2011	2008	2011
Czech Republic	-2.1	-0.89	4.09	3.79	0.77	-1.13
Latvia	-4.11	-0.96	2.08	3.72	-1.24	-1.2
Lithuania	-3.14	-1.75	3.05	2.93	-0.27	-1.99
Hungary	-3.58	6.86	2.61	11.54	-0.71	6.62
Bulgaria	1.8	0.78	7.99	5.46	4.67	0.54
Poland	-3.55	-2.35	2.64	2.33	-0.68	-2.59
Romania	-5.55	-1.62	0.64	3.06	-2.68	-1.86
Average	-2.89	0.01	3.3	4.69	-0.02	-0.23

Source: AMECO database, European Commission, Authors' work

In terms of public debt, the non-EA countries achieved more fiscal convergence with the EA core, narrowing the gap by more than 4 percentage points and leaving the peripheral countries far behind. The distance from the EA periphery doubled in the last four years due to the surge in the PIGS public debts. However, we can not assess this as an economic success because all the countries analysed report higher levels of public debt.

Table no.3: Fiscal discipline and convergence in the non-EA countries – public debt

Public debt (% GDP)	Distance from EA core		Distance from EA periphery		Distance from the Maastricht criteria	
	2008	2011	2008	2011	2008	2011
Czech Republic	-34.71	-35.04	-38.54	-70.60	-31.30	-20.07
Latvia	-43.62	-30.17	-47.45	-65.73	-40.21	-15.20
Lithuania	-47.91	-37.22	-51.74	-72.78	-44.50	-22.25
Hungary	9.48	0.91	5.64	-34.65	12.88	15.88
Bulgaria	-49.72	-57.48	-53.55	-93.04	-46.31	-42.51
Poland	-16.30	-18.23	-20.13	-53.79	-12.89	-3.26
Romania	-50.00	-41.02	-53.83	-76.58	-46.59	-26.05
Average	-23.59	-19.75	-37.09	-66.73	-29.85	-16.21

Source: AMECO database, European Commission, Authors' work

5. Conclusions

In the context of the recent crisis, the non-EA countries made considerable efforts to achieve the fiscal discipline by fulfilling the Maastricht criteria. Their fiscal positions have not experienced major imbalances, but the efforts must continue in reducing the budgetary deficits and controlling the public debts.

In times of crisis, the EA candidates as a group achieved more convergence with the EA core than with the EA periphery, by reducing the distance from the EA core. This is due to the deterioration of the budgetary deficit in the latter group of countries. The result is not encouraging for the fiscal convergence given the fact that we would expect an improvement in the non-EA countries' fiscal performance in order to catch-up with the best performers of the EA and not the reverse. In terms of public debt, the fiscal convergence with the EA core would not be desirable, due to the high levels of public debt achieved by these countries. The EA periphery group remains by far the laggard in our analysis, increasing the fiscal gap both with the EA core and non-EA countries and running excessive unsustainable budgetary deficits and public debts.

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

NEW TRENDS IN TEACHING AND LEARNING BUSINESS ENGLISH: ADAPTING TO INTERNALIZATION

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This paper focuses on how new trends have appeared in teaching business English as a result of globalization. During the recent years, along with all the changes that have taken place in every domain of our lives, we have witnessed major changes in how business English students want to learn. It is interesting to analyze the way in which technology muscled its way onto the teaching scene amid a mixture of delight and anguish – perhaps more anguish than delight in many teaching contexts. Over the last ten years, the international business had four major influences that had an impact on the teaching and learning of business English. This has had a huge impact on the teaching of business English in terms of teachers needing to have more than just knowledge of basic business vocabulary and grammar. Effective communication can be achieved when we are aware of how people from different countries and with different levels of English communicate globally, and how globalization has changed the business practices on the international stage.

Keywords: globalization, new trends in teaching business English, cultural awareness

JEL Code: Y9

The last ten years have witnessed the rapid development of the world of business along with an explosion of interest in globalization, global issues, and global education in every area of our lives. Due to recent developments in communication and technology, as the world in general and especially the world of business has become smaller, international business is done more quickly, easily and effectively. We live in a world in which the economic bases have shifted, new economic houses have emerged, and new markets have opened. The world has been globalized and the face of today's international business has a totally new complexion.

As far as teaching and learning business English is concerned, the situation described above, having to deal with the internalization of business, has led to significant changes in both what we teach and how we teach it.

Regarding the teaching profession, and especially the English teaching profession, this can be documented in the journals and conference programs of international English teaching organizations such as TESOL (Teachers of English to Speakers of Other Languages) and IATEFL (the International Association of Teachers of English as a Foreign Language). It is interesting to analyze the result of a survey of teachers in over 110 countries, survey published by the English Teaching Professional magazine, where they had to give their opinions on the future of business English language teaching. 67% percent of teachers thought that, over the next ten years, we would witness an increase in the importance of English as a global language and over 80% thought that the number of students would increase accordingly. Moreover, today's business English students have different needs and expectations of what they learn and how they learn.

The changing face of the international business

Over the last ten years, the international business had four major influences that had an impact on the teaching and learning of business English.

1. Changing technology

Generally speaking, the field of technology has developed significantly, and particularly, the field of communications which now permit us to connect with people all over the world in just a few

seconds. Financial transactions are done at a push of a button and people are able to communicate quickly and easily due to the huge development in technology.

2. New powerhouse economies

The second major influence has been the emergence of new powerhouse economies, such as China, India, and Russia, leading to a shift in the economic bases. Ten years ago, there were some other leaders in terms of manufacturing, quality and efficiency. Nowadays, the above mentioned countries provide goods more cost effectively due to cheaper raw materials and labor force.

3. New markets

The third major influence is the emergence of new markets. The collapse of the communist Soviet block has led to the appearance of new markets in Eastern Europe having consumers hungry for new products.

4. The financial sector

The financial and commodities markets' internalization have had a great influence on our lives. Having to deal with open markets, the economic exchanges in financial goods and commodities have become freer and more dynamic after many years in which unparalleled global wealth has been created. However, this has also had a negative effect whereby crises in one country, now has a major impact on the economies of others. No matter of it is positive or negative today's business world is more closely joined together through the international exchange of financial goods and services.

The impact on what we teach

All these four changes have meant that business people are more likely to be dealing with a wide range of different countries, different cultures, and different ways of expressing and interpreting things. This has had a huge impact on the teaching of business English in terms of teachers needing to have more than just knowledge of basic business vocabulary and grammar. Effective communication can be achieved when we are aware of how people from different countries and with different levels of English communicate globally, and how globalization has changed the business practices on the international stage.

Vocabulary – a constantly changing area

The English language is notoriously fast in adapting to the changing world. New words enter English from every area of life where they describe the changes and developments that take place from day to day. Being a living language, English is continuously developing, changing constantly, sometimes even more quickly than lexicographers can keep pace with. English grows through the acquisition of new words, coming from many sources such as: other languages (e.g. *damame*, *pierogi*), retail (e.g. *man stand*, *size zero*) and changes that come from how professionals do business (we will give lots of examples below). Often, this development of the English language is done when words that once were used in specific areas, for specific activities, now become part of everyday language. There is no other place where this is seen more than in the use of business vocabulary; while some words have become part of the everyday use; many words apply to specific occupations or business practices.

Professional English teachers know that it is a challenge to keep track of and explain new business vocabulary. So, what are these new words? How do we find them? How do we evaluate them? Risking to be predictable, some of these words are impossible to avoid: *credit crunch* is a good example in this respect. But did you know that *credit crunch* is not really a newly minted term? Economists first coined this term more than a decade ago, in order to describe a downturn in the Japanese economy, but have become widely used in the last year or so to describe the

current global slowdown. This example show us that what words are considered to be new doesn't necessarily mean that they are brand new to the language, but that they are newly important to native speakers and this professional English teachers and students.

But what makes the vocabulary of the English language develop? Being a living language, the current economic, social and cultural climate makes our vocabulary expand, making us learn terms that were previously known only by a handful of specialists. The recent world financial crises have also brought subject-specific words into the public domain. As an example, we will mention *sub-prime mortgages*, *toxic debt*, *derivatives*, *foreclosures* and a very specific sense of *correction*. Just a year ago, who would know what these words were. But, these are not new words to the English language.

Although it dominates the headlines of the newspapers, the current global economic situation does not represent the only source of new words for business English teachers and students. Changes in environmental issues and technology throw up new words on almost daily basis, and it is extremely difficult for us to keep up with these.

Technology – a rich area for new language

Perhaps the biggest area of change is in technology and particularly the Internet as new methods of communicating and sharing information develop and gain more and more popularity. During this last decade, we witnessed the way in which technology muscled its way onto the teaching scene amid a mixture of delight and anguish – perhaps more anguish than delight in many teaching contexts.

It is fascinating to see how adaptable the English language is. In the following lines we will give a few examples in order to illustrate this. For several years now, *Facebook* and *Google* have been around and dominate more and more our lives, and now they are used as verbs as well as nouns. An even newer socializing network on the web is *Twitter*, perhaps while you are out and have a *dongle* plugged into your laptop. Marketing departments look for increased web traffic and many companies use social networking sites in order to launch and promote their products; so if you want to spread something around on the Web, *go viral*. We all know that the concept of *Web 2.0* has been around for several years, but nowadays the concept *2.0* is being used in other ways. As an example, we've met '*management 2.0*' in order to describe the future generation of business managers. And while we download applications for our computers, I-phones, I-pads, and so on, they are now often simply called *apps*. Finally, have you seen the acronym *picnic*? It stands for 'problem in chair, not in computer'.

Taking into consideration the few examples given above, we come to the conclusion that business English teachers need to constantly update his/her business vocabulary knowledge.

Grammar versus lexis

The shift in emphasis from a grammar based methodology to a lexical one represents another area to look at. We cannot claim that there is one, homogenous business English today, as it is said that half the business English spoken at any time is between two non-native speakers. So, there are many 'Englishes' spoken by people of different counties and of different cultures. Of course, this has always been the case, as we all know the existing differences between British English, American English and Australian English. However, today this list can be completed with the appearance of a number of rather new 'Englishes', such as Chinese English, Indian English, Japanese English, Nigerian English, and so on. Moreover, if we take into consideration the increasing need for speed in modern business, the teaching of business English shifts its emphasis from complex and grammar-heavy ideas of correctness to fast and effective communication. Therefore, a new trend in teaching business English focuses on a more lexical approach, teaching widely and easily understood standard phrases, rather than straight grammar. These phrases are called 'functional', as they serve a function of business and communication.

In order to be clearer, let's give an example of a sentence commonly found in e-mails: "We would be grateful if you could send us the leaflet until Friday." From the grammatical point of view, we have to deal here with a tricky construction: this is the Second Type of Conditional Sentences, that is If + Past Participle Clause, with a 'would' clause, complicated further by the fact that the past participle in this case is a modal verb, followed by a verb in the present participle. Such grammatical constructions are taught at an intermediary level or above, in a general English course. However, looking at this sentence as a lexical item with a function, we could simplify a lot this sentence, saying: 'Please send us the leaflet until Friday.' Thus, a sentence having a difficult grammatical construction has become a phrase easy to understand and used by an Elementary level student.

Of course, this does not mean that grammar is totally absent from modern business English classes, but it means that teachers are required to have a deeper awareness of the needs of the students and of the necessities of nowadays business world. But we also need to focus on what level the students communicate; for example, there is a huge difference between students who communicate, on a daily basis, with international clients through e-mail, and students who have to write vast reports to their native speaker boss. We are talking here about a shift to an approach based on business skills, along with a shift in focus from a grammatical notion of language to a more practical, functional lexical one. Basically, it is a change in emphasis to a more skills-based approach. Of course, the skills of listening, speaking, writing, and reading have always represented a major point in our English classes, but nowadays, English teachers are expected to be able to train business students in soft skills, necessary to perform work functions such as business communication, negotiations, meetings, presentations, etc. If we think of presentations, the necessary language used in this field is not the only 'equipment' provided by today's business English teachers. It is needed to give suggestions regarding the Power Point presentation, structuring of the presentation, and also body language. These are regarded as 'extra-linguistic' skills. But still, the emphasis is on fast and effective communication, having as a basis the functional, lexical language. The message you want to send will be clearly, quickly, and easily understood if you use the correct lexical structures, the proper quantity of information in your Power Point presentation and the correct body language.

The importance of cultural awareness

Living in a globalised world and having to deal with people from all over the world, business students have to be trained to deal with a wide range of nationalities, they need to learn what to expect and how to behave. Although English has been acknowledged as the international language of business, there isn't yet standardized and generally accepted business etiquette. In order for a business English course to be complete, there has to contain some references to cultural differences. In this respect, we have to mention that while Asian students of business English are learning how to shake hands properly, in a firm manner, their counterparts in the opposite part of the world are probably learning how to exchange different currencies properly. Modern business English textbooks take into consideration the global economical environment in which we function, and the topics these books use have changed, using more and more references to issues such as emerging economies, globalization, cultural differences, and so on. A more up to date vocabulary along with practical business skills can be found now alongside the traditional grammar and standard skill exercises. We cannot forget also the huge increase in the use of case studies, as they give the students the opportunity to get in touch with real situations of business practice, and to use their business skills in realistic contexts. All of these textbooks focus on fast and effective communication between people of different cultures and languages and not necessarily native speaker countries.

The impact on how students learn

Our lives today differ significantly from the lives of our grandparents or even our parents and the recent years, along with all the changes that have taken place in every domain of our lives, have witnessed major changes in how business English students want to learn. We all know that the emphasis is on the content of the course, as well as on the length of it and on the flexibility in terms of time. An increasing number of people need to study English at different levels, for different reasons, however, what students need and what employers and Human Resources Department representatives want is not always the same thing. Our working lives have altered dramatically, perhaps due to the changes in the way business is done nowadays at an international level. Paradoxically, the increase in the speed of work did not lead to less time spent at work, and there has been a notably global shift towards longer working days and longer hours spent in offices.

The need for flexibility has a great impact on how students want to study and the great innovations in the field of technology led to the possibility of students to study at home via the Internet alongside with the face-to-face classes, in the so called 'blended-learning' courses. Taking into consideration the rapid changes in the field of technology, it is very possible that in ten years time, our children won't have books from which to read and learn, but I-pads that will successfully take the place of the traditional book.

Students are more and more aware of the need for studying business English. Business Spotlight has published the results of an international study of 25,000 business people, and found out that 90% of them felt that English was either critical or important in their work. However, only 9% of the respondents considered that their level of English was good enough to efficiently conduct their businesses. Thus, there are now more and more people willing to study business English at different levels, meaning that our students want more focused and interesting courses that meet their requirements, leading to a fast progress and to the possibility of instantly putting into practice the things they learn.

Both students and teachers should analyze carefully why students learn business English, in order to be able to create a balance between effective communication and accuracy. Another major aspect is linked to the atmosphere in the class that has to be cooperative and friendly so as to eradicate the students' fear of failing and the teachers need to ensure they have the requisite cultural knowledge and soft skills as well as the necessary language to do this.

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LES APPROCHES PLURIELLES DANS LE MODELE CARAP: SAVOIRS ACQUIS PAR L'INTERCOMPREHENSION

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Custom sets that teaching foreign languages refers to teaching and learning a language taken in isolation, within an essentially monolingual framework. Academic orthodoxy Chardenet (2007) refers to training the teacher in one foreign language only, following the unnatural preoccupation for the completion of knowledge and skills in this language. The dynamics of the societies forces towards the transition from monolingualism to multilingualism, by introducing the pluralistic like teaching devices. Defined as "teaching approaches that put into practice the teaching-learning activities while involving more (= more than one) linguistic and cultural variety," pluralistic approaches are designed as opposed to traditional teaching approaches, the aim of which is a particular language or culture in isolation (Candelier, 2007: 7). Intercomprehension is, along with the intercultural approach, the integrated teaching of foreign languages and awakening to languages, a pluralistic approach that allows the development of diverse and unthinkable emotional and practical knowledge and skills, inventoried in a Framework of reference for pluralistic approaches to languages and cultures (CARAP). Considered from different perspectives - as a method, strategy, training device or educational purpose - intercomprehension is mainly a general competence of the multilingual individual. A doctoral program attended at the University of Reims, France, as part of a team coordinated by professors J.E. Tyvaert and E. Castagne, has allowed us to experiment intercomprehension with a public trained for skills training for acquiring the perception and understanding of foreign languages not known a priori. According to Jamet (2010), it is a metalinguistic cognitive type activity (the awareness of areas of formal transparency and of significance), meta-pragmatic (the use of knowledge acquired in the native language to decide the needs triggered in a certain situation) and meta-cultural (by means of the encyclopaedic knowledge of the world), activity practiced by inferential type strategies. The regular observation of ICE type training sessions has led us to a reflection applied to non-philological learning environment. We consider that organizing a module of initiation in French for beginner economic students, a course relying on intercomprehension principles, would be an excellent introduction to multilingualism. In this paper we will tackle the knowledge that, according to CARAP, seems attainable by means of this alternative method of teaching - learning a language, in the light, even if only virtual at the moment, of the introduction of French in the curriculum by specific means of intercomprehension. Established as prolegomena to the traditional study, an introductory course of intercomprehension of French would be able to provide students with quicker global linguistic knowledge otherwise acquired in a longer period of time, with more effort and without guaranteed results.

Keywords: pluralistic approaches, intercomprehension, skills, CARAP, didactics

Cod JEL: Y8

Préambule

La compétence linguistique des futurs économistes s'approfondit pendant les cours de langues étrangères suivis à la faculté. La coutume pose que la didactique des langues étrangères se réfère à l'enseignement-apprentissage d'une langue prise isolément, dans un cadre éminemment monolingue. Conformément au curriculum, l'apprenant qui étudie l'anglais dans les facultés non-philologiques n'étudie pas (sauf rares exceptions) le français, celui qui étudie le français n'étudie pas l'allemand. Georges Lüdi observe que les modèles qui «dominent encore très largement les systèmes éducatifs» sont ceux «qui réunissent en général, dans des classes de langue, des enseignants et des apprenants autour du projet de l'appropriation d'une langue cible

particulière» (Cali, Stegu et Vetter, 2008: 20). Dans ce sens, Chardenet précise que «*si la didactique des langues s'est constituée de façon transdisciplinaire en s'attachant à réfléchir sur l'enseignement / apprentissage de telle ou telle langue, elle n'a jamais réussi à transgresser l'orthodoxie académique qui renvoie la formation de l'enseignant à seule langue étrangère et à la complétude des savoirs et des compétences dans cette langue.*» (Chardenet, 2007)

Or la dynamique socio-politique et surtout les enjeux économiques forcent le passage du monolinguisme vers le plurilinguisme, par l'apparition de dispositifs de formation de type pluriel. Les approches plurielles, définies comme «*des approches didactiques qui mettent en œuvre des activités d'enseignement-apprentissage qui impliquent à la fois plusieurs (= plus d'une) variétés linguistiques et culturelles*» sont conçues en opposition avec les approches didactiques singulières traditionnelles, dont l'objet d'attention «*est une langue ou une culture particulière, prise isolément*» (Candelier, 2007: 7). Comment pourrait-on dépasser les limites imposées par les contraintes administratives et curriculaires dans les institutions d'enseignement? Comment pourrait-on passer au plurilinguisme sans trop ébranler un état de faits auquel il n'est pas facile de renoncer inconditionnellement pour satisfaire aux besoins du plurilinguisme? Pour répondre à ces questions, nous nous référons en ce qui suit aux approches didactiques plurielles promues par un référentiel élaboré en 2007.

Les approches plurielles (le modèle CARAP)

Le Cadre de Référence pour les Approches Plurielles des Langues et des Cultures (nommé dorénavant CARAP) a été élaboré en 2007 par une vaste équipe coordonnée par Michel Candelier au sein du Centre européen pour les langues vivantes de Graz - institution du Conseil de l'Europe - comme produit du programme «Les langues pour la cohésion sociale: l'éducation aux langues dans une Europe multilingue et multiculturelle». Cette thématique propose de mettre en discussion un changement de paradigme majeur, par «*l'évolution vers une conception globale de l'éducation aux langues, qui intègre l'enseignement et l'apprentissage de toutes les langues afin d'utiliser les synergies potentielles*» (conformément à la présentation des programmes CELV sur le site officiel de l'institution)

Le recensement de l'équipe de CARAP rend compte de **quatre approches plurielles**: l'approche interculturelle, l'éveil aux langues, l'intercompréhension entre les langues parentes et la didactique intégrée des langues apprises.

1. L'approche interculturelle, nommée dans un article «*le quatrième "mousquetaire" de la famille des approches plurielles*» (Candelier, P., 2008: 71) ^a une influence irrécusable sur la didactique des langues «*même si ce n'est pas toujours de façon explicite et réellement conforme à ses orientations fondamentales*» (Candelier, 2007: 7). A propos de ce modèle, le Cadre Européen Commun de Référence pour les Langues prévoit que l'objectif fondamental en est le développement de la personnalité à partir de l'intégration harmonieuse des expériences de l'altérité langagière et culturelle, par la directe préoccupation de l'enseignant et de l'apprenant: «*dans une approche interculturelle, un objectif essentiel de l'enseignement des langues est de favoriser le développement harmonieux de la personnalité de l'apprenant et de son identité en réponse à l'expérience enrichissante de l'altérité en matière de langue et de culture. Il revient aux enseignants et aux apprenants eux-mêmes de construire une personnalité saine et équilibrée à partir des éléments variés qui la composeront*». (CECR, 2001: 9)

2. La didactique intégrée des langues, la situation spécifique dans l'enseignement institutionnalisé, a comme finalité d'«*aider l'apprenant à établir des liens entre un nombre limité de langues, celles dont on vise l'apprentissage dans un cursus scolaire*»; cette didactique prévoit «*de façon "classique" les mêmes compétences pour toutes les langues enseignées ou ... des "compétences partielles" pour certaines d'entre elles*» (Candelier, 2007: 7-8). Le fait que la première LE s'appuie sur les acquisitions de la LM et que l'accès à une autre LE est facilité par l'appui sur celles antérieurement appréhendées, conduit à une représentation intégrée du

répertoire plurilingue; la représentation de la spécificité de chaque langue comme un « iceberg » émergeant d'une base commune à toutes les langues (proposée par Cummins en 2001 pour rendre compte de la compétence bilingue) implique l'existence d'une base sous-jacente commune à deux ou plusieurs langues et des liens d'apprentissage et d'influence établis entre elles. (Egli Cuenat, 2009: 2)

3. L'éveil aux langues ^{devient de plus en plus} connu grâce à des projets européens récents et aux démarches d'inclusion dans l'enseignement institutionnel; par l'éveil aux langues, une attention particulière est accordée non seulement à la langue de l'école et à toute autre langue en cours d'apprentissage, mais aussi à des langues que l'école n'a pas l'ambition d'enseigner, à toutes autres variétés linguistiques, sans exclusion. Le nombre significatif de langues sur lesquelles on travaille transforme l'éveil aux langues dans une forme «extrême» des approches plurielles. L'objectif ambitieux de cette approche est ainsi formulé: *«Conçu principalement comme accueil des élèves dans la diversité des langues (et de leurs langues!) dès le début de la scolarité, comme vecteur d'une meilleure reconnaissance dans le contexte scolaire des langues «apportées» par les élèves allophones, comme une sorte de propédeutique développée à l'école primaire, il peut également être promu comme accompagnement des apprentissages linguistiques tout le long de la scolarité».* (Candelier, 2007: 9)

4. L'intercompréhension, l'approche plurielle qui s'établit entre des langues parentes, *«propose un travail parallèle sur plusieurs langues d'une même famille, qu'il s'agisse de la famille à laquelle appartient la langue maternelle de l'apprenant (ou la langue de l'école) ou de la famille d'une langue dont il a effectué l'apprentissage»* (idem: 8). L'appartenance à une même famille offre aux langues des atouts tangibles, qui se manifestent prioritairement au niveau de la compréhension et qui mériteraient une attention systématique (conformément aux projets innovants en France et en Allemagne dans la seconde moitié des années '90, continués dans d'autres pays de l'Europe ou de l'Amérique Latine). Candelier observe également que *«les publics scolaires sont encore très peu concernés par l'intercompréhension»*, malgré son caractère ludique surpris par Castagne et Chartier; pour eux, *«la magie de l'éducation à l'intercompréhension, c'est surtout d'ignorer qu'elle est éducation».* (Castagne et Chartier, 2007)

Intercompréhension - approche plurielle

Castagne (2007) remarque l'absence d'une définition rigoureuse de l'intercompréhension, mais souligne qu'elle a la capacité de nous faire *«constater un changement de paradigme de la communication monolingue symétrique au dialogue plurilingue asymétrique».* En principe, il s'agit d'une compétence de réception et de compréhension fondée sur les rapprochements de tout type entre les langues apparentées génétiquement, identifiés et valorisés par des stratégies spécifiques d'accès au sens, déclenchées au moment de la lecture d'un texte et/ou de l'écoute de sa version oralisée. Simplifiant, on pourrait dire qu'une personne peut arriver à comprendre globalement une ou plusieurs langues apparentées à sa langue maternelle (textes écrits accompagnés de la version oralisée, par une méthode qui est radicalement différente des méthodes d'apprentissage traditionnel. L'intercompréhension, en quoi consiste-t-elle?

Si l'intercompréhension vise en général l'échange plurilingue *où chacun s'exprime dans sa langue et comprend celle de l'autre*, certains auteurs privilégient l'étape de la formation de la compétence de réception et de compréhension de langues étrangères a priori inconnues. C'est le cas du dispositif de formation InterCompréhension Européenne, développée à l'Université de Reims, France, au sein d'une équipe coordonnée par les professeurs J.E. Tyvaert et E. Castagne.

Les participants sont placés devant des textes courts (de type article de presse ou des articles sur objectifs spécifiques) écrits et accompagnés de la version oralisée, dans une langue qu'ils ignorent mais qui appartient à la même famille linguistique que leur langue maternelle. L'enseignant-moniteur explique les principes de base dans le fonctionnement de la formation en ICE et attire l'attention des apprenants sur les libertés et les contraintes de la méthode: aucune information n'est

fournie dès le commencement, on ne renvoie pas à des tableaux multilingues avec des informations sommaires susceptibles d'orienter la réflexion, le moniteur dirige l'apprenant vers la découverte personnelle, en lui demandant des hypothèses à partir de la nature du texte, du thème de l'article, du contexte, de l'analogie avec sa langue maternelle et en gérant le parcours de capitalisation des informations lexicales et grammaticales. Normalement, **le temps prévu de déroulement des formations ICE serait de 48 heures pour le module d'éducation à l'intercompréhension écrite de 3 langues apparentées** à la langue maternelle. Si nous opérons artificiellement une réduction de trois langues à une seule langue étrangère, afin de parvenir à une adaptation au but de notre démarche présumée, la durée se réduit à 16 heures. Par rapport au parcours classique d'un cours traditionnel, les participants découvrent la nouvelle langue étrangère par effort propre, aux effets extrêmement motivants. Le niveau de maîtrise présumé de l'intercompréhension écrite des langues apparentées serait le niveau A2 / B1 dans le contexte d'une approche trilingue. Tous les témoignages sur les effets de l'intercompréhension nous autorisent de supposer que la focalisation sur une seule langue, par des stratégies intercompréhensives spécifiques, permet d'atteindre au moins le niveau A2 dans la compréhension écrite.

L'Intercompréhension qui dans la profusion d'études parues les dernières années a été appréhendée sous des angles divers - comme méthode, stratégie, dispositif de formation, objectif éducationnel général ou compétence de l'individu plurilingue - est avant tout une approche plurielle qui permet de développer des savoirs, savoir-être et savoir-faire divers et insoupçonnés, à travers des compétences *trans-linguistiques / trans-culturelles et inter-linguistiques / inter-culturelles*.

Proposition

L'observation régulière des séances de formation expérimentées par l'équipe française nous conduit à une réflexion appliquée au milieu non-philologique. Nous apprécions que l'organisation d'un module d'initiation à la langue française, construit selon les principes d'un parcours d'intercompréhension, représenterait pour les étudiants économistes débutants une excellente introduction au plurilinguisme. Nous prenons comme référence de notre évaluation globale le Cadre de Référence pour les Approches Plurielles des Langues et des Cultures, qui est le seul document qui procède à une analyse nuancée des savoirs, savoir-être et savoir-faire spécifiques aux initiatives didactiques "alternatives" par rapport aux formules traditionnelles.

Nous nous arrêterons en ce qui suit **aux savoirs** développés par l'intercompréhension, des composantes fondamentales pour la formation du futur lecteur plurilingue. Nous nous interrogeons sur le type de savoirs développés par une approche didactique alternative du type ICE de Reims, applicable aux étudiants roumains débutants non-philologues, dans un cours d'initiation à la langue française. A raison d'une heure par semaine on peut proposer aux étudiants un entraînement à la compréhension globale du français, équivalent d'une initiation à la langue étrangère. Conformément au CARAP, nous posons que les apprenants qui suivraient un parcours de type intercompréhension pourraient acquérir les savoirs dont il est question plus loin.

Les savoirs acquis en contexte plurilingue

Les savoirs acquis par les apprenants dans le cadre d'un dispositif de formation de type approche plurielle, l'intercompréhension en l'occurrence, touchent à deux domaines également importants: la langue et la culture. Nous nous limiterons aux aspects qui concernent la langue (Candelier, 2007: 51-69), plus précisément:

a). **la langue comme système sémiologique**: dans le contexte d'un processus de distanciation, l'apprenant qui observe plusieurs langues systématise les savoirs et prend en compte le caractère conventionnel de chaque langue. L'apprenant dans un milieu d'apprentissage intercompréhensif a des connaissances d'ordre linguistique sur sa langue maternelle (ou une autre langue de l'école), ce qui implique la maîtrise *«des concepts et des techniques permettant de comprendre le fonctionnement des langues»* à des niveaux d'analyse différents, à l'écrit ou à l'oral

(morphosyntaxique, phonétique, phonologique, etc.). Nous retenons un aspect exploitable lors de la formation: *l'apprenant connaît quelques catégorisations relatives aux langues et les reconnaît grâce à des indices formels (idem: 51)*, plutôt que par une présentation traditionnelle de type expositif.

b). **la langue et la société:** l'apprenant qui connaît en égale mesure des caractéristiques de son environnement et de son identité linguistiques et quelques faits historiques et géographiques qui ont influencé / influencent l'apparition ou l'évolution de certaines langues, a plus de chances de devenir plurilingue. (*idem: 52*)

c). **la communication verbale et non verbale:** moins préoccupante comme objectif direct de l'apprentissage par ICE, la maîtrise des principes de fonctionnement de la communication se traduit dans les savoirs implicites et explicites sur le propre répertoire communicatif et sur celui des autres (*idem: 53*); les apprenants et l'enseignant-moniteur connaissent tous et s'assument les limites du répertoire communicationnel dans la nouvelle langue étrangère, mais ne renoncent pas aux efforts d'accès au sens.

d). **l'évolution des langues:** savoir que les langues sont en constante évolution et qu'elles composent des familles, modifie l'approche aux langues; les relations dites «de parenté» qui relient les langues entre elles, la composition et le nom de quelques familles de langues, les phénomènes d'emprunts entre langues et les conditions dans lesquelles les emprunts s'effectuent (les situations de contact des langues ou les besoins terminologiques dus au développement de la réalité) sont quelques-uns des savoirs qui, selon l'équipe de CARAP, relèvent de la compétence plurilingue. (*idem: 54*)

e). **la pluralité, la diversité, le multilinguisme et le plurilinguisme:** tous les savoirs qui figurent dans cette catégorie devraient être enseignés plus explicitement dans l'école, afin que les apprenants s'approprient dans l'école des acquis qui pourraient ouvrir leur disponibilité au plurilinguisme. Avoir des connaissances sur la diversité des langues signifie savoir qu'il existe une grande pluralité de langues à travers le monde et donc une grande diversité d'univers sonores (déclinés en phonèmes ou schémas rythmiques) et d'écriture. Les connaissances sur le multilinguisme et le plurilinguisme déterminent la reconnaissance d'une grande variété de situations de multilinguisme et plurilinguisme, dans des situations évolutives et complexes qui ne laissent pas toujours coïncider les frontières entre langues et pays. Le grand atout de la diversité langagière c'est le fait que l'apprenant s'habitue à observer et à cultiver la situation de multilinguisme / plurilinguisme dans l'environnement personnel ou dans des lieux proches ou lointains (*idem: 55*)

f). **les ressemblances et les différences entre les langues:** tout élève qui a appris au moins une langue étrangère est conscient de l'existence des ressemblances et des différences entre les langues. Or, le contact avec des langues en contexte plurilingue leur donne un plus de saillance et l'apprenant s'habitue à cultiver ces rapprochements: dans le passage de langue à l'autre on recourt à des découpages différents et spécifiques de la réalité; la catégorisation grammaticale fonctionne par endroits différemment dans les langues étrangères par rapport à sa langue maternelle; chaque langue dispose d'un système phonétique / phonologique propre; l'absence de l'équivalence mot à mot d'une langue à l'autre fait que les langues n'utilisent pas toujours le même nombre de mots pour exprimer la même chose; des mots de langues différentes qui se ressemblent à l'oreille n'ont pas forcément le même sens; la composition des mots et l'organisation des énoncés peuvent être différentes selon les langues; des différences de fonctionnement apparaissent dans les systèmes scripturaux (plusieurs sortes d'écriture, des nombres différents d'unités utilisées pour l'écriture, des sonorités proches qui donnent lieu à des graphies complètement différentes dans des langues différentes), etc. (*idem: 56-57*)

g). **les langues et l'acquisition / apprentissage:** l'apprenant plurilingue sait que l'on peut s'appuyer sur les ressemblances structurelles / discursives / pragmatiques entre les langues, pour faciliter l'apprentissage; en plus l'apprentissage est meilleur quand il y a une attitude

d'acceptation vis-à-vis des différences linguistiques. L'apprenant commence à réfléchir sérieusement à ses propres capacités d'apprentissage des langues et aux stratégies d'apprentissage dont il dispose et qui renvoient aux *«répertoires de savoirs explicites de l'ordre du méta-apprentissage qui peuvent faciliter les processus d'appropriation dans le domaine des langues et dans tout autre domaine»*. (idem: 69)

Conclusion

La recommandation de Coste (2010: 197-198) relative aux quatre cheminements didactiques pluriels se réfère dans ce contexte à la nécessité d'identifier ou d'opérer des modulations fines de ces approches dont le potentiel semble être affecté par certaines limitations. Il s'agit tout d'abord de la difficulté de mise en perspective curriculaire unitaire, puisque les courants innovants connus ont des histoires et des champs d'expérimentation différents et conduisent à des choix curriculaires contextualisés séparés; dans un deuxième temps, ces approches qui *«restent pour l'essentiel à la fois militantes et marginales»*, ne bénéficient pas d'une place dans l'enseignement de masse *«rares étant les systèmes éducatifs qui leur reconnaissent une place officielle dans leurs programmes»* (Coste, 2011).

Notre proposition n'est pas fondée sur un modèle déjà implémenté, mais sur l'adaptation des vertus de l'intercompréhension aux besoins réels des étudiants non-philologues débutants en français. Ceux-ci n'ont pas comme exigence professionnelle la maîtrise parfaite d'une ou de plusieurs langues étrangères, au niveau de toutes les quatre compétences: compréhension orale et écrite, expression orale et écrite. L'intercompréhension fait partie de ces approches plurielles non-axées sur une langue unique, qui exploitent des potentialités déjà en place pour développer des compétences dans de nouvelles langues et qui, selon Castagne (2010) sont marquées par *une énergie plurielle* qui anime de nos jours les sciences du langage.

La pratique de l'intercompréhension permet d'arriver vite à un niveau de compétence plurilingue satisfaisant du point de vue de la compréhension écrite. Mais elle permet également de développer toute une série de savoirs auxiliaires, sans un grand effort et dans un cadre détendu, interactif et participatif. On retient d'ordinaire pour les langues étrangères des formes d'organisation identiques à celles des autres disciplines scolaires, dans le sens du rythme, de la durée, des formes d'évaluation, du milieu, des attentes - on étudie une ou deux langues étrangères à l'école pendant plusieurs années, à raison de 2 heures / semaine avec un professeur que l'on voudrait natif. En conformité avec les paramètres du CARAP, l'intercompréhension translatée comme option didactique d'une formation plurilingue des non-philologues, en l'occurrence les économistes, assure largement l'occasion d'acquisition des savoirs nécessaires aux futurs locuteurs plurilingues.

Cette perspective de l'introduction au français moyennant l'intercompréhension reste pour l'instant virtuelle. Similaire à des **prolégomènes à l'étude traditionnelle**, un cours introductif d'intercompréhension du français serait à même de fournir plus vite aux étudiants des savoirs qui autrement seraient acquis dans une période plus longue, avec un effort plus important et sans résultats garantis.

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PROPOS SUR LE SAVOIR-FAIRE DES ETUDIANTS NON-PHILOLOGUES ACQUIS PAR DES APPROCHES PLURIELLES. ETUDE DE CAS : LE METALANGAGE

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The Framework of reference for pluralistic approaches to languages and cultures (CARAP), developed in 2007 under Michel Candelier's coordination is an imperative instrument for all the teachers and decision makers preoccupied with the didactic stances of plurilinguism. Much less known than the Common European Framework of Reference for Languages, CARAP provides an inventory of knowledge, attitudes and skills the students will get to master within certain plural didactic approaches, oriented towards the development of plurilinguism. These didactic approaches are profoundly original compared with a traditional training path. We will consider as a reference point for our reflection one of the most promising and dynamic plural approaches: intercomprehension, more exactly the model developed by the InterCompréhension Européenne (ICE) team of the University of Reims, France. The census of knowledge, attitudes and skills allows a systematic look on linguistic and cultural realities that the future plurilinguistic individual is meant to assimilate. Our attention will be focused on skills.

Attending the ICE meetings made us familiar with a running manner excluding the preoccupation for the acquiring of a complete foreign language grammar, circumscribed to assuming its partial knowledge, in one or two of the competences defining it (written and oral understanding). The results of the experiments allow us to state that a minimum of grammar is enough to get the access to the global understanding of texts written in a foreign language: « intercomprehenders » getting involved in the global understanding of foreign languages previously unknown, related to their mother tongue, using a very reduced metalanguage, complementary with a wide range of relieve strategies. This observation has led to our professional activity, marked by the recurrent confrontation with the reality of teaching classes – economic students' inability to remember, understand, and naturally use a significant part of the grammar metalanguage acquired in their mother tongue. To emphasize this, we applied an empirical survey related to the fundamental grammar terminology in their mother tongue and interpreted the answers of a significant number of first and second year students of the Faculty of Economics. The results prove a disquieting inability to manage the already acquired morphological and syntactical categories within grammar analysis of mother tongue and subsequently transferred to the process of teaching-acquiring foreign languages. We have established a contiguity between the natural path in a training session in ICE type intercomprehension and the didactic path in institutional education, concluding that (1) a simplification of the grammar taught within traditional education is beneficial for students and teacher and that (2) the use of certain intercomprehensive techniques, such as the parangon, is extremely profitable when approaching certain aspects connected to foreign language grammar.

Keywords: intercomprehension, skills, metalanguage, CARAP, parangon

Cod JEL: Y8

Préambule

L'enseignement-apprentissage des langues étrangères est habituellement organisé dans des séquences didactiques unitaires, qui suivent le principe des trois unités propre au classicisme, donc à une approche traditionnelle: unité de lieu, de temps et d'action - l'activité a lieu dans une salle de classe, se déroule pendant une heure ou deux heures et les participants avec des rôles définis (enseignants et apprenants) respectent un parcours bien fixé, dont les lignes directrices sont bien établies. L'étude de la grammaire et du lexique d'une langue sont dans ce contexte les deux lignes fondamentales qui sous-tendent la communication écrite et orale. Or, dans le contexte propre à une approche didactique plurielle telle que l'intercompréhension pratiquée dans le programme *InterCompréhension Européenne* (ICE) de l'Université de Reims, l'apprenant, que l'on appelle dorénavant *l'intercompreneur*, n'est plus averti à chaque étape à propos des

compétences actualisées didactiquement. Il est autonome et semble quasiment démuné face à un morceau de langue étrangère inconnue, *non-étudiée* auparavant et qui *ne sera pas étudiée* dans le futur proche selon les rigueurs de l'approche traditionnelle.

L'expertise de la Direction Générale de la Langue Française (DGLF, 2006: 9) intègre l'intercompréhension dans la catégorie des approches plurielles, celles qui mettent l'apprenant dans la situation de faire émerger le potentiel intercompréhensif par l'établissement des *«liens entre les diverses langues qui s'intègrent dans sa compétence»* Parce que l'intercompréhension est un terme qui recouvre déjà plusieurs expériences et formes de manifestation, il faut préciser que nous prenons comme référence de notre réflexion le programme *InterCompréhension Européenne*, implémenté à la Faculté de Lettres de l'Université de Reims, dans le cadre du Master Gestion Multilingue de l'Information. Un rôle important revient dans ce dispositif à l'enseignant-moniteur, celui qui ne doit pas exposer de manière déclarative les connaissances mais enseigner progressivement et par la méthode inductive la modalité de valoriser les multiples compétences dont l'apprenant dispose; conformément aux observations de Bandura relatives à l'auto-efficacité personnelle, tant que l'intercompreneur n'aura pas pris conscience des limitations de ses conceptions il les gardera et tant qu'il n'aura pas pris conscience du potentiel dont il dispose, il ne l'utilisera pas *«les moyens ne sont pas des entités fixes possédés par l'individu. L'exercice effectif du contrôle nécessite l'orchestration des connaissances, des sous-compétences et des ressources pour gérer des situations changeantes. Les moyens comprennent non seulement les compétences cognitives et comportementales, mais également les compétences émotionnelles et motivationnelles autorégulatrices pour faciliter la motivation et gérer les manifestations émotionnelles perturbatrices. De plus, les résultats dépendent de la façon dont les personnes utilisent les moyens disponibles et de l'utilité potentielle de ces derniers.»* (Bandura, 2003: 47-48)

Savoir-faire dans le CARAP

Le Cadre de Référence pour les Approches Plurielles des Langues et des Cultures (CARAP) élaboré en 2007 sous la coordination de Michel Candelier est un outil incontournable pour tous les enseignants et décideurs préoccupés par les hypostases didactiques du plurilinguisme et le seul référentiel qui permet de répondre à la question *«quels sont les moyens dont disposent / pourraient disposer les apprenants en contexte plurilingue de type ICE?»*. Paru six ans après le Cadre Européen Commun de Référence pour les Langues, le cadre dont nous parlons se rapporte exclusivement à la série des approches plurielles, des démarches didactiques réunissant au moins deux langues étrangères: l'approche interculturelle, la didactique intégrée des langues, l'éveil aux langues et l'intercompréhension.

L'expérience de l'intercompréhension dans le cadre du dispositif de formation InterCompréhension Européenne de Reims apporte un regard originel sur l'enseignement de la langue étrangère: l'enseignant-moniteur ne doit pas fournir d'information explicite d'ordre grammatical et lexical. Cette règle de fonctionnement rejoint une réalité objective: les apprenants (non-philologues en principal) ont une réelle difficulté dans le maniement du métalangage; ils ont une grammaire interne réduite, représentée par *«ce qui est resté»* après une longue période de pause dans l'utilisation de la grammaire (par exemple dans l'école roumaine, l'étude de la grammaire s'arrête, sauf certaines spécialisations, à la fin du collège; elle comprend la grammaire étudiée à l'école pendant les cours de langue maternelle et les fragments de grammaire pratiqués pendant l'étude d'autres langues étrangères. Malgré certaines limitations au niveau du métalangage grammatical, les apprenants – intercompreneurs sont à même d'acquérir les sept catégories de savoir-faire distinguées par les auteurs du CARAP: savoir observer / savoir analyser, savoir identifier / savoir repérer, savoir comparer, savoir parler des langues et des cultures, savoir utiliser ce que l'on sait déjà dans une langue pour comprendre ou produire dans une autre langue, savoir interagir, savoir apprendre.

L'apprenant impliqué dans un processus d'apprentissage typiquement plurilingue réussit tout d'abord à acquérir l'habitude et **le savoir observer et analyser**, qui se réfèrent: *aux éléments linguistiques* dans des langues plus ou moins familières, par la maîtrise consciente de démarches d'analyse qui permettent de formuler des hypothèses sur le fonctionnement des langues (par la démarche inductive, l'habileté de généraliser à partir d'analogies identifiées et de prendre appui sur une langue connue) et *aux formes et aux fonctionnements linguistiques*, par le savoir d'écouter attentivement des productions dans différentes langues, de savoir observer et analyser des systèmes phonologiques et d'écriture. Grâce à ces capacités, l'intercompreneur arrive à déchiffrer un texte rédigé en écriture non familière, à observer et analyser le fonctionnement d'un système morphologique ou syntaxique dans une langue non familière à partir d'éléments structurels constants, malgré les variations lexicales, ce qui permet un accès au moins partiel au sens d'un énoncé (Candelier, 2007: 105-106). L'apprenant qui dispose du **savoir identifier / savoir repérer des éléments linguistiques** dans des langues plus ou moins familières est, selon Candelier capable de repérer les formes linguistiques, les formes graphiques, les catégories, les fonctions ou les marques grammaticales, à partir de différents indices linguistiques (sonores, graphiques, etc.) ou bien sur la base de marques grammaticales. (*idem* : 107-108). L'identification et l'analyse des éléments devraient s'accompagner du **savoir comparer** les phénomènes linguistiques de langues différentes afin de percevoir la proximité et la distance linguistiques. La maîtrise des démarches de comparaison consiste dans *«la capacité de percevoir une ressemblance globale entre deux ou plusieurs langues, formulant des hypothèses sur leur éventuelle parenté, sur la base de ressemblances entre langues»*, à base d'un éventail de critères de récupération de la distance linguistique (*idem*: 109-110). Le **savoir parler des langues et des cultures** et ensuite expliquer aux autres certains aspects de sa langue maternelle, est mis en pratique lors des formations à l'intercompréhension dans les dialogues entre les apprenants ou entre l'apprenant et le moniteur. L'intercompreneur peut donner voix à **ce qu'il sait sur la / les langue(s)** et utiliser ensuite ces informations pour comprendre une autre langue (et ensuite produire, s'exprimer dans cette langue). On construit progressivement une «grammaire d'hypothèses» (un ensemble d'hypothèses) sur les correspondances ou non-correspondances entre les langues. Cela permet la constitution du **savoir identifier des bases de transfert**, c'est-à-dire les éléments d'une langue qui permettent un transfert de connaissance au niveau inter - langues ou au niveau intra - langue et la capacité de comparer les bases de transfert entre la langue-cible et les langues mentalement activées (*idem*: 111-112). Le **savoir interagir** nous intéresse dans le cadre du modèle ICE de Reims dans le sens des interactions entre les apprenants eux-mêmes ou entre l'apprenant et les participants aux séances de formation et témoignent d'un savoir-faire général: ce savoir se traduit dans la capacité de tenir compte du répertoire des interlocuteurs pour communiquer dans des groupes bi/plurilingues, de reformuler, d'argumenter ou de parler des stratégies d'interactions. (*idem*:113-114). Le **savoir apprendre** se manifeste dans le savoir s'approprier des éléments, des usages linguistiques et des références propres à des langues plus ou moins familières. L'apprenant plurilingue devient capable de mémoriser et éventuellement de reproduire des éléments sonores et graphiques non familiers par l'habileté de tirer profit, dans le processus d'apprentissage, des acquis linguistiques et des expériences interculturelles préalables et par les transferts (réussis ou ratés) effectués d'une langue connue vers une autre langue inconnue. (*idem*: 115-116)

Considérations sur la terminologie grammaticale

Tout ce savoir-faire lié principalement au savoir grammatical, est progressivement acquis par les apprenants plurilingues; ils se fondent sur les connaissances acquises dans leur langue maternelle ou dans une autre langue maîtrisée, qui deviennent bases de transfert vers la langue non-étudiée auparavant. Le moniteur doit gérer avec délicatesse le poids du métalangage grammatical véhiculé lors des formations plurilingues, l'intercompréhension en l'occurrence.

Le passage des connaissances de grammaire déclaratives, exposées au tableau, vers une grammaire réduite et simplifiée ne devrait pas nous surprendre, d'autant plus que les enseignants ont une certaine liberté au niveau de la classe. Béguelin, De Pietro & Näf observent que la formation initiale et continue des enseignants leur permettent de devenir autonomes par rapport aux nomenclatures officielles et aux méthodes qui existent sur le marché des langues. Cet état de faits présente un triple avantage, parce qu'il permet *«d'alléger le poids de l'enseignement grammatical prodigué aux élèves, en accordant la priorité, plutôt qu'à une inculcation extensive, à des interventions ciblées de l'enseignant sur la grammaire intériorisée des élèves», «de doter les élèves d'un savoir(-faire) grammatical léger mais opératoire, qu'ils construiront eux-mêmes ... dans le cadre de démarches didactiques»* et *«d'aller vers une simplification de la terminologie grammaticale – par le biais d'une meilleure harmonisation entre langues»*. (Béguelin, De Pietro & Näf, 1997: 10)

La question de la terminologie grammaticale reste un problème dans l'enseignement des langues étrangères, mettant parfois l'apprenant et l'enseignant devant des situations difficilement réconciliables avec la langue maternelle. Dans le cadre de l'approche intercompréhensive style ICE, qui repousse autant que possible toute explication grammaticale et tout métalangage, nous évoquerions les propos de Dominique Willems, qui déplore justement l'absence d'un noyau de terminologie grammaticale commun aux langues de l'Europe, d'autant plus que l'apprentissage d'une LE ne peut pas se réaliser complètement en l'absence d'une réflexion grammaticale: *«Quelle que soit la place accordée à l'activité métalinguistique dans l'apprentissage des langues étrangères, il paraît acquis qu'un minimum de réflexion grammaticale et de généralisation par rapport aux phénomènes d'observation empirique est effectivement à l'œuvre lors de l'apprentissage d'une langue étrangère, et qu'il ne peut que favoriser un apprentissage heureux. Il est dès lors étonnant qu'on ne se soit pas encore mis d'accord, au niveau européen, sur un **minimum de terminologie grammaticale**, commun à l'ensemble des langues de la Communauté, et que l'enseignement grammatical, dans la plupart des pays, s'effectue de façon indépendante pour les diverses langues enseignées, multipliant ainsi pour l'élève – pour qui la grammaire ne constitue pas nécessairement la matière favorite – les approches et les terminologies parfois contradictoires»*. (Willems, 1999:129)

À partir d'une observation qui s'avère valable non seulement en Italie, mais également en Roumanie ou en France, Ferrario et Galazzi Matasci notent que le traitement privilégié de l'étude de la littérature au détriment de l'approfondissement du système linguistique conduit à des connaissances généralement fragmentaires en langue seconde; cela va de pair avec le caractère partiel de la grammaire maternelle *«la situation n'est pas moins grave dans le domaine de la langue maternelle où la réflexion sur le fonctionnement du système est très faible, voir inexistant, dans certains cas. Il en résulte une connaissance intuitive et spontanée en L1 (n.n. la langue maternelle) qui s'avère parfois très approximative»*. (Ferrario et Galazzi Matasci, 1984: 324)

La question qui se pose concerne cependant le contrôle plus ou moins conscient de la réflexion métalinguistique sur la langue maternelle et sur les connaissances apprises d'une façon plus ou moins formelle (Giacobbe, 1984: 365). Après les centaines d'heures obligatoires de grammaire, que reste-t-il dans l'esprit des adultes et jeunes adultes qui ne se préparent pas pour une profession ayant connexion avec l'utilisation du métalangage grammatical? L'enseignant qui expose des problèmes de grammaire est persuadé que son auditoire maîtrise facilement dans la langue maternelle les catégories grammaticales dont il parle lors du cours de langue étrangère, à force de les avoir étudiées. Or, une étude empirique que nous avons réalisée en 2010 sur un nombre d'environ 100 étudiants roumains en économie de l'Université d'Oradea, première et deuxième année d'étude, nous conduit à des observations surprenantes qui nous obligent d'être plus réticents dans la projection du métalangage dans les cours de langue française. Nous n'avons pas la prétention d'une rigueur scientifique propre à des expérimentations bien cadrées et menées par des laboratoires de recherche, mais nous estimons que le questionnaire offre des données

assez claires pour pouvoir dresser un état de fait qui est répliqué chaque année, conformément à nos observations (à de rares exceptions). Les questions étaient très simples, du type: «*Qu'est-ce que c'est ...? Donnez trois exemples*» et visaient toutes les catégories morphologiques et syntaxiques étudiées dans la langue maternelle (ex. *Qu'est-ce que c'est le substantif / le pronom / l'adjectif / l'adverbe / la conjonction / la préposition / le verbe (au présent, au passé composé, à l'imparfait, au plus-que-parfait, au conditionnel, au conditionnel passé, au participe, au gerunziu_{RO}, au supin_{RO}? Donnez trois exemples; Qu'est-ce que c'est le Sujet / le Prédicat / l'Attribut / le Complément direct, le Complément indirect, le complément circonstanciel de lieu, de mode, de temps, de cause, de conséquence, de but/ le Complément d'agent, etc.? Donnez trois exemples*). L'interprétation des résultats nous permet d'observer que :

- les étudiants sont capables de donner les définitions simples en proportion de : 75%-100% pour le substantif, le verbe, l'adjectif, le numéral (accompagnées d'exemples corrects) ; 50% pour la préposition et le pronom (les autres ayant donné seulement des exemples) ; 30% pour la conjonction et 20% pour l'adverbe;

- les étudiants ne font pas clairement la distinction entre *la préposition et la conjonction*: les deux sont perçues à travers leur fonction de «relier des mots entre eux» ou «des propositions entre elles»; les exemples de prépositions mélangent des prépositions, des conjonctions, des pronoms relatifs et des adverbes courts (les conjonctions récurrentes sont *să_{RO} / que_{FR}; și_{RO} / et_{FR}*); la préposition est positionnée devant le mot (substantif, sujet) et apparaît comme un «mot aide»; 50% des répondants n'ont pas donné de définition et d'exemples pour la *préposition* ou pour la *conjonction*;

- pour le *verbe au présent*, les exemples sont majoritairement de I^{ère} personne singulier et III^{ème} personne singulier et pluriel, à la diathèse active (avec quelques verbes pronominaux), avec et sans Sujet; pour les verbes au *passé composé*, les exemples sont corrects, mais seulement 50% des répondants ont donné une définition plus ou moins acceptable; pour le verbe à *l'imparfait*: 70% des réponses apparaissent sans exemples ou avec des exemples erronés, en confusion avec toutes les formes verbales (sans pouvoir en établir une régularité); pour le verbe au *plus-que-parfait*: malgré les confusions constantes, on observe que les répondants qui ont donné des formes correctes ont remarqué explicitement la présence de ce qu'ils ont nommé «*la particule „se”*»; à côté des formes correctes, il y a des formes incorrectes qui apparaissent justement par la supra-licitation de cette particule (*vizitaseseră*); pour le verbe au *passé simple*: 90% des réponses n'ont pas d'exemples ou de définition; le verbe au *conditionnel*: 80% des réponses ne donnent pas de définition et d'exemples; pour le verbe au *conjunctiv_{RO} / subjonctif_{FR}*: 50% des répondants interrogés n'ont pas donné de définition et d'exemples ; les exemples donnés sont corrects, avec la mise en évidence de la conjonction *să_{RO} / que_{FR}*; le verbe au *participe*, défini comme «relié au déroulement de l'action dans le passé» a des exemples corrects; le verbe au *gerunziu_{RO}* est défini par le trait formel - la présence des groupes "*ând*" sau „*ind*" - ce qui détermine l'absence de confusions; le verbe à l'infinitif est défini comme «la forme verbale du dictionnaire»;

- le *pronom* est défini correctement comme remplaçant d'un nom, mais les exemples donnés sont en général de pronom personnel, avec le relatif "*care*" et le démonstratif "*acesta*"

- le *Sujet et le Prédicat_{RO}* sont définis essentiellement par les questions auxquelles ils répondent;

- les *Complément Direct_{RO} et le Complément Indirect_{RO}* sont définis par les questions auxquelles ils répondent; 60% des répondants n'ont pas donné de définition ou d'exemple pour les deux types de compléments; les *Compléments circonstanciels de lieu, de mode et de temps* sont tous correctement définis (*ils expriment le lieu, le mode, le temps*) et sont accompagnés des questions auxquelles ils répondent; le *Complément d'agent*: reconnu par des répondants en relation avec la diathèse passive; souvent confondu avec le Sujet. Nous observons par conséquent qu'une bonne partie de la grammaire qui reste après

l'école est oubliée, que certaines notions sont retenues avec leur référence correcte grâce aux marques formelles et aux questions qui aident l'identification, d'autres sont confondues, d'autres en sont erronées. Vu la similarité entre les inventaires grammaticaux des grammaires pédagogiques du français et du roumain et les résultats de l'enquête sur le métalangage grammatical du roumain, nous osons affirmer avec toutes les précautions que d'autres apprenants européens non-philologues connaissent des synopes similaires dans le métalangage grammatical. Nous observons que les catégories morphosyntaxiques sont surtout définies par des indices, des questions - aide, des indices formels, des exemples type.

La technique du parangon

Conformément au Trésor de la langue française

(<http://atilf.atilf.fr/dendien/scripts/tlfiv5/advanced.exe?8;s=3476038365;>), le parangon est synonyme de modèle, comparaison ou pierre précieuse, perle. Dans notre approche, «mettre en parangon» ou «faire le parangon entre plusieurs éléments» signifie établir une comparaison entre plusieurs structures (lexicales ou grammaticales) similaires. Le recours au parangon nous dispense de l'utilisation d'un métalangage qui

1. est assez **épineux à manier** par les apprenants non-philologues; par ex. *le conditionnel, la conjonction, le participe, l'article, le complément d'objet direct, complément d'objet indirect, etc.*

2. parfois, fidèle à la tradition grammaticale, **recouvre des réalités grammaticales distinctes**; par ex. *L'Attribut* est en langue roumaine, conformément à Mioara Avram (1986: 278) la partie secondaire de proposition qui détermine un substantif ou une autre partie du discours à valeur de substantif, ce qui nous fait observer l'existence de l'Attribut adjectival, nominal, pronominal, verbal ou adverbial. L'usage en français «réserve le terme d'attribut à la fois à un type générique de fonction et aux constituants de forme variable qui remplissent cette fonction. Dans cette perspective, l'attribut du sujet est le deuxième constituant du groupe verbal dont le verbe introducteur est le verbe être ou un verbe susceptible de lui être substitué... le même type de rapport prédicatif est établi par certains verbes transitifs entre leur complément d'objet et un troisième constituant du groupe verbal dit attribut du complément d'objet directe» (Riegel, 1989: 233-234)

3. **n'existe que dans l'une des deux langues**; par ex. *l'article partitif* exprimé en français mais qui n'existe pas en roumain. Conformément à Riegel, l'article partitif *du, de l', de la, des* «provient d'une ancienne construction partitive de l'article défini et en a gardé et l'indétermination quantitative et la valeur partitive» (*idem*: 161). Cet article est utilisé devant des noms de masse et des noms abstraits (au singulier et au pluriel) en français. Pour l'étudiant roumain, surtout non-philologue, l'utilisation du terme *article partitif* est problématique, parce qu'il ne trouve pas de correspondant dans la langue maternelle. La reconnaissance de ces formes dans un texte est encore plus compliquée, parce que les mêmes formes graphiques ont une autre valeur en français. Il s'agit des structures *du, de la, de l', des*, obtenues par la combinaison de la préposition *de* avec les articles définis *le, la, l' et les* (les formes *du* et *des* sont des amalgames, c'est-à-dire des segments formellement inanalysables). Nous présentons plus loin quelques fragments d'un article (Nicolas Sarkozy face aux défis de 2009, «année décisive») publié en 2009 dans *Le Figaro*, l'édition en ligne. Les extraits contiennent les formes *du, de la, de l', des*.

«Mais 2009 «peut aussi être une année fondatrice», a expliqué Nicolas Sarkozy, en évoquant la refonte **du** capitalisme et les négociations sur le climat»... «L'actualité, celle **du** Proche-Orient notamment, est venue illustrer ses propos»... «Nous n'avons pas le choix, le sommet de Londres doit être un succès», a lancé le chef **de** l'État à propos **de la** rencontre des dirigeants **du** G20 prévu le 2 avril dans la capitale britannique.»... «Quand on fournit les deux tiers **du** gaz dont l'Europe a besoin,...»... «J'ai été content d'entendre les paroles d'Obama», a relevé le président **de la** République»... «Sur un autre front de tension,

celui de la crise gazière entre la Russie et l'Ukraine, le chef de l'État n'a pas mâché ses mots.»... «Nicolas Sarkozy attend des États-Unis «qu'ils nous disent s'ils sont prêts» à des efforts comparables à ceux de l'Europe»... « C'est la crédibilité de l'Ukraine qui est en jeu»... «Au diapason de l'agacement croissant des Européens devant cette crise qui se prolonge»... «Nicolas Sarkozy a placé sous le sceau de l'urgence ses vœux aux ambassadeurs étrangers.»

Pendant le cours de français, l'enseignant avait exposé aux apprenants la problématique de l'article défini (avec ses formes amalgamées) et celle de l'article partitif, avec une courte définition et des exemples. Dans la démarche habituelle, l'enseignant dirige la traduction des propositions qui soulèvent des difficultés, indiquant à différentes reprises s'il s'agit d'un *article partitif* ou de *l'amalgame entre la préposition et l'article défini*. Cela suppose le passage par une forme de théorisation, avant d'arriver aux exemples et de les fixer, de revenir à la traduction proprement-dite, d'établir l'analogie et de donner la version en langue maternelle. La technique du parangon que nous proposons se réfère à un raccourcissement: prendre une forme type de référence pour chaque situation (nous proposons pour le cas *préposition+ l'article défini* les structures du type: *Ministère du Tourisme // de la Culture // de l'Éducation // des Affaires Étrangères*; pour le cas *article partitif* sont recommandées les structures du type: *du pain, de la confiture, de l'eau, des fruits*). Au cas d'un extrait de texte qui comprend la forme *du, de la, de l', des*, nous renvoyons directement au parangon, au modèle; par analogie, le sens est identifié rapidement.

Par exemple, dans le fragment *«Quand on fournit les deux tiers du gaz dont l'Europe a besoin...»*, l'apprenant a du mal à traduire la séquence centrale. Si l'on choisit la voie traditionnelle, passant par l'explicitation de la catégorie grammaticale, on risque de bloquer la traduction, parce que l'apprenant encourt des difficultés à appliquer l'indication *«c'est un article partitif / une forme contractée, formée d'une préposition combinée avec l'article défini masculin singulier»*; si l'on évoque le parangon *«c'est comme dans le Ministère du Commerce»*, la traduction est vite débloquée; un léger ajustement est nécessaire avant d'arriver à la version exacte en langue maternelle, à savoir *Ministerul Comerțului*. Chaque séquence similaire est désambiguïsée grâce à l'appel au parangon: *«c'est comme... // c'est comme dans...»*.

Conclusion

Nous concluons par soutenir une grammaire simplifiée dans les cours de langues étrangères pour les non-philologues, citant Näf qui promeut une *terminologie à deux vitesses*, destinée respectivement aux enseignants et aux élèves, une terminologie soucieuse de ne pas *«dé-sécuriser encore davantage les enseignants et leurs élèves, mais au contraire leur donner des outils aussi simples et fiables que possible»*. (Näf, 1999: 80)

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DER LERNER ALS ZENTRALER FAKTOR IM FACHSPRACHENUNTERRICHT

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Teaching Languages for Special Purposes (LSP) is a complex and challenging process, because it differs a lot from teaching general language: the goals and contents are different, one has to focus on the practical needs of the language learners, the learners are supposed to already have some professional skills in the field they are studying in, the learner is the central figure in the didactic process. This means that the teacher of LSP has to have some knowledge in the field in which his learners are working or intend to work. The teacher needs also to take into account a series of other subjects such as psychology, sociology, linguistics and didactics in order to create a unitary course.

The purpose of the paper is to show the way in which the learner of LSP (in this particular case the learner of business German) and his needs are reflected in literature and if a profile of the LSP learner can be established. Certain features of the LSP learner have to be taken into account such as their age, the skills in their specific field, their cultural background and their language level. Each of these factors contributes to the way in which an LSP course is conceived and organized. The question also arises whether there is a good learner, what characterizes him/her and under which circumstances does he/she learn best. And finally the paper tries to integrate the LSP learner into certain learner types with their distinctive features, strengths and weaknesses. Of course other elements like the course planning and organizing, the text choice, the types of exercises used and the assessment methods must not be ignored, as they are also crucial for the success of the LSP course, but the learner with his background and future needs remains the key element of the equation.

Keywords: LSP learner, LSP teaching, business German, professional skills, cultural background

Der Lerner ist mit seinen sprachlichen und fachlichen Vorkenntnissen, seinen Wünschen und Erfahrungen, sowie seiner Lernfähigkeit und Lernmotivation zentraler Bezugspunkt im fachsprachlichen Unterricht. Ihm gegenüber steht der Fach- oder Fachsprachenlehrer, der durch seine fachlichen und sprachlichen Kompetenzen die Ausgangssituation beurteilt und auf konkrete Bedürfnisse eingeht.

Fachsprachenunterricht muss für sehr unterschiedliche Zielgruppen konzipiert werden, entsprechend den unterschiedlichen Lernvoraussetzungen und angestrebten Zielqualifikationen. Lerner- und sprachbezogene Einflussfaktoren, die bei der konkreten Unterrichtsplanung in Betracht gezogen werden müssen, sind:

- das Alter;
- die Fachkompetenz;
- der kulturelle Hintergrund;
- die vorhandenen Sprachkenntnisse.

1. Die **Altersspezifik** wurde bisher im fachbezogenen Fremdsprachenunterricht vor allem im Hinblick auf erwachsene Lerner berücksichtigt, die im Vergleich zur Schuljugend stärker ausgeprägte kognitive Interessen und einen höheren Grad von Bewusstsein und Zielorientierung besitzen. Diese Eigenschaften müssen bei der Formulierung der Lernziele, der Auswahl der Materialien und der Gestaltung des Unterrichts entsprechend berücksichtigt werden. Obwohl der Faktor Alter die Lernvoraussetzungen entscheidend mitprägt, wird er im fachbezogenen Fremdsprachenunterricht nicht immer als unterrichtskonstituierend angesehen.

2. Eine immer mehr diskutierte Größe ist dagegen der Einflussfaktor **Fachkompetenz**. Dabei werden im Allgemeinen zwei Gruppen unterschieden: Fachleute und Nichtfachleute. Bei den Nichtfachleuten handelt es sich um Lerner ohne eine für die angestrebte Ausbildung relevante Fachkompetenz und damit um Lerner ohne entsprechende fachsprachliche Kenntnisse in der Mutter- bzw. Herkunftssprache. Bei diesen Gruppen muss der Aufbau von Fachkenntnissen mit dem Aufbau von Sprachkenntnissen einhergehen, d.h. das Fachvokabular muss, möglichst anschaulich, auch inhaltlich erläutert und mit Blick auf seine Bedeutung im fachlichen System situiert werden; es findet also eine Art Begriffslernen statt.

Bei der Gruppe der Fachleute liegen dagegen sowohl fachliche als auch fachsprachliche muttersprachliche Kompetenzen vor, die beide beim Aufbau des Unterrichts zum Tragen kommen. So müssen z.B. Lerninhalte und Spezialisierungsgrad der Texte dem fachlichen Vorwissen angepasst werden, um das Lerninteresse positiv zu beeinflussen: fachlich zu schwierige Texte lassen den Lerner resignieren, fachlich Bekanntes führt zu Desinteresse.

Da sich Fachkompetenz auf Grund von Befragungen oder Tests relativ genau einschätzen lässt, wäre es zumindest theoretisch möglich, unter fachlichem Aspekt homogene Lerngruppen zu bilden und damit Lerninhalte zielgruppenadäquat zu bestimmen und entsprechende Materialien und Methoden einzusetzen. Viele Berichte aus der Praxis des Fremdsprachenunterrichts zeigen jedoch, dass diese Homogenität, sei es aus organisatorischen oder wirtschaftlichen Gründen, nur relativ selten realisiert werden kann.

3. Eine ähnliche Situation gilt für die Berücksichtigung **des kulturellen Hintergrundes**, der ebenfalls eine wichtige Größe im Bereich fachliches Handeln darstellt. Neben Einzelhinweisen auf kulturell bedingte Unterschiede, problematisiert Fluck (1992: 181) folgende, unterrichtsmethodisch zu beachtende Verhaltensstrategien und Lern- und Diskurstechniken:

- mechanisches Auswendiglernen von Lehrstoffen;
- fehlende Problematisierung der Stoffe;
- additive Strukturierungsprinzipien;
- personenbezogenes Mitteilungsverhalten;
- reaktives Unterrichtsverhalten (Verzicht auf Fragen, Kritik usw.).

Lernschwierigkeiten, die aus solchen Kulturkonflikten resultieren, können den Fach- und Fachsprachenunterricht gleichermaßen beeinflussen. Damit einher gehen häufig die Konzentration der Lerner auf den Lehrer und/oder das Lehrbuch, sowie eine sich daraus ergebende zunächst mangelnde Bereitschaft zur Auseinandersetzung mit vervielfältigten Arbeitsblättern. Solche Schwierigkeiten beschränken sich allerdings nach den Erfahrungen der Praxis auf nicht fachkompetente Lerner, denn Fachleute haben in der Regel im Zuge der Beschäftigung mit dem Fach in ihrer Ausbildung den Mitteilungsstil der entsprechenden Disziplin und ihre Fachsprache ganz oder bis zu einem gewissen Grade angenommen. Die Begründung dafür liegt in der weitgehenden Gleichartigkeit der internationalen Fachwelt, so dass sozial-kulturelle Faktoren gegenüber der allgemeinen Kommunikation in der interkulturellen Fachkommunikation an Bedeutung verlieren. Dennoch erscheint es nicht unangebracht zu sein auch dieser Gruppe auf einer allgemeineren Ebene die Fähigkeit zur interkulturellen und bikulturellen Kommunikation zu vermitteln.

4. Neben der Ermittlung der Fachkompetenz ist es wie im allgemeinen Fremdsprachenunterricht notwendig, den jeweiligen **Sprachstand** möglichst genau zu bestimmen. Bei den sprachlichen Voraussetzungen der Lerner sind im Fachsprachenunterricht auch die Fremdsprachenkenntnisse außerhalb der Zielsprache von Bedeutung, um z.B. inhaltlich und methodisch gezielte Terminologiearbeit leisten zu können, denn ohne die Kenntniss von Anglizismen lassen sich bestimmte Bereiche in Wirtschaft und Technik kaum verstehen und terminologisch aufarbeiten. Deshalb gilt für den Fachsprachenunterricht, dass der Ist-Zustand der vorhandenen Sprachkenntnisse auf den verschiedenen Ebenen wie folgt ermittelt, analysiert und in die Unterrichtsplanung einbezogen werden sollte:

- allgemeines Sprachniveau;
- Stand der einzelnen Fertigkeiten;
- Kenntnisse weiterer Fremdsprachen;
- Fachsprachliche Kenntnisse in der Erstsprache;
- Strategien zur Informationsentnahme und –verarbeitung (z.B. Lesetechnik).

Es ist ein unbestreitbares Verdienst des Fachsprachenunterrichts, den Lerner und seine Bedürfnisse ernst genommen und in den Mittelpunkt der Kursplanung gestellt zu haben, mit entsprechenden positiven Rückwirkungen auf den allgemeinsprachlichen Fremdsprachenunterricht. Festzuhalten aber bleibt für den fachbezogenen Unterricht generell die hervorragende Bedeutung komplexer Bedarfsanalysen, die sowohl auf die besondere fachliche und berufliche Situation der Lerner, als auch auf die erwünschten Ergebnisse und den individuellen Vermittlungsweg Rücksicht nehmen.

Ulrich Nehm (2006: 346) zitiert eine englische Studie von Hedge (2000: 76), derzufolge sich der gute Lerner durch folgende Fähigkeiten auszeichnet:

- Definition eigener Lehrziele;
- effektiver Einsatz von Sprachmaterial;
- sorgsame Organisation der Lernzeit;
- aktive Entwicklung von Lernstrategien;

Diese Charakteristika werden durch Persönlichkeitsfaktoren des Lerners ergänzt, die diesen maßgeblich beeinflussen: Alter, Intelligenz, Eignung, Persönlichkeit, Motivation und Lernvorlieben. Ein guter Fremdsprachenlerner nutzt jede Gelegenheit, sich in der fremden Sprache zu vervollkommen und sich intensiv mit dem System der anderen Sprache, auch kontrastiv zur eigenen Sprache, auseinanderzusetzen. Außerdem sucht er jede Chance zur realen Kommunikation in der Fremdsprache und kontrolliert die Entwicklung seiner Lernersprache.

Laut Nehm lernt der Sprachlerner am besten:

- wenn er als Individuum mit eigenen Bedürfnissen und Interessen ernst genommen wird;
- wenn er genug Gelegenheiten erhält, kommunikativen und reflektiven Gebrauch von der Fremdsprache in einer Vielfalt von Aktivitäten zu machen;
- wenn er einer Fremdsprache in einer Weise ausgesetzt wird, die für ihn verständlich und relevant erscheint;
- wenn er sich auf eine Vielfalt von Sprachformen, Fertigkeiten und Strategien konzentrieren kann, die den Fremdsprachenerwerb und das Lernen von Konzepten unterstützen;
- wenn er sozio-kulturelle Informationen erhält und direkte Erfahrungen mit der Zielkultur sammeln darf;
- wenn er sich der Bedeutung und Eigenart der Zielsprache und ihrer Kultur bewusst wird;
- wenn er angemessene Rückmeldung (*feed-back*) über seinen Lernfortschritt erhält;
- wenn er den Freiraum bekommt, sein Lernen eigenständig zu gestalten.

Eveline Hoffman (2003: 206) bietet eine Klassifizierung nach Lerntypen. Der Begriff **Lerntyp** wird in der deutschen Unterrichtspraxis meist mit Wahrnehmungstypen wie z.B. dem visuellen oder dem auditiven Lerner, oder auch mit Orientierungstypen wie z.B. dem kontakt- bzw. personenorientierten oder dem nach Einsicht strebenden Typ assoziiert.

Eine andere Unterteilung in Lerntypen, die dem Handlungsaspekt stärker Rechnung trägt, ist eine in den USA entwickelte Typologie, die auf die Kombination von je zwei vorherrschenden von insgesamt vier beim Lernen vor sich gehenden Handlungen basiert. Diese Handlungen sind:

- konkrete Erfahrung,
- reflektierende Beobachtung,
- abstrakte Begriffsbildung,
- aktives Experimentieren.

Auf Grund der Kombination von zwei beim Lernen vorherrschenden Handlungen ergibt sich nach J. Piaget und J.P. Guitard eine Klassifizierung in den folgenden vier Lerntypen:

1.Konvergierer/Converger: Der Lernertyp Converger lernt vorwiegend durch abstrakte Begriffsbildung und aktives Experimentieren. Diese Personen sind besonders gut in der Lage, Ideen und Theorien praktisch anzuwenden. Sie wollen vom Lehrer wissen, wie sie etwas tun sollen, und der Lehrer muss dies mit ihnen üben. Ihre Stärken bestehen vor allem in ihrer Entscheidungskraft und ihrem logischen Denken. Manchmal entscheiden sie sich jedoch etwas zu schnell, ohne ihre Ideen genügend getestet zu haben (*learning by doing and thinking*).

2.Divergierer/Diverger: Die unter dem Lerntyp Diverger erfassbaren Lerner lernen vorwiegend durch konkrete Erfahrung und reflektierende Beobachtung. Sie können sich viele unterschiedliche Seiten eines Problems verdeutlichen und sind deshalb besonders gut beim „brainstroming“. Sie wollen vom Lehrer wissen, warum sie etwas tun oder lernen sollen, und der Lehrer muss sie dazu motivieren. Ihre Stärken liegen in ihrer Kreativität und ihrem Einfühlungsvermögen; allerdings haben sie auch manchmal Schwierigkeiten sich für eine von vielen Möglichkeiten zu entscheiden (*learning by observing and feeling*).

3.Akkomodierer/Accommodator: Die Lerner des Typs Accommodator lernen vorwiegend durch konkrete Erfahrung und aktives Experimentieren. Sie sind am stärksten praxisorientiert und verlassen sich beim Lösen von Problemen mehr auf ihre Intuition als auf logische Analyse. Sie fragen den Lehrer: „Was, wenn...?“, und der Lehrer muss diese Situationen mit ihnen trainieren. Ihre Stärken liegen in ihrer Aktivität und Risikobereitschaft, wobei sie sich aber auch verzetteln können (*learning by doing and feeling*).

4.Assimilierer/Assimilator: Der Typ Assimilator lernt vorwiegend durch reflektierende Beobachtung und abstrakte Begriffsbildung. Solche Lerner sind am stärksten theoretisch orientiert, können viele Informationen aufnehmen und systematisch ordnen. Sie interessieren sich im Unterricht vor allem dafür, was sie lernen; also muss der Lehrer ihnen Fakten vermitteln. Ihre Stärken liegen vor allem im Planen von Aktivitäten und im Entwickeln von Modellen und Theorien. Manchmal bauen sie dabei allerdings „Luftschlösser“, die dem Test der Praxis nicht standhalten (*learning by observing and thinking*).

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THE USE OF COMPUTER-BASED MEANS TO DEVELOP LISTENING AND SPEAKING SKILLS TO BUSINESS STUDENTS

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The aim of this paper is to analyze how business students can achieve communication skills, namely listening and speaking, through computer-based interactive simulations. In today's foreign language teaching, methods using computer applications and multimedia environments are more and more gaining territory to the detriment of traditional methods. These applications are used successfully in reading, writing, listening and speaking practices both by foreign language teachers and by students throughout the world. Moreover, these means are helpful in practising the four skills of a language: reading, writing, listening and speaking. With the advance of Internet, the computer has been transformed from a tool for information processing and display into a tool for information processing and communication. The instant worldwide connections enabled by the Internet have changed the way teachers and learners work in their teaching and learning of second/foreign language. The Internet provides the opportunity for business students to interact with native speakers and, in the same time, to listen to business people around the world, in this way getting acquainted with different accents and speeches. When students listen to a native speaker, they are automatically emerged in the latter's world. There are many idioms and phrases used by native speakers of the language but they hardly are included in the traditional lesson materials. Through specific Internet sites, the students become familiar with these idioms and phrases and most important is that they learn how to use them in a context. From a cultural point of view, the students become familiar with the turn taking habits, addressing different people, greetings, invitations and many cultural related issues. What is important to keep in mind is that the teacher must create an appropriate learning environment to suit the situation and conform to the needs of the class. A learning environment for the training of communicative competence has to take into consideration the complexity of human experience and the semantic flexibility that allows speakers to use meanings according to their communicative purposes.

Keywords: computer, skills, listening, speaking, business students.

JEL Code: Y90.

1. Introduction

“What skills are important for business graduates?” “Are business schools graduates prepared for today's tough job market?” These are fundamental questions to be taken into consideration when teaching and preparing business students for their future career. Depending on their career choice, either computer or communication skills may be more important for them. However, in most fields, being strong in both is the ideal, and almost all faculties have the resources to help their students master technical and communication skills.

Most people spend most of their professional lives writing, speaking, and listening. According to a survey implemented in 500 American businesses, over 90% of the personnel officials stated that increased communication skills are needed for success in the 21st century. The importance of communication is not surprising considering the impressive amount of time people spend communicating on the job. A study based on responses from over 1000 employers at Fortune 1000 companies found that workers send and receive an average of 1798 messages each day via

telephone, email, faxes, papers, and face-to-face communications. Some experts have estimated that the average business executive spends 75 to 80 percent of the time communicating, about 45 minutes of every hour. (1) The Internet is one of the most recent and advanced tools in education provided by the advance of technology. The Internet can be useful with any skill area in learning a foreign language, being a great resource in practicing language skills. Having strong written, and oral, business communication skills will make business graduates more competitive and more productive on the job. As multimedia technology becomes more accessible to teachers and learners of foreign languages, it has become a practical tool to improve communication skills such as listening and speaking. Students can interact with textual, aural, and visual media in a wide range of formats. This paper presents different multimedia means used in foreign language (English) classes with business students meant to improve their communication skills, speaking and listening in particular.

2. The advantages and disadvantages of using computer-based means in teaching Business English

Together with great technological development of computers, increased speed and processing power, language learning computer-based means is undergoing a continuous change, becoming more and more elaborate and resourceful. The Internet activity can be particularly useful in teaching Business English to business students. It is a “comfortable method to learn some particular expressions in business English” and “imaginative”. (2) According to Evans (1996), the results of a survey applied to students showed that students not only used the Internet activity on their own (74%) but preferred doing so (75%). (3)

However, the use of the Internet is more effective with some skills more than others. For example, it is more effective in speaking and listening than in translation. Although teachers’ reaction to the Internet usage varies from those who strongly oppose it as a place with too much and very disorganized information, to those who are in favour of it, if the Internet is used effectively and under teacher supervision, it can be a good source and tool in delivering education. When teaching a foreign language, “The internet is [a] suitable place to practise languages as it offers the possibility, with the right software, of using images and audio resources at the same time, combining sounds and images as in communicative situations in the real world. It also provides users with a highly appealing and innovative format”. (Labayen et. al., 2005:9)

2.1 The advantages of using computer-based means in teaching a foreign language

Some of the advantages considered when using multimedia in teaching Business English are: easy and quick access to words, sentences and files, advanced searching possibilities, automatic test giving and checking, progress evaluating and report generating facilities. There are many CD-ROMs containing glossaries and online scripts, so that when problems are encountered, the students can get online help. Moreover, many students wish to learn or use their computer skills, therefore the opportunity of developing computer skills along with developing their language skills may seem attractive to them. It also helps the students to become familiar with different aspects of the culture of the language they are learning.

Business students need a lot of help and resources to practice speaking, listening, reading, and writing skills, especially when they are learning specialized vocabulary in a foreign language. By using the Internet, the students have access to a wide range of audiovisual materials from radio, TV to videos in the target language. They have access to comprehension reading exercises, writing of abstracts and letters, vocabulary learning through business articles, searching for jobs or for a certain product, translation from English into Romanian or from Romanian into English and many more. Apart from the multimedia packages on CD-ROMs, a large variety of exercises and examples can be found on the Internet. Except for the main portals: <https://www.google.ro/>, www.yahoo.com, www.bing.com, there are also direct links to specialized pages for business

English teaching and learning: resource pages: <http://www.better-english.com/vocabulary.htm>, online business dictionaries: <http://www.businessdictionary.com/>, business correspondence pages: <http://www.englishclub.com/business-english/correspondence-samples.htm>.

The use of the Internet is beneficial for the teachers, too, giving fast and competent language information, covering various aspects of use, facilitating lesson preparation by providing vocabulary, texts or recordings for classroom use, or providing resources for different vocabulary presentation. Electronic dictionaries, (<http://dictionary.reference.com/>, <http://ro-en.ro/>, <http://hallo.ro/>), for instance, have become a must in teaching Business English to Romanian students. Dictionaries undergo the process of transformation into more practical tools, becoming a combination of a variety of components. One of the main characteristics of CD-ROM dictionaries is providing fast access to words in hyperlinked word entries. Another important aspect is advanced searching possibilities (searching with and/or/not operators, specifying frequency for written or spoken words, style, part of speech), which is not only word search, but also multimedia search (looking for pictures or sound effects), subject search (words relating to a given topic), word origin search or pronunciation search. Electronic dictionaries store huge amounts of data, examples, grammatical information, definitions, pictures, synonyms or related words, interactive pronunciation practice and automatic feedback.

2.2. The disadvantages of using computer-based means in teaching a foreign language

At the same time, there are disadvantages that teachers and students alike should be aware of when using the Internet: lack of a person in charge of the information found on the Internet, easy access to improper content, surfing the web during and after the class time for the materials not connected with the learning process, or virus threat. Searching for materials online can be sometimes time-consuming and many students find it difficult to read papers on a computer screen. Also, there is the threat to be covered in too much information with little control over the quality and accuracy of the contents. Therefore, a certain technical expertise is required from both teachers and students. Other disadvantages include the high cost of the hardware, lack of quality software, and the necessity of additional training both for instructors and users. Financial limitations also include the investment in training for the use of the Internet in language teaching and learning requires some technological knowledge and computer skills from both teachers and learners. In addition to these problems, Rowe (1983) considers that one of the most serious drawbacks would be, as he describes, "Teaching language for the sake of language." (Rowe 1983:192). What the author means is the overemphasis on reading and writing. Yet, according to Rowe, language is two-way communication: listening and speaking, reading and writing. Furthermore, the written language is not a separate reality independent of the spoken language. "Language is a skill not just a body of knowledge. You can read for weeks about skiing and memorize all the rules, but you don't really start learning how to ski until you strap on the skis and head down a snowy slope." (Rowe 1983:192). Yet, the use of computer and the Internet is essential for the development of listening comprehension and oral skills. According to Kruse (2004), the web content can be updated easily and the information can be in use immediately. So, this allows the lesson contents to be much more updated which may eventually cause high levels of awareness and success. Also, Kruse (2004) emphasises the fact that the cost of using computer systems and Internet can be relatively low. (4) Video and audio resources represent an effective solution to development of listening and speaking skills of foreign language learners because they are available on the Internet and the maintenance costs are relatively low.

3. Means to develop listening skills to business students

If a student wants to develop good communication skills, he has to be a good listener. To be a good speaker requires being a good listener and a good communicator. In fact, communication starts with listening. In a business meeting, for example, it is very important for business people

to listen to their counterparts carefully, attentively and with an open mind. They can know other people's view more precisely by listening unbiased. In fact, better communication is listening more and more. It is better to start thinking process after listening and understanding others. A well known quoted phrase says "Think twice before you speak, because your words and influence will plant the seed of either success or failure in the mind of another."(5)

Listening skills have been regarded as the brain's ability to perceive and analyse music, heard aurally. According to Pratt (1990), "Aural perception is self-evidently indispensable in musical activity" (Pratt 1990:1). Karpinski (2000) suggests that, without aural skills, musicians are "usually condemned to thinking about music, without learning to think in music". (Karpinski 2000:4). In face to face interaction, listening enables complex interpretive processes. "Processing requirements such as reciprocity of interlocutors' perspectives, the etcetera principle (filling in the gaps of what one hears with knowledge of the language and the world), and combined retrospective and prospective meanings all come into play."(Meskill 1996:2)

Research indicates that even though some foreign language students are often required to speak in English in their social settings, they mostly enjoy listening especially when they are watching television or films.(6) Therefore, using videos and films in classroom can be very enjoyable for the students because for many of them learning is usually associated with boredom and dullness. Listening is one of the fundamental language skills because it is a key to the acquisition of language. In our case, business students need to be able to listen effectively because in their future career they will have to prove confidence and proficiency in all areas of their English. Also, due to the fact that business people and future business graduates will have to establish contacts with foreign business partners, they have to get acquainted with highly ambiguous factors such as accent, pronunciation, or speed. Students need to aurally comprehend far more than they need to speak. That is why in Business English classes, for the students to achieve communicative competence, greater emphasis must be placed on the creation of a listening environment which reflects and responds to factors encountered in the real business world. Another aspect to be considered in a business environment is represented by the details. Negotiating or making deals online require the ability to understand the detail, too. Business students should be able to deduce divisions between words to recognize elision, contracted forms, assimilation, and linking characteristics. Therefore, they should perceive listening as a way of helping their speaking by giving them expressions, exposing them to language, and allowing them to apply it in a business environment. Modeling the real world, decision making in a simulated environment occurs under pressure, often including conflict, emotional factors, and difficult circumstances. Simulation creates a unique environment for developing and executing decision-making skills. In a listening class for business students, the teacher should use authentic listening texts rather than coursebook texts whenever possible. Some of the main sources for authentic listening are: recordings of authentic texts from the media, films (e.g. "Margin Call"), live talk - listening (e.g. a business person developing businesses in Romania; students react well to listening to someone speaking especially for them. They can notice the body language which will help them understand better. The speaker can moderate the speed of the language and students have the opportunity to interact with the speaker), recordings of native speakers or other English speakers (e.g. radio recordings or TV/video/DVD). The advantages of authentic texts are that they are topical and varied in terms of genre and content, are spoken with a variety of accents by different types of speakers, and contain real language, with current expressions and natural hesitations, repetitions and so on. Radio is one of the most accessible forms of listening, but sometimes they prove to be difficult for the students to listen to because they cannot see the body language or the facial expressions of the speaker. The most successful resources in listening classes proved to be DVD/video recordings because they allow students to have access to more information when listening since they also have visual clues as to meaning. The Internet is a powerful source for the students to practise their listening. There are many sites which are

interactive and allow students to listen or listen and watch. Sites such as: <http://www.businessenglishsite.com/business-listening-test1.html>, <http://www.businessenglishmaterials.com/> have activities especially designed for business students. Also, www.youtube.com is broadcasting many listening comprehension improving videos. YouTube is a video upload-watch-download site and is increasing its popularity day by day. According to statistics, the site has more than six million videos and the total time necessary to watch all these videos is 9.305 years. (7) This huge video pool offers priceless opportunities to practice listening in an entertaining and convenient environment.

4. Developing speaking skills by means of computer

According to Chaney (1998), speaking is “the process of building and sharing meaning through the use of verbal and non-verbal symbols, in a variety of contexts” (Chaney 1998:13). In teaching and learning a foreign language speaking plays a crucial role. In the today’s business world, the requirements for business graduates in terms of communicative skills in a foreign language are high. By teaching speaking teachers should improve students’ communicative skills, because, only in that way, students can express themselves and learn how to adapt to social and cultural rules specific to each communicative circumstance. Practising speaking, students improve fluency (speaking smoothly), pronunciation (saying words properly), and enunciation (saying words/phrases clearly). Fluency can be improved through speeches or presentations, group discussions, role plays, negotiations and debates, interviews and meetings, chatting in small groups. Pronunciation is the ability to say words properly with the correct sounds in the correct places. In our case, business students need to listen to native English business people and then practice the pronunciation of specific vowels and to try to understand movement and location of mouth and tongue when making sounds. Enunciation is a very important aspect of speaking in that poor enunciation can make someone almost impossible to understand. Again, business students need to be exposed to native speakers and, then, to work on trouble word combinations, on reductions, on sentence level stress points, on word level stress points, or on sentence level intonation patterns.

The most important aspect of teaching speaking to foreign language learners is interaction. The teachers need to create a communicative environment based on real-life situations, authentic activities, and meaningful tasks that promote oral language. By using this method, students will have the opportunity of communicating with each other in the target language. Thus, teachers should create a classroom environment where students have real-life communication, authentic activities, and meaningful tasks that promote oral language. Business students must adapt their presentations to different business circumstances. It is useful for students to know that speech should differ in formality, such as when speaking to business people. They also need to learn about the differences among various dialects. Examples from the media may provide occasions for different forms of speech. Oral presentations can be derived from newspaper and magazine articles, as well as business reports. Dramatic acting and watching plays may provide the richest opportunity to see how character and circumstance affect speech. (8) Dialogues are useful in learning standard phrases and vocabulary used in common business situations. Storytelling is an excellent method to teach speaking for students can briefly summarize a tale or story they heard beforehand, or they may create their own stories. Story telling also helps students express ideas in the format of beginning, development, and ending, including the characters and setting.

There are many resourceful sites that can be used in Business English classes, such as: <http://www.eslgold.com/speaking.html> (for situations for practice, speaking tasks, quizzes, phrases for conversation, business communication tips), <http://www.eslflow.com/roleplaysdramatheatre/games.html> (for role-plays),

http://esl.about.com/od/businessenglishdialogues/Business_English_Role_Plays_Dialogues.htm
(for business dialogues).

5. Conclusions

The technological explosion, the economic crisis and the more and more challenging requirements of the job market are main factors causing the urge to learn foreign languages. The urge of the situation calls for changes in educational practices in order to provide better results in less time and at an acceptable cost level. According to many researchers, the key to achieve these results is the computer, namely the Internet. Computer-based communication technology provides tools for language learners to improve their language skills. Learners are exposed to numerous software programs to improve their reading, listening, speaking skills and grammar knowledge. Texts and visuals are aids to language processing when appearing in conjunction with the aural text. The motivational aspect of video is as an advantage for language instruction. Combined media enhance target language processing, therefore rendering input more direct and obvious for the language acquisition process. The Internet offers teachers and students an impressive amount of materials and communication possibilities to improve their language teaching and learning. Yet, for the successful integration of the online environment in language courses, both teachers and students need to be prepared to adopt new roles and use the available technology in appropriate ways. Students, especially business students can only benefit from technology – based activities if these activities are relevant to their needs and interest.

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SECTION: ECONOMICS AND BUSINESS ADMINISTRATION

SUB-SECTION: ECONOMICS

PRICE VS QUALITY COMPETITION AND THE SPATIAL PATTERN OF AVERAGE PRICES IN INTERNATIONAL TRADE

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This work investigates the relationship between the average export prices and the distance between the origin and the destination market in international trade. Distance between trading partners obviously stands at the core of international trade literature and is strictly related with the issue of how countries and firms compete on export markets when transport costs become increasingly stiff. Heterogeneous-Firm Trade (HFT) models predict that only most competitive firms are able to export on distant markets, where it is more difficult to recover from freight costs. However, this simple concept does not lead to unambiguous predictions on the spatial pattern of average export f.o.b. prices.

This work uses bilateral product-level data for five top-exporters (US, Germany, China, France, Italy) and all their world partners in order to test the main hypotheses derivable on this issue from theoretical literature. An huge dataset of bilateral international trade flows, the BACI dataset of CEPII, provides data both on values and quantities, allowing to construct products' unit values (at the 6 digit level of the Harmonized System), approximating average exports' prices. These data are used as the dependent variable of the econometric test and regressed on a set of explanatory variables: the distance of the destination market from the exporter and other importer's characteristics. Thus, this test assesses which of the considered theoretical models fit the data best, shedding some light both on the sign and on the determinants of the spatial pattern of average prices. The main finding of this work is that theoretical models not embedding a quality dimension for products do not seem to fit the data very well: it is clear from the econometric test that a positive correlation between average exports' prices and distance often emerges, denoting a "quality competition" pattern in addition to a possible alternative pattern of "price competition". Moreover, theoretical models with a quasi-linear demand function (in contrast with a CES one) are able to better explain same evidences emerging from the data.

Keywords: average prices, distance, quality, inter-firm selection, spatial price discrimination

JEL codes: F1, F59, D4, Z1

1. Introduction

This work investigates the relationship between the average export prices and the distance from the origin market to the destination market in international trade. According to the most recent theoretical contributions in international trade (IT hereafter) theory, the following analysis uses bilateral trade data in order to test different hypotheses on the spatial pattern of average prices.

International trade is still strongly affected by geographical distance, in spite of the technological progress which lowers transport costs (Hummels, 2009: 3). Trade flows always depend on the number of goods traded, on their quantities and prices. Distance has a compelling influence not only on the first two of these factors, determining the incidence of "zeros" in bilateral flows (Baldwin and Harrigan, 2011: 73), but also on products' prices. Indeed, geographical distance implies transport costs, which hinder exporting firms' competitiveness on distant markets.

Whereas it is obvious that there is a positive relation between the "cost insurance and freight price" (c.i.f. price) of products (1), that is their price on the destination market ("consumer's price"), it is not straightforward how distance affects the "free on board price" (2) of exports, that

is their price on the origin market (“producer’s price”). This work analyzes the relation between the export average f.o.b. prices and the distance between the trading partners.

Recent works of IT literature alternatively assign to the price-distance relation a negative sign (Melitz, 2003: 1717; Melitz and Ottaviano, 2008: 304), a positive sign (Baldwin and Harrigan, 2011: 79) or neither systematically a positive nor a negative sign (Kneller and Yu, 2008: 14). When present, the empirical test is carried out on a single country’s trade data.

This work uses bilateral trade data in values and quantities for the 5 top-exporters and their world’s partners (at the 6 digit level of the Harmonized System) to construct the unit values (as an approximation of average f.o.b. prices) and regress them on data for distances between trading partners and other characteristics of the importers (used as control variables).

2. Theory on the average price-distance relation

2.1. Mechanisms and variables affecting the average price-distance relation

Alchian and Allen (1964) formulated the hypothesis known as “shipping the good apples out”: the average prices of goods increase with the distance from the destination market, depending on a “compositional” effect in demand, due to the fact that per unit transport costs (3) benefit high-priced, high-quality goods as distance increases. Together with the modelling choice for transport costs’, quality has always played an important role in the analysis of the price-distance relation.

One of the most recent waves of IT literature, that of Heterogeneous Firm Trade (HFT hereafter), grounded on Melitz (2003), has important implications on the analysis of the spatial pattern of average prices. These contributions are complementary to the Alchian-Allen hypothesis, since the HFT models are based on different mechanisms and on the assumption of iceberg transport costs (Baldwin and Harrigan 2011: 81).

Four HFT models have been analyzed (Melitz, 2003; Melitz and Ottaviano, 2008; Baldwin and Harrigan, 2011; Kneller and Yu, 2008), and different predictions for the price-distance relation have been drawn. The four examined HFT models share same basic assumptions: they are monopolistic competition models with firms randomly drawing a marginal cost c from a common distribution $G(c)$ with support $[0, cM]$. Transport costs are “iceberg”, increasing in distance.

But they differ in other hypothesis:

- with a CES demand, firms adopt a “mill pricing strategy”; with a quasi-linear demand, firms “space-discriminate” when setting their optimal f.o.b. prices (Martin, 2009);
- firms may differ only for their efficiency or also for quality: if present, quality is modelled as a log-linear function of marginal cost, $z = c\sigma$, where z stands for the quality level, and $\sigma \geq 0$ is the elasticity of quality to marginal cost and is country-specific. As a consequence, firms may be selected in each export market on the basis of their quality-adjusted prices, when $\sigma > 1$ (“quality sorting”) or on the basis of their observable prices, when $0 \leq \sigma \leq 1$ (“efficiency sorting”);
- the importer-specific cost cut-off, separating firms efficient enough to export from those which are not, is always a direct function of freight costs and either a direct function of market size or an indirect one, through its relation with a price index, negatively related with market size.

The HFT literature explains the average price-distance relation through two types of processes (see Affortunato and Mattosio, 2012, for a more thorough review):

- 1) a possible intra-firm level process of spatial price discrimination;
- 2) an inter-firm selection process in export markets.

The first process regards the possibility that firm may set different levels of markup and price in different markets (Melitz and Ottaviano, 2008). With regard to this issue, two problems arise about how to model: a) preferences, ruling the price elasticity of demand; and b) transport costs, ruling the relation between the demand elasticity to c.i.f. and f.o.b. price (Martin, 2009). This last issue is bypassed, since freight costs are always modelled à la Samuelson.

With regard to the second process of firms' selection into export markets, firstly introduced in Melitz (2003), the standard HFT theory predicts that only most efficient firms can export. In models with asymmetric countries, this means that average prices decrease with distance, when quality is not considered ($\sigma = 0$) or when quality is not efficiently produced ($\sigma \leq 1$); whereas it means that the average prices increase with distance (when quality is efficiently produced ($\sigma > 1$)).

2.2. The predictions for the average price-distance relation in HFT theory

Below (Table no. 1) the predictions drawn from the four examined models are listed, according to the models' assumptions on the said key-variables (quality, preferences and transport costs).

Table no. 1 - Predictions on the spatial pattern of prices from HFT theory

MODELS	ASSUMPTIONS			PREDICTIONS ON		
	Heterogeneity dimension	Demand curve	Transport costs	Spatial Price Discrimination	Firms' Selection	Total Effect
<i>Melitz (2003)</i>	Efficiency	CES	Iceberg	0	-	-
<i>Baldwin and</i>	Efficiency	CES	Iceberg	0	-	-
<i>and</i>	Quality			0	+	+
<i>Melitz and Ottaviano (2008)</i>	Efficiency	Linear	Iceberg	-	-	-
<i>Kneller and Yu</i>	Efficiency	Linear	Iceberg	-	-	-
	Quality			-	+/-	+/-

Table made by the authors

The firm's optimal price is unrelated/negatively related with distance in models with a CES/quasi-linear demand. The inter-firm selection effect implies a positive/negative relation of average prices with distance in the case of quality/efficiency sorting. The last column lists the signs of the average price elasticity to distance resulting from these two mechanisms.

A second important relation is that of the average prices with the importer market size: though this is not the main focus of this work, some attention is due to this relation which helps assessing the theoretical models' performances when carrying out the empirical test. To sum up:

- average f.o.b. prices are positively correlated with distance (and negatively with market size) in HFT models with CES demand and "quality competition";
- average f.o.b. prices are inversely correlated with both distance and market size in HFT models with quasi-linear demand and "efficiency competition";
- average f.o.b. prices are ambiguously correlated with both distance and market size in HFT models with quasi-linear demand and "quality competition".

In the next paragraph, the econometric test and its results are described.

3. Testing the predictions on the average price-distance relation

3.1. Methodology and data

In this section, an econometric test is run to evaluate the above examined theoretical predictions on the spatial pattern of average prices. The econometric model regresses unit values (approximating average prices) on a measure of distance and on other explanatory variables:

$$UV_{kij} = \alpha_k + \beta X_j + \varepsilon_{kij} \quad [1]$$

where the dependent variable UV_{kij} (the unit value of product k , exported from country i to j) is a proxy for average f.o.b. price and is regressed on a set X_j of independent variables. UV_{kij} is:

$$UV_{kij} = V_{kij}/Q_{kij} \quad [2]$$

where V_{kij} and Q_{kij} are total values and quantities of product k , shipped from country i to j . The set X_j of explanatory variable contains the following importer's characteristics:

- real GDP, approximating for market size;
- real GDP per capita, accounting for wealth;
- a "border dummy", for contiguity;
- a "language dummy" for sharing a common language with the exporter;
- a product k 's average unit value, approximating a price index (as in Martin, 2009):

$$UV_{kj} = \sum_i w_{kij} UV_{kij} \quad [3]$$

where w_{kij} is the weight of good k exports from country i .

Unit values are from the BACI dataset (CEPII), developed by Gaulier and Zignago (2010); "products" are 6-digit Harmonized System codes and only codes for which at least 50 observations were available are used in the regression. Data on physical distances, border and language are from CEPII. Real GDP and real GDP per capita for 2007 are from the World Bank.

3.2. Results

Running the regression [1] on the above cited data the following results emerge (Table no. 2):

Table no. 2 – Statistical determinants of export unit values (2007) (4)

	US	Germany	China	France	Italy
Log distance	0.219*** (0.005)	0.086*** (0.002)	-0.095*** (0.007)	0.065*** (0.003)	0.099*** (0.003)
Log real GDP	-0.022*** (0.001)	-0.013*** (0.001)	0.004*** (0.002)	-0.018*** (0.002)	-0.008*** (0.002)
Log real GDP per capita	0.096*** (0.002)	0.022*** (0.002)	0.089*** (0.002)	0.050*** (0.002)	0.071*** (0.003)
Log average UV	0.141*** (0.001)	0.110*** (0.001)	0.188*** (0.002)	0.074*** (0.002)	0.116*** (0.002)
Border	0.034** (0.018)	-0.132*** (0.009)	0.121** (0.012)	-0.044** (0.014)	-0.106** (0.018)
Language	-0.288*** (0.005)	0.093** (0.015)	-0.166** (0.016)	-0.160*** (0.007)	0.234** (0.033)
<i>R</i> ²	0.078	0.043	0.055	0.021	0.024
Sample	242,144 observations on 2,780 HS6 codes	253,246 observations on 2,861 HS6 codes	285,773 observations on 2,846 HS6 codes	179,194 observations on 2,149 HS6 codes	208,298 observations on 2,458 HS6 codes

Table made by the authors

From Table no. 2 it is evident that the correlation both between average f.o.b. prices and distance and between average f.o.b. prices and market size is always statistically significant. Also the average unit value has a high coefficient and is highly statistically significant.

Since only China has a negative coefficient for the average price-distance relation, whereas the coefficient is positive for all the other exporters, theoretical models not embedding a quality dimension for products do not seem to fit the data very well. If competition between exporting firms was only a price competition, only cheaper products should be able to compete on distant markets and the correlation between prices and distance could never be a positive one.

Other important considerations emerge by looking at the sign of the combinations of the price-distance relation and of the price-market size relation: there is always an alternation of negative-positive or positive-negative signs respectively in the case of China/others. In lines with the Baldwin-Harrigan model, this result could be interpreted in the sense that an efficiency/quality sorting pattern emerges respectively for China/others, in contrast with theoretical models without quality. However this constant alternation of signs could be due to the aggregation along the HS6 codes. In order to clarify that, the same regression [1] has been run separately on each HS6 code.

Table no. 3 – Combinations of Signs for the Price Elasticity to Distance and Market Size

	Number of HS6 Codes with			
	Positive-Positive Price Elasticity to Distance and Market Size	Positive-Negative Price Elasticity to Distance and Market Size	Negative-Positive Price Elasticity to Distance and Market Size	Negative-Negative Price Elasticity to Distance and Market Size
US	1,392	1,140	182	106
Germany	1,078	1,304	247	277
China	561	581	887	844
France	725	915	257	305
Italy	654	1318	296	234

Table made by the authors

The Baldwin-Harrigan model seems to be incompatible with the emergence of all possible combinations of sign for the correlation of average prices with distance and with market size.

By contrast, the Kneller-Yu model can explain the results ensuing from this last regression. The importer's market size enters models with quasi-linear preferences through its relation with the price index: as market size increases, competition becomes tougher and the price index decreases. Thus, only the most competitive goods are shipped on bigger markets: the average prices relation with market size is negative/positive in the case of efficiency/quality sorting.

In lines with the Kneller-Yu model, a quality sorting pattern may emerge in three cases, that is when the combination of signs for the price elasticity to distance and market size is:

- positive-positive (implying that the "selection effect" always dominates);
- positive-negative, when the "selection effect" dominates for distance and the "spatial price discrimination" leads for market size;
- negative-positive, when the "spatial price discrimination effect" dominates for distance whereas the "selection effect" prevails for market size.

By contrast, an efficiency competition emerges in the remaining case of a negative elasticity of average prices both to distance and to market size.

4. Conclusions

The main finding is that theoretical models not embedding a quality dimension for products do not seem to fit the data very well, being clear from the econometric test that a positive spatial pattern of average prices often emerges, denoting a "quality competition" pattern.

The Kneller and Yu model shows the best performances in explaining the data, since:

- it predicts a sorting pattern which may operate both as a price and as a quality competition;
- it allows the emergence of all the four possible combinations of signs for the correlations of average prices with distance and with market size;

- it embeds a price index as one of the variables influencing the price-distance relation, as it clearly appears from the data.

The implications of the analysis relate to at least two fields of study: i) the firm-level strategies to keep competitive on export markets and the reallocation of resources as a consequence of firms' selection; ii) the performances of trading countries in the global market and the consequent changes in their welfare. In the light of this work's results, both firms and countries may vary their strategies or policies according to their choice of how to compete on export markets: they should encourage firms' physical efficiency to price-compete; they should enhance firms' efficiency in terms of the goods' quality content, if they want to lead on a quality competition.

Notes

(1) The c.i.f. price (i.e. cost, insurance and freight price) is the price of a good delivered at the frontier of the importing country, including any insurance and freight charges incurred to that point, or the price of a service delivered to a resident, before the payment of any import duties or other taxes on imports or trade and transport margins within the country (UN, 1998).

(2) The f.o.b. price (free on board price) of exports and imports of goods is the market value of the goods at the point of uniform valuation (the customs frontier of the economy from which they are exported). It is equal to the c.i.f. price less the costs of transportation and insurance charges, between the customs frontier of the exporting (importing) country and that of the importing (exporting) country (UN, 1998).

(3) IT scholars typically express transport costs in *ad valorem* terms, that is as the percentage change in price induced by freight costs (Hummels, 2009: 8): $p_{cif}/p_{fob} = 1+f/p_{fob}$, where f is the per-unit freight cost and p_{cif} and p_{fob} are the c.i.f. and the f.o.b. price. Since Samuelson (1954), this f -term has been treated as an *ad valorem* tax equivalent (iceberg costs), that is as if f was a constant percentage of the value traded, implying that the c.i.f. price of a good relative to its f.o.b. price is not a function of the f.o.b. price: $p_{cif}/p_{fob} = \tau$, with $\tau > 1$. By contrast, in industrial organization literature, an additive approach is preferred (keeping the f -term additive, as in the general formulation), so that the c.i.f. price-f.o.b. price ratio is an inverse function of the f.o.b. price and more expensive goods have a less than proportional greater trade costs.

(4) Dependent variable is log unit value of exports by HS6 product and export destination, relative to HS6 code mean (that is, HS6 code fixed effects are included in all regressions). Independent variables are the listed characteristics of export destinations. Estimator is OLS. Standard errors in parenthesis. Asterisks denote statistical significance: *** Significant at the 1 percent level; ** Significant at the 5 percent level; * Significant at the 10 percent level.

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COMPARATIVE STUDY ON LABOR MARKET FLEXICURITY AUSTRIA - ROMANIA¹⁵

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Present in the European political discourse in the early '90s, the concept of flexicurity, achieved by the contraction of two terms, flexibility and security, emerged in the European Union with the adoption of the Communication "Towards Common Principles of Flexicurity: More and Better Jobs through Flexibility and Security" in June 2007.

This study, result of the research internship undertaken in October-December 2011 at WIFO, aims to capture the main dimensions of labor market flexicurity, the quality of social partnership and the present status of the targets set by of Europe 2020 Strategy.

Europe 2020 Strategy aims, among other objectives, at achieving a series of targets specific for the labor market, in the European context, such as:

- Employment for the population aged between 20-64 years,*
- Reducing the number of early school leavers,*
- Increasing the share of university graduates in the population between 30-34 years,*
- Reducing the number of people affected by poverty and social exclusion.*

Keywords: labour market, flexicurity, employed population, unemployment, market requirements

JEL Clasification: J62, J82, F59

Flexicurity - concept, principles

International Labor Organization, since it was founded in 1919 by the Treaty of Versailles, has as main task the improvement of working and life conditions. ILO standards are a reflection of the Member States' will to ensure, by international regulations, the fundamental human right to work and social security as well as its related rights:

- freedom of association;*
- prohibition of forced labor;*
- equal opportunities and fair treatment for all.*

The concept of labor market flexicurity has resulted from the contraction of two terms, taken carefully into account by both employees and employers, respectively:

- flexibility, an aspect monitored, in particular, by employers and employers' associations;*
- security, an element found in the attention of employees and trade unions.*

Health and safety at work is synthesized as the heart of the International Labor Organization's preoccupations. Framework Convention on Social Security no. 102/1952 established, with the flexibility required by the diversity existing between the Member States, minimum levels of benefits in nine areas of social security deemed as essential: health care, sickness benefits, unemployment compensations, old age benefits, compensations for accidents at work and occupational diseases, benefits to families, maternity benefits, disability benefits, survivors' benefits.

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Any State interested in ratifying the *Convention on social security* must comply with the minimum standards for at least three of the areas identified, of which at least one should refer to: unemployment compensations, compensations for accidents at work and occupational diseases, old age, disability or survivors' benefits, and the state may commit itself afterwards to respect rules regarding other areas of social security. Community standards consider the social dimension of EU labor market as a whole:

- free movement of people, goods, services and capital;
- increasing the welfare of EU citizens and especially those who work within it;
- working conditions: job security, wages and working time, labor relations, unemployment and employment, protection of employees (in case of insolvency, the protection of young people at work) etc.

For the first time the term flexicurity was used in the Netherlands in the mid '90s to correct discrepancies between an inflexible labor market in terms of employers, who could dismiss employees with contract of indefinite duration only with great difficulty, and an uncertain situation on the labor market for employees who needed an increase in job security. The balance between flexibility and security on the labor market, expressed by flexicurity started to become a serious concern for the social and political partners from Denmark, Belgium, Germany, Austria and France, so the term flexicurity began to offer consistency to the European political discourse from 1996-1997.

The flexicurity concept can be defined as "a political strategy that seeks to increase labor market flexibility in a synchronous and deliberate manner, in work organization and labor relations on the one hand and social security and employment on the other hand, especially for the vulnerable groups of workers inside and outside the labor market"¹⁶.

The popularity of the term flexicurity lies not only in its quality of political strategy, since flexicurity is also a historical process involving not only politicians but also social partners, between which sometimes heated debates occur and they are both accustomed to the art of negotiation and compromise. „Flexicurity represents, first of all, the degree of security of the job, employment, income and of the combination facilitating the careers and biographies of workers, with a relatively weak position, and allowing sustainable and qualitative participation on labor market and social inclusion, while providing a degree of numerical flexibility (external and internal), functional and wage related, that allows appropriate and timely adjustment of labor market to the ever changing external conditions in order to increase competitiveness and productivity"¹⁷. Secondly, flexicurity can be considered an appropriate analytical framework for analyzing flexibility and security of labor by international comparisons or comparisons within certain branches and sectors of the national economy.

Comparative Data on Taxes and Social Contributions

The labor market in each country is influenced by the overall level of tax and contributions paid by employers and employees. In our analysis we have monitored the general level of taxes in GDP, top statutory income tax rates, standard value added rates and an example of calculation of personnel costs for a gross salary of 2000 euro per month, in Romania and Austria.

a. Tax Revenue in GDP

Fiscal philosophy on which the budgetary and fiscal policy mix is based is very different in Romania compared to Austria. While Romania collected in 2009 only 27% of GDP from the state budget, well below the European average - 38.4% -, Austria collected 42.7% in the same year, according to table 1.

¹⁶ Ton Wilthagen, Ralf Rogowski, *Legal Regulation of Transitional Labor Markets*, Cheltenham Publishing House, 2002, p. 233.

¹⁷ Ton Wilthagen, Frank Tros, *The concept of flexicurity a new approach to regulating employment and labor market's Transfer*, European Review of Labor and Research, nr. 10/2004, p. 166.

Tax Revenue in GDP

Table no.1

	%
EU 27	38.4
EA 17	39.1
Austria	42.7
Romania	27.0

Source: Own processing from <http://ec.europa.eu/eurostat>

b. Standard Value Added Tax Rate

VAT is an important source for each EU country budget. Under the impact of international financial crisis that led to a reduction in consumption and therefore in VAT revenues, some countries have increased the rate of VAT, as the case of Romania, which increased the VAT rate by 5 percentage points, while other countries, including Austria left unchanged the VAT rate, as can be seen from the analysis of Table No. 2:

Standard Value Added Tax Rate

Table no.2

	2010		2011	
			%	
EU 27		20.4		20.7
Austria		20.0		20.0
Romania		19.0		24.0

Source: Own processing from <http://ec.europa.eu/eurostat>

c. Top statutory income tax rates

The level of the income tax on both persons and companies is very important. The two countries, Romania and Austria, practice different levels of income taxation, Romania among the lowest in the EU, while Austria is practicing levels above the European average, as can be seen from the analysis of Table No. 3.

Top Statutory Income Tax Rates

Table no.3

	Tax on personal income		Tax on corporate income	
	2010	2011	2010	2011
EU 27	37.6	37.1	23.3	23.2
EA 17	41.4	41.8	25.6	25.5
Austria	50.0	50.0	25.0	25.0
Romania	16.0	16	16.0	16.0

Source: Own processing from <http://ec.europa.eu/eurostat>

d. Comparative Example of Wage Expenses

For exemplifying the wage related expenses, a parallel calculus was made, based on the current legislation, for a salary of 2000 euro / month for a person who lives in Vienna, respectively in Bucharest, with no other dependents, the results being reported in Table 4 and Table 5:

Calculation situation of net wage

Table no.4
Euro

Wage Earner	Vienna	Bucharest
Gross monthly wage	2000	2000
Social security contribution	-361	-330
Income tax	-229	-267
Net monthly wage	1410	1403

Source: Own processing from <http://ec.europa.eu/eurostat>

The situation of wages paid by the employer

Table no.5
Euro

Employer costs	Vienna	Bucharest
Gross monthly wage	2000	2000
Social security contribution	467	520
Employer contribution	98	36
Local tax	60	-
Employer total costs	2625	2556

Source: Own processing from <http://ec.europa.eu/eurostat>

Conclusions

The existent differences fall in the logic of European construction characterized by unity in diversity, but they greatly challenge the authorities' ability to ensure a high potential of convergence of all the countries participating in European economic area.

In conclusion, in Table 6 we shall present the differences highlighted by the study.

Summary of comparisons

Table no.6

Specification	Austria	Romania
Stability of labor legislation	High Stability	Legal Instability
Rigidity of legislation on the employment protection	Insured in the European legislation	Insufficient
Consensual social dialogue	Non-regulated, but functional	Regulated, but nonfunctional
Taxation	High	Low
Share of the employed population	High	Low
Research and development expenses in GDP	Important	Very Low
Poverty Rate	Low	High

We appreciate that the current situation of Romania may be modified if the authorities will pay attention to Europe 2020 Strategy's objectives, for which will be necessary to develop concrete programs of action by involving all political parties and social partners. The potential of convergence between Austria and Romania is high, and both countries can gain from the development of partnership and collaboration relationships. On the Romanian labor market there are currently strong employers from Austria such as OMV, Erste Bank, Raiffeisen Bank, Wiener Staditche and others, while on the Austrian labor market there are Romanian employees working who have adapted to local market's requirements.

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ANALYSIS OF RURAL TOURISM POTENTIAL OF REGION CRISANA

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Abstract: In this paper we will present a SWOT analysis on the potential of rural tourism in the region Crisana.

Crisana region is a historical region delimited at north by the river Somes and Maramures region, at west by the river Tisa, at south by the Mures river and Banat region, and at east by the peaks of the Apuseni Mountains and Transylvania region. Crisana Region stretches on both Romania and Hungary, and we will refer only to the Romanian side of it. Crisana region has an area of 17,717 km² and if we refer to the current counties, this region includes much of Arad county, without the area between the river Mures and Timis county, north of Hunedoara county Bihor county and part of western Salaj county.

Key words: Crisana, touristic potential, rural tourism

JEL codes: R1, R11, P25

Introduction

The Crisana region is a historical region delimited at north by the river Somes and Maramures region, at west by the river Tisa, at south by the Mures river and Banat region, and at east by the peaks of the Apuseni Mountains and Transylvania region. Crisana Region stretches on both Romania and Hungary, and we will refer only to the Romanian side of it.

Crisana region has an area of 17,717 km² and if we refer to the current counties, this region includes much of Arad county, without the area between the river Mures and Timis county, north of Hunedoara county Bihor county and part of western Salaj county.

Materials and methods

To analyze the rural touristic potential areas for the Crisana region, we used the SWOT analysis method. The specific of the SWOT analysis is that it studies both the internal features (the positive and negative factors) and external environmental influences (opportunities and threats).

Results and discussions

The data with this analysis was made was selected from the published articles upon this subject (Ghinea, 2002) , and processed properly, according to the indicators that we considered relevant for this article.

a.Strong points (Advantages)

-favorable geographical position, the gateway into the country from the West, several border crossing points, both road and rail;

-varied landscape and beautiful natural landscape with potential for practicing various forms of tourism - the mountains about 25%, 35% hills and 40% plains, table 1;

Table 1. Landscape of Crisana region

County	Relieful		
	mountains %	hills %	plains %
Arad	35	15	50
Bihor	24	32	44
Hunedoara	68	32	-
Salaj		predominantly	small

Table 2. Hydrography and forested areas

County	Hydrography		Forested areas, mii ha
	Reprezentative courses and lakes	density, km/km ²	
Arad	Mureș, Crișul Alb, Tauț, Ghioroc		212
Bihor	Barcău, Crișul Negru, Crișul Repede, Cefa, Tămașda, Inand, Homorog		195
Hunedoara	Mureș, Crișul Alb, over 100 natural lakes, Bucura, Zănoaga	0,5-1,1	313
Salaj	Someș, Crasna, Barcău,	0,7-0,8	106

-particularly karst topography (over 6000 caves from which dozens are arranged and are great attractions for both tourism and caving);

-large number of natural reserves and protected areas (Arad county has 17 and 2 of them are natural monuments, Bihor county has 61 of which 16 are natural monuments, Hunedoara county has 12 of which 2 are natural monuments, and Salaj county has 4. In total there are 94 reservations of which 20 are natural monuments);

-diversity and the relatively high number of natural attractions and antropics: about 1100, of which about 550 in villages (in Arad 414 objectives of which about 200 in rural areas, in Bihor 435 of which about 200 in rural areas, in Hunedoara 140 of which about 100 in rural areas and in Salaj 135 of which 60 in rural areas), historical and architectural monuments, archaeological sites, fortresses, castles, places of worship (churches, wooden monasteries century. XVI-XVIII);
-mountain paths in the Zarand Mountains, Codru-Moma, Bihor, practicable and for cycling, European path of long distance E7 which is crossing the Arad county from west to east;

-flora and fauna of great diversity and a valuable hunting and fishing because of the diversified landscape of forest area (approximately 510 000 ha, 28% of the region), water courses and natural lakes and artificial tab. 2;

-rich network of rivers and hot or mineral water sources with potential for geothermal drilling, famous spas (Baile Felix, 1 Mai, Moneasa Geoagiu Bai, Lipova, Stana de Vale), tab.2 ;

-temperate continental climate, with moderate to mild winters, relatively warm summers, mean annual temperature -2 – 11⁰ C, and the winds occurs in almost all directions at speeds ranging from 2 to 7.7 m/s, so there are good conditions for practicing tourism, tables 3 and 4;

Tabelul nr. 3. Climatic favorability

County	Climate	Average anual temp., °C			Average annual precipitation, mm
		plain	hill	mountain	
Arad	Continental-moderate	11	8-9	6	600-1000
Bihor	Cont.temperate moderate	10,5	8-10	2-4	600-1400
Hunedoara	Continental temperate		10	-2	530-1400
Sălaj	continental temperate moderate	9,6	6		630-1000

Table 4. Direction and wind speed

County	Direction, %						Speed, m/s
	SE	S	SW	W	NW	N	
Arad	13,7	13			10,7	12,4	2,6-6
Bihor		28,1		3,6		8,6	7,5-7,7
Hunedoara				14-15	12-14		2-6
Sălaj	16,1		10,5		9,2		3-4

-region with tourist attraction, especially domestically and internationally less, providing favorable conditions for practicing a variety of forms of tourism: hiking, climbing, caving, rafting, adventure tourism, winter sports, short and long term rest , children and youth camps, spas etc;

-variety of accommodation: hostels, lodges, tourist stops, campgrounds, cottages and hotels from 2-4 stars (only ANTREC affiliated pensions there are 14 in Arad county, 35 county towns in Bihor, 14 villages in the Hunedoara county and 2 towns in Salaj County);

-population structure shows a significant share of the rural areas, a large number of bigger villages (263), even larger number of small villages (1430), population density is rather low, averaging 70 inhabitants/ km², while de national average is 92-93 inhabitants/ km², tab.5;

Table 5. Population structure and administrative units

County	Population, %		Area, %		Density, loc/km ²	Administrative units	
	men	women	urban	rural		villages	Small villages
AR	48,17	51,83	51,82	48,18	61,7	67	267
BH	48,81	51,19	49,68	50,32	82,7	90	429
HD	49,24	50,76	76,03	23,97	75,2	55	448
SJ	49,06	50,94	42,23	57,77	66,8	55	281

-rich cultural offer: festivals and celebrations, theatrical performances, concerts, exhibitions, sport competitions, customs and traditions preserved, intercultural, ethnic and religious diversity due to ethnic cohabitation: Hungarians, Germans, Serbs, Slovaks, Bulgarians, tab.6;

Table 6. Structure of the nationalities

County	Nationality, %		
	romanians	hungarians	gypsies
AR	80,5	12,5	2,8
BH	66,5	28,8	3,4
HD	91,9	6,1	1
SJ	72,2	23,7	3,5

-working structures that favor tourism business: industrial areas on the outskirts of big cities, chambers of commerce exhibition halls, conference rooms and business meetings organized at several hotels, active and competent institutions to promote and develop tourism tourist information office and NGOs with the object of activity in tourism, travel agencies, human resource training institutions (universities, colleges, chambers of commerce);

-ethnographic exhibitions and events, actively practicing traditional arts and crafts, local traditions in farmers activity;

-accessibility is acceptable given railway network with an average density of 50-55km/1000 km², the national average of 47.8 km/1000 km², public road network from 7967 km of which 2006 km are modernized and a density of approximately 30-32 km/100 km², compared to the national average of 30.7 km/100 km², tab.7;

Table 7. Railway and road network

County	Railway network		Public road network		
	length, km	density, km/1000 km ²	length, km	modernized, km	density, km/100 km ²
AR	485	62,5	2079	498	26,8
BH	474	62,8	2491	581	33
HD	339	48	1972	634	27,9
SJ	176	45,5	1405	293	36,4

b. Weaknesses (Cons)

- industrial units polluting activity or dismantled and a negative visual impact;
- in many villages the rural activity collection, recycling waste, and restoring the natural ecological areas, poorly developed;
- pollution of rivers and lakes;
- restricted leisure offer, recreation areas lack forested areas;
- state of degradation of many buildings and monuments;
- quality of the presentation and translation into museums or tourist attractions is generally poor;
- the including of local traditions and folklore for the touristic activities is sporadic and ineffective;
- weak and undiversified offer of souvenirs;
- poor quality of bus and car routes to stations, routes of buses with no fixed programs and the lack of displays for the program, poor quality of trains, buses and other means of transport;
- poor infrastructure, poor quality of roads (inadequate and poorly maintained roads), lack of access roads discourage potential tourists, the streets within the villages are at best cobbled, very few are paved;
- lack of indicators for the tourist attractions - conventional international tourist signs are brown;
- campsites for tents and caravans, absent;
- urban facilities (bank offices, post, exchange, etc.) insufficient or old in rural tourism;
- lack or insufficient capacity of car parking areas and toilets in tourist areas or traffic routes;
- poor awareness of the importance of tourism to the economy, especially in rural areas;
- unattractive wage levels, which stimulate labor migration outside the country;
- professional training in the field does not exactly match the needs of employers;
- failure in school education in environmental protection and tourism;
- poor awareness of opportunities and potential career in the tourism industry;
- low levels of education and communication in various languages of international circulation;
- insufficient use of IT tools and the Internet for information, marketing and booking, promoting the tourism potential failure caused by lack of involvement of tourism operators in developing and promoting national and international tourist market touring programs of the region;
- lack of regional brands, even if there are brands for certain counties;
- lack of a database of festivals and cultural events that allow an effective promotion for domestic and foreign tourists;
- reduced collaboration of the public / private sector on issues of marketing, poor information, lack of motivation and lack of confidence on population regarding touristic potential capitalization and on loans for investment in tourism from they could benefit;
- promotional materials are inadequate or poor quality;

-low participation in fairs;

c. Opportunities

- superior capitalization of the touristic potential, development of recreational areas, improvement of the region's towns image, are opportunities that can be exploited by the organizations interested in developing the local tourism;
- participation in national and international tourism fairs;
- exploiting the advantages and disadvantages offered by organizing the first international tourism congress in Romania, in May, 2011, at Alba Iulia;
- the existence of a tourism strategy in the Hungarian euroregion Haidu - Bihor and national strategy of developing the tourism, as well as developing strategies for the Western Regions V and VI Northwest;
- government funding programs for retraining;
- increased tourist traffic to Central and Eastern Europe and an often request upon the tourism types based on nature and undamaged landscapes;
- direct vicinity of Hungary, which in the east does not have a very attractive landscape for tourism;
- romania's EU integration, harmonization of legislation with the European Union 's one and for the entry into the Schengen area;
- programs from the local and central authorities for developing the rural enviroment, like adopting the tourism strategy for the Arad county;
- building in the future a section of highway for the Budapest - Bucharest route, a route that should pass trough Bors and a section of the IV paneuropean road, Nadlac-Arad-Timisoara
- numerous and active partnerships between institutions and business people in the border regions Haidu Bihar - Bihor and Arad - Bekes;
- internal and external funding opportunity programs in which the target is the tourism sector;
- relatively good economic development, low unemployment percentage, especially in Bihor and Arad;
- cross-border cooperation in tourism development in the context of achieving Euro-region Danube DKMT, Mures, Cris, Tisa.

d. Threats

- neighborhood / county competition with a more developed and capitalized rural tourism potential (Cluj, Satu-Mare, Alba)
- degradation of historical and architectural monuments;
- gradual loss of traditions and customs in rural areas;
- cultural pollution and the magnifying dimensions of the kitsch phenomenon;
- depopulation of villages and youth migration to cities or other countries;
- low standard of living for a significant segment of the population;
- failure to comply with legal regulations resulting environmental damage, damage upon the protected areas of forest, fish and wildlife, water pollution;

Conclusions

Crisana region is a historical region delimited at north by the river Somes and Maramures region, at west by the river Tisa, at south by the Mures river and Banat region, and at east by the peaks of the Apuseni Mountains and Transylvania region. Crisana Region stretches on both Romania and Hungary, and we refered only to the Romanian side of it. Crisana region has an area of 17,717 km² and if we refer to the current counties, this region includes much of Arad county, without the area between the river Mures and Timis county, north of Hunedoara county Bihor county and part of western Salaj county.

Crisana region has great rural tourism potential areas, but insufficiently explored. Local authorities and entrepreneurs should find ways of development projects that conquer worth all this potential.

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STUDY REGARDING THE POSSIBILITY TO DEVELOP TOURISM AND CROSS-BORDER COOPERATION THROUGH A BUSINESS INCUBATOR AT VADUL CRIȘULUI (BIHOR COUNTY)

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Introduction

This article presents the results of a research that was realized within the framework of the project entitled „*Business incubator for cross-border tourist development*” that runs within the Cross-border Co-operation Program between Hungary – Romania 2007-2013 and it is implemented by the city hall of Vadu Crișului Community, in partnership with the city hall of Hajdúszoboszló city, respectively the Hotel Owners Association from Hajdúszoboszló. The project was submitted within the framework of Priority axe no. 2 - „Enforcement of social and economical cohesion in the border region” respectively has a total budget of 552.633,86 Euro, according to the official website of the Cross-border Co-operation Program between Hungary – Romania 2007-2013 (www.huro-cbc.eu).

According to the documentation of the project, this is shortly presented also in the official website of the program (www.vaduCrișului-hajduszoboszlo.ro), at Vadu Crișului a business incubator will be established, which will be constructed on the old city hall's emplacement, while in the city of Hajdúszoboszló a tourist information center will be constructed at the main entrance of the Spa area.

The research was realized with the help of a questionnaire that contained 20 questions. This questionnaire was presented and handed to those who offered services in tourism, respectively to the representatives of different organizations/institutions, with the reason to analyze the existing advertising of resources and modalities, respectively the proposed ideas for developing tourism in general and especially the cross-border co-operation.

The methodology of the research

The research method used to conclude this study was the questionnaire. This questionnaire was handed out in the period between 15th of November and 15th of December 2011 in 8 territorial administrative units, of which 7 in Bihor County (Aușeu, Borod, Bratca, Bulz, Măgești, Vadu Crișului and Șuncuiș) and one in Hajdu-Bihar County (Hajdúszoboszló).

Even though the Romanian side of the study included 7 territorial administrative units, all these gathered at one place do not have a high number of economical agents with tourism activity like in the resort of Hajdúszoboszló that stands alone in the Hungarian side.

Totally 181 questionnaire were filled out, from which 77 in the micro-region of Vadu Crișului and 104 in the resort of Hajdúszoboszló. The questionnaire was applied in the study region first of all to those economic agents whose activity is directly or indirectly linked to tourism, and second of all questionnaires were handed out to some representatives of local administration, with representatives of some institutions or organizations whose activity runs in the area of study. Even though the business incubator will be built in Vadu Crișului, the community however holds a very small number of economic agents with tourism activity. This way we extended the study area in the Romanian side (in Bihor County) from one community to a micro-region composed of 7 communities, located in the north of the Craiului Forest Mountains (Munții Pădurea Craiului).

These are linked one to another through the Crişului Repede River Defile, respectively the E60 European road.

Results of the research

For comparative analysis, we must have taken into account the socio-economic specific at both of the evaluated entity, so while at the community in Hungary the axle was put almost entirely on the economic-agents (hotels, pensions or apartment owners who rent rooms especially during the summer), until in the communities from Bihor County, we must have taken into account the diversity of the actors implicated in the development of the micro-region, not just in the actual moment but also in the previous periods. In this meaning, for the development of the Vadu Crişului micro-region, we identified three big categories of social and economical actors who were questioned:

- The economic agents implicated directly or indirectly in the tourism from the micro-region – different categories and types of housing units, public alimentation units.
- Opinion leaders from the micro-region localities, practically those factors from the public administration, educational system or leaders of a confession who have the possibility to influence the development of the micro-region.
- Non-governmental institutions and organizations with headquarters in Oradea, but whose profile of activity is based in a greater percentage in the study area, and who contributed along the years in any percentage to the development of the micro-region in question.

In this way, the first differentiation of the two zones is observed through the overlapping territorial (administrative) element, with the subjects' profile.

Table 1. Activity profile of those questioned (expressed in percentage %)

	Services	Culture	NGO	Administration	Education / research
Hajdúszoboszló	95	2	3	-	-
Micro-region of Vadu Crişului	57	10	23	5	5

Because of the experience in dealing with foreign partners/clients, the Hungarian locality can be identified with higher numbers not just in length and time, but regarding the number of co-operations.

In this way, among those questioned in Hajdúszoboszló, 87 % have at least one co-operation (foreign clients), in the framework of which Romania was the country most commonly named by 84% of those questioned, being followed by Poland (65%), Germany (62%), Slovakia (42%), Ukraine (18%) and Russia (with 10%). Compared with those questioned in Bihor, 72% have at least one partnership, most commonly named a co-operation with Hungary, and more than 30% of those questioned have an exclusive partnership with this country. Only 6% of those who have a partnership do not have a common history with an economic agent or NGO from the neighbor country.

From the perspective of the cross-border cooperation, the importance of having a webpage was highlighted; a webpage that can be accessed in more than one language, respectively the knowledge of a foreign language. In this way, we mention the fact that in Bihor, only 54% of the interviewees have an own webpage comparing to 71% of the participants in Hungary.

In case of those who answered the questionnaire in Romania, those who own a webpage, in 61% of the cases information can be accessed in another foreign language, while 38% of the web-pages can be accessed also in Hungarian language. In case of Hajdúszoboszló resort 83% of those who own a webpage, the information's can be accessed in at least one international foreign language, while 56% of the web-pages can be accessed in Romanian language as well.

Referring to the knowledge of one (or more) foreign language(s) of an employee, collaborator or members of a company/institution/organization, the numbers are higher from a general perspective.

In this way, among all those questioned in Romania, 88% knows at least one foreign language – mainly English – 75% of all those questioned, while the Hungarian language is at a level of 43%, with the specification that these values are higher in average in Oradea, than in the area of Vadu Crişului. In Hungary, even though the number of those who speak a foreign language is close to the one in Romania, namely 83%, the ratio of dispersion is different, the main language is English – 85%, followed closely by German with 77%. The Romanian language with 21% is very close to the Russian that has a value of 20%.

The situation is changing regarding the willingness to learn a (or another) foreign language, so 45% of those questioned expressed their interest to learn Romanian language, this being the prevailing of this category, being followed by Russian language with 33% and Polish language with 28%. These three languages show us the perspectives from Hajdúszoboszló regarding the international tourist arrivals.

If in the first part I analyzed general data about the subjects and possible perspectives of approach methods in direct co-operation, in the second part, the questionnaire was based on a connection towards the own administrative or regional unit. However, the principal was to give a chance in order to comparatively approach data that will build itself, but the answer possibilities were almost identical in parallel for questions 3 and 4, the differences occurring in the “forte point” of the region.

Referring to the selection of the most important needs, must be noted the necessity to separate the possibilities of answering for Internet services, where for Bihor we added the element of the telephone, comparing to Hajdúszoboszló, where necessity is accentuated towards the wireless internet. But, more importantly, in the field of tourism services, we considered the necessity to differentiate the *extension* and *diversification* of these, taking into consideration the hypotheses of development of the two territorial units and the fact that in Romania the chances covered by this chapter were not totally exhausted.

Even if a differentiation exists among the value results, it is interesting that the base pylon has the same common element in both cases, with the specification that in the Vadului micro-region the sanitation element occurred preponderantly, which in Hungary occupies the penultimate place (see fig. no. 1). Sanitation is an element that differentiates the two regions, but this is now put under a close attention by the actors from outside the defile, mainly from Oradea, and in the same time solving this is seen as a primary element through the implication of local authorities.

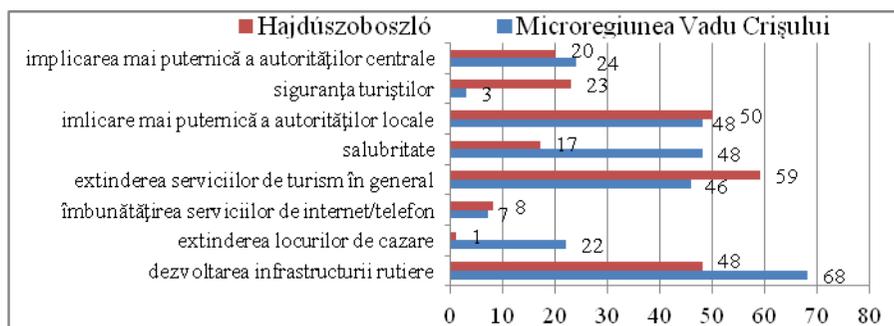


Fig. no. 1 Elements for developing in the study area

Regarding the marketing, however, the differences are essential, even contradictory. The elements most commonly met in the case of one are less prioritized in the case of another, a situation that in the first analysis can be perceived negatively.

As a dominant character of both of the axes, must be mentioned that exactly those (three) elements that describe and internal approach – webpage of the micro-region, tri-lingual tourist signs, tourist destination network are the most commonly met for the situation in Romania (with appearing frequencies of 67, 49 and 46%) while for Hajdúszoboszló, exactly the other three appear as priorities, detaching the companies from advertising through specialized companies (with 73%). The other two, and namely the creation of a web-page having as objective a partnership with another tourist region, but not with the same profile – 32%, respectively, a bi-lingual paper on tourism – with 35%, are written in the elements of communication towards the exterior.

Highlighting the side of the communication towards the other exterior entities, the first and most clear approach of differentiating was imposed at the editing of the questionnaire. All these come exactly from the basic characteristics as tourist zones of both entities and not just from the infrastructure that they possess. Considering those mentioned, those elements must be highlighted, which are considered by the locals to have the most potential of attractiveness in an advertising campaign.

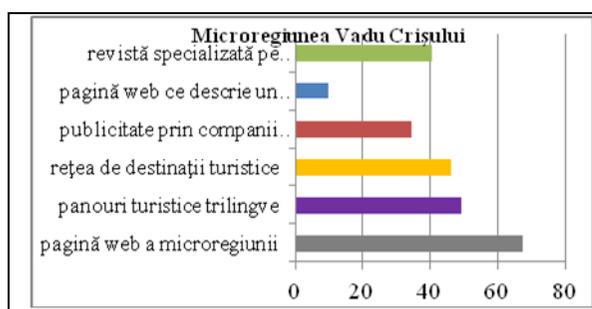


Fig. no. 2 Marketing approach of the micro-region

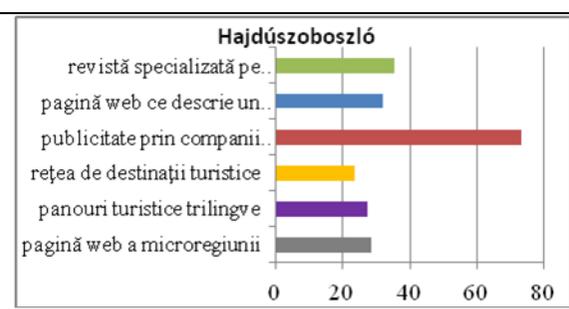


Fig. 3 Marketing approach of the resort

From the perspective of Bihor County, 3 favorite groups are crystallized, of which the most eloquent being the *caves* – with a frequency of 80% followed at a relatively high distance by mountain paths (hiking roads) with 49%, respectively the specific habits of the area that received 43%. With the existing possibility to mention also other themes of promotion, those questioned remembered the most the extreme sports, gastronomical traditions or connected services to the caves.

Regarding Hajdúszoboszló locality, no elements were noted that might unite some overwhelming majority, none of them passing a value of frequency greater than 50%. Sport Center was most often mentioned – 45%, followed by the holidays organized by local authorities (34%) and traditions of the neighbor area with a total of 28%.

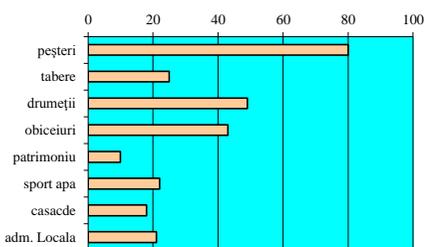


Fig. no. 4 Advertising of the Vadu Crișului micro-region resort

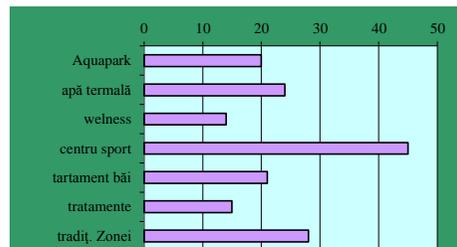


Fig. no. 5 Advertising Hajdúszoboszló resort

For the micro-region of Vadu Crişului *the extension of the tourism services* must be based on the natural characteristics of the region and on own initiatives, more emphasized than the initiatives and support or the implication of the administrative authorities. Practically, the possibility and request is seen for an intermediate structure between the own necessities and the representatives of those in the issues of extending the tourism services, but this one not to be exclusive, and one of public invoicing.

General diversification of the services in tourism (which appears exclusively for Hajdúszoboszló), is the theme that represents the differences already from the hypothesis of those two entities, infrastructure and investments or the level or services that must be calculated from the beginning as opposed between the balneary resort from Hungary and the region in Bihor County. The frequency of these is 59% and occupies the 1st place among the necessities for future development.

It is clarified an even more stronger tendency that is seen for Hajdúszoboszló locality as a necessity of development first of all in the diversification of the tourism services, highlighted the implication of the local authorities, chance seen in the co-operation of the tourist area without similar characteristics (namely, direct non-competitor), but from the cross-border region (the opening towards the Romanian side is relevant, persuaded on the first place with the wish of learning the Romanian language), however, information and gaining creditability that Vadu Crişului and the surrounding area has a tourist potential needs real improvements.

After an analysis that describes mainly the approach from the perspective of own characteristics and possible form of advertising, respectively basic element of the pylons for development, in the next phase we will evaluate the chances of cooperation from the angle of the partnership with the neighbor region cross-border and formulas for the possible implications.

Table no. 2 Chances of cross-border co-operation (expressed in %)

	Surely they would have positive effect	There could be a possibility	Not really think of it as viable	No way
Bihor	75	18	3	3
Hajdúszoboszló	69	24	6	1

To the question, addressed the actors implicated in the socio-economic or administrative life from the micro-region of Vadu Crişului regarding the methods in which they consider they could be implicated in this type of cross-border partnership, the most common answer was regarding the support of an advertising center of the micro-region, followed by at a considerable distance the answer of accessing some European funds.

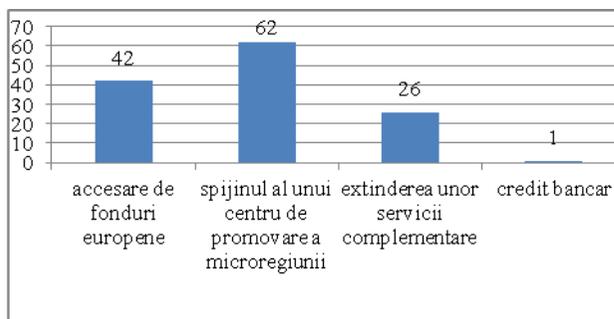


Fig. no. 6 Method of implication of the actors from the micro-region of Vadu Crişului in the cross-border co-operation

From the prism of knowledge in the role of a client in the tourist area of the neighbor country, those from Romania have been more often in Hungary – 83% of them, while referring expressly to the Hajdúszoboszló resort, more than half of those interviewed had already experience (52%). Regarding the services, an average of 4.6 out of a possible 5.0 can be considered as satisfactory. On the reverse side, 11% of those from Hungary have been as tourists in the micro-region of Vadu Crişului, at the appreciation of the received services 46%, while the average awarded regarding the services was 3.5. An encouraging point regarding the development and implementation of the partnerships is the knowledge of the official language of the other country, and the openness towards perfecting this element.

The Vadu Crişului micro-region has a perception on the necessity of re-grouping towards the interior -, while the Hungarian resort shows an opening towards the exterior, but not towards a location that can be a competition in the first place. Hajdúszoboszló tends towards advertising the already existing tourist potential and infrastructure, pulsing through ensuring a diversity of programs. In comparison, in the micro-region of Vadu Crişului, even if the first phases of diversification are observed towards the potential of the area, right now it still needs extension, but lacks that force of grouping around one element or a set of elements that can assume the role of a promoter.

Pursuant to, a basic level for both situation can be described, while with these elements and with those described earlier that can be attached, a new phase can be initiated, somehow under an institutionalized form of the co-operation between the two entities:

The level of Vadu Crişului micro-region

Greater implication from:	Grouping towards:	Basic elements in advertising:
Local authorities (with special reference to the road infrastructure)	Interior / edification of the own potential (creation of a webpage about the region) & the necessity for <i>the extension of the services</i>	Caves

The level of Hajdúszoboszló resort:

Greater implication from:	Grouping towards:	Basic elements in advertising:
Local authorities (road infrastructure)	Exterior: necessity of diversification of the services & advertising through specialized campaigns (of the specific holidays)	Thermal water and the connected treatments

In this way, as solution to the grouping of the micro-region, followed by the extension of the services, the central point should be occupied by an intermediate structure formed between local authorities – mainly city halls -, and organizations who support own initiatives, including NGOs, so one of the solutions could be counted as viable would be the existence of an advertising center of the Vadu Crişului Defile.

Considering however the comparison among the answers to question 9, briefly, the connection method to the diversification of the programs for the tourists, in the first phase can be observed that those from the Hungarian resort gave exact location (Hortobágy, visit to the city center of Debrecen, visit to the Zoo from Nyíregyháza, visit to the viticulture area around the city of Eger, Oradea), while in the case of Bihor, these answers had a more general character (caves, hiking mountain paths);

Conclusion and propositions

Considering that the economic agents from Hajdúszoboszló, at the actual infrastructure and tourist potential, shows an opening towards the diversification of the programs, where as a basic element the implication of authorities can be listed, the creation of a common webpage with a tourist region, but not with the same profile, and last but not least, the allocation of a resource for international advertising foresees the possibility to close a cross-border partnership with a tourist zone/resort/micro-region. From the perspective of Vadu Crişului micro-region, right now a main actor does not exist who could have the coagulation power and resources, but the centering could be based towards the co-operation of the local authorities – including the creation of a common webpage, while the main brand foresees the caves in the area. Around this element the extension of services can be attached that result from the existing tourist potential. With no existing structure of grouping, the establishment of an advertising/promotion center can be conceived or tourist cluster, but, the centrifugal forces that would recognize a center (administrative) as a pylon of advertising are still in an initial phase. As a common point for promotion, and as a pilot project, through the cross-border co-operation – for which maximum support exists, foresees the creation of an advertising center in the Defile, the administration of it, including the representation of the values and interest must come from an actor accepted by all members of such alliance/co-operation. The establishment of an intermediate coalition/grouping must be considered among the actual situation with high level of centrifuge and the institutionalization of the co-operation through a group with local action.

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FORMS OF CROSS-BORDER TOURIST CO-OPERATION IN THE BIHOR–HAJDÚ-BIHAR EUROREGION.

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Introduction

In this article I've proposed to present and to analyze tourist project realized with the help of the PHARE CBC program and the Cross-border Co-operation program between Hungary-Romania 2007-2013 in the Bihor–Hajdú-Bihar Euroregion, named from now on HURO. This program continues the cross-border co-operation programs already implemented in the region in the past (Interreg IIIA in Hungary and Phare CBC in Romania), being implemented in the framework of a common institutional structure, by using common funds and in the same time developing results and experiences that were gained previously.

These projects received a relatively small amount of financing (generally between 50.000 and 500.000 Euro), comparing to the projects implemented through Regional Operational Programs, through which more considerable funds are accessed. Although these projects are welcomed and in many cases the results were very promising, however the outputs were not always the ones expected or planned. Within the framework of this article we present shortly and in a synthesized way each project that was started in the domain of tourism, highlighting the benefits and the shortcomings of them.

Methodology of work

The used methodology for realizing this article is based first of all on a qualitative and quantitative analysis of the cross-border tourist projects developed in the past 6 years in the Bihor–Hajdú-Bihar Euroregion, analyzing the specific database through the comparative analysis and inventory method. We obtained information's about the objectives, realization and financial resources for the implementation of the project from the official website of the Cross-border Co-operation program between Hungary-Romania 2007-2013 (www.huro-cbc.eu), from the websites of the projects and from online articles released by local and/or national press.

Cross-border tourist projects in the Bihor-Hajdú Bihar Euroregion within the framework of the PHARE CBC program

The cross-border cooperation on the Romanian-Hungarian border, received pre-accession PHARE CBC funds even before 1998, when the border between Romania and Hungary became eligible for this program. In this way, in the period between 1996-2003 – according to the website of the regional office for cross-border co-operation of the Romanian and Hungarian border Oradea -, (www.brecoradea.ro) for cross-border projects the amount of 28 million Euro were granted for the Romanian side and 34 million Euro for the Hungarian side. According to the website www.huro-cbc.eu, in the period between 2007-2013 a total amount of 248 million Euro are available (four times more than in the period of pre-accession) for stimulation of cross-border cooperation. This amount is made up of EU contribution through the European Regional Development Fund and the contribution of the two member states.

The PHARE CBC 2004-2006 program from Romania was implemented together with a secondary program called INTERREG IIIA from Hungary and has one component for each of the three years. The program was implemented through the scheme of grants, financing being

granted after the selection of project proposals received as an answer to the public announcement of the open auction.

In this way, in this period, four cross-border tourist projects were implemented. The biggest project from the financing point of view was entitled “*Romanian-Hungarian Corridor for preserving biodiversity*” (PHARE CBC RO 2003/005 702-01). The project had the purpose of creating a “green corridor” for preservation of biodiversity, which includes the protected areas on both sides of the border. The beneficiary of the project was Direcția Silvică Oradea, and the main partner was the Criș-Mureș National Park Administration from Hungary. The implementation period of the project started from December 2003 and lasted until November 2007.

On one hand, equipment for monitoring biodiversity were purchased through this project, but the most important thing was the realization of the infrastructure regarding the management of the protected areas, namely the construction of the administrative headquarters of the Apuseni Natural Park from Sudrugiú and three visitor’s center from which one is located in Bihor County and namely Padiș Plain (according to the description of the project on the website of Apuseni Natural Park - www.parcapuseni.ro).

This project was by far the greatest from financing point of view, but also the results were considerable (construction of 4 properties equipped and furnished, purchasing of some equipments, etc.) Through this project the ground for Apuseni Natural Park was established.

Table 1. Cross-border tourist projects implemented between the period of 2007-2012 in Bihor – Hajdú-Bihar Euroregion

Nr.	Title of the project	Type of program	Total value of the project (EURO)	Finalization date
1.	Romanian-Hungarian Corridor for preserving biodiversity	PHARE CBC	2.600.000	11. 2007
2.	Unity and diversity in the tourism of Bihor–Hajdú-Bihar Euroregion	PHARE CBC	74.200	12.2007
3.	Traditional craftsmanship’s – opportunity for developing a durable Bihor – Hajdu Bihar Euroregion. Cultural routes in Bihor and Hajdú-Bihar Counties	PHARE CBC	45.299	08. 2009
4.	Development and promotion integrated by common thematic tourist packages in the Bihor–Hajdú-Bihar Euroregion	PHARE CBC	102.341	15.11. 2009
5.	Development and promotion of rural tourism and ecotourism in the North-East plain and in the Apuseni Mountains	HU-RO	141.071	25. 11. 2010
6.	„Adventure, rest, fun” – promotion of tourist offers in Hajdú-Bihar and Bihor Counties	HU-RO	510.795	30. 04. 2011
7.	Innovative realization of some common tourist packages in order to develop tourism in Hajdú-Bihar and Bihor Counties	HU-RO	96.510	31. 05. 2011
8.	Common development and integrated promotion of thematic rural tourism in Bihor–Hajdú-Bihar Counties.	HU-RO	174.866	30.06. 2012.
9.	Opportunities for capitalization of the cultural patrimony through cross-border co-operation in order to develop tourism and business environment	HU-RO	505.920	06.05. 2012.
10.	Business incubator for cross-border tourist development	HU-RO	552.633	31. 12. 2012.
	TOTAL		4.803.635	

In the year of 2007, the Chambers of Commerce and Industry from Bihor County as the beneficiary, having partnership with the Development Agency from Hajdú-Bihar County and the Chamber of Commerce and Industry from Hajdú-Bihar, they implemented the project entitled “*Unity and diversity in the tourism of Bihor–Hajdú-Bihar Euroregion*”, (RO2004/016-940.01.01-68-2.2, in the framework of Phare CBC program Romania and Hungary, Phare CBC 2004/ Interreg IIIA, financed by the European Union through the Ministry of European Integration as the Contracting Authority).

The general objective of the project foreseen the relationship intensification of regional cross-border co-operation between Romania and Hungary, among the two border counties and among the communities and economic actors in this area; superior capitalization of the tourist potential on a local and regional level, promotion of business co-operation; creation of a diversified tourism based on local resources that can satisfy the needs of more tourists and can generate a favorable environment for establishing a new group of cross-border businesses;

This project was the first that formed as purpose the integrated promotion of Bihor-Hajdú Bihar Euroregion as a European tourist destination based on realizing 6 tourist packages and a tourist brand. Subsequently another three projects were realized that had similar objectives and purposes.

The result consisted in the realization of 1500 brochures, which were initially planned to appear in 6 languages, but at the end only two languages were realized: in Romanian and Hungarian. On the other hand, however, besides the brochures, 1000 multimedia CD’s were realized containing information’s about Euroregion tourist destination and two tourist websites that already appeared in six languages. Through this project 6 tourist packages were proposed with different circuits and destinations.

This was the first project of this type, which proved to be a good initiative, because specialists recognized the fact that these two counties can be complementary destinations and not competitors. We identified however also some shortcomings about the translation of the materials. Even though those two websites (www.turismbihor.info and www.tourismbihor.info) are active even today, they were not updated for about 4 years.

The project entitled “*Traditional craftsmanship’s – opportunity for developing a durable Bihor – Hajdu Bihar Euroregion*” was implemented between the period of August 2008 and August 2009 and it was financed by the Ministry of European Integration through the Romania – Hungary Phare CBC 2006 Program (Phare CBC RO 2006/018-446.01.01.)

The project was applied by the “Anytime Ready Association”(Asociația Gata Oricând) in partnership with the Center for Protected Areas and Durable Development – Bihor (CAPDD Bihor), Tourist Association of Kis-Bihar (Kis-Bihari Idegenforgalmi és Turisztikai Egyesület); County Department for Culture, Cults and National Cultural Patrimony of Bihor County. The project proposed to create premises for cross-border initiatives for socio-economic development of the Bihor – Hajdu-Bihar Euroregion, based on using the cultural, immaterial patrimony of the two counties, through promotion and capitalization of traditional craftsmanship’s that can be found here.

According to the information on the website of the Center for Protected Areas and Durable Development (www.capdd-bihor.org), the main *activities and results* of the project were the followings:

- Realization of a database of all popular craftsmen in the Bihor – Hajdu-Bihar Euroregion.
- Organization of a type of event called “*School of craftsmanship*” and one called “*Camp for popular creation*”
- Opening of a promotion center craftsmanship in Oradea

- Organization of a seminar on the subject of capitalization and preservation of traditional craftsmanship in the Bihor-Hajdu-Bihar Euroregion where popular craftsmen participated from the two counties and representatives of local APL's
- Realization of a presentation brochure about the popular craftsmen in the two counties
- Realization of a common brand to promote traditional products
- Realization of 2 thematic routes and including traditional craftsmanship workshops as tourist attractions.

The long term results of this project were pretty low, however the truth is that it was a project with a budget that did not reach 50.000 Euro.

The fourth cross-border tourist project, realized from PHARE CBC funds was entitled "*Development and promotion integrated by common thematic tourist packages in the Bihor-Hajdú-Bihar Euroregion*" (RO 2006/018-446.01.01.15, Financed by Phare CBC 2006/INTERREG IIIA Program), realized by the Faculty of Economic Sciences from the University of Oradea in partnership with the Bihor County Council, Auto-government of Hajdú-Bihar County, Chamber of Commerce and Industry of Bihor County, General Association of Economists from Romania – Bihor branch and Bihor – Hajdú-Bihar Euroregion Foundation (as associate). The ongoing period for this project was between 15.08.2008 and 15.11.2009.

This project – similar with the one realized by the Chamber of Commerce and Industry of Bihor County – had the general objective to support initiatives of co-operation in the domain of tourism with the purpose of growing the competitiveness of actors in the domain of tourism, respectively the growing the competitiveness of actors in the domain of tourism in the domain of developing and promoting thematic tourist packages within the Bihor-Hajdú-Bihar Euroregion.

Specific objectives of the projects were the facilitation of the reciprocal knowledge and favoring the Hungarian-Romanian exchange of experiences in order to create an integrated network of development and tourist promotion in the Euroregion, supplying instructions in order to improve the tourist activity and the development of common, thematic tourist packages, giving assistance and consultancy for the interested actor in tourism from the Bihor-Hajdú-Bihar, support of the common promotion of thematic tourist packages (according to the website of the faculty - www.steconomieuoradea.ro).

Within the framework of this project 6 tourist packages were proposed (balneary tourism, landscape tourism, recreational, traditional and habits tourism, cultural tourism and business tourism), each of them having more routes and destinations. The project was more complex than the one implemented by the Chamber of Commerce and Industry of Bihor County because besides the created packages a catalogue was prepared of all the actors participating in tourism in the two counties, offering in the same time the possibility of cross-border cooperation among them.

The first tourist project realized within the framework of Cross-border Co-operation Program Hungary and Romania 2007-2013 (HURO/0801/160) was entitled: „*Development and promotion of rural tourism and ecotourism in the North-East plain and in the Apuseni Mountains*” and implemented by The Association of Environment Friendly Tourism from Debrecen (Debreceni Természetbarát Turisztikai Egyesület) in partnership with InfoTour Association from Carei and the Center for Areas and Durable Development from Bihor County.

The main purpose of the project was to analyze the sources of development of tourism in the plain area of the two participating countries (three counties) and the Apuseni Mountains area. The project emphasized some approaches that are necessary to ensure the development of the tourism in the area. In this way studies were realized, which analyzed the tourist potential of the area and the way in which this is capitalized. In the final period of the project, more work was put in the promotion of the tourist products towards the tourist: two movies/short films were realized, one about the values of nature in the region and one about the possibilities of rural tourism and ecotourism. The followings were also realized: another 10 short movies about the tourist

attractions, a webpage (www.thematic-routes.eu) where more information can be found about the opening of the tourist attractions, database of local tourism services, films, studies, useful information's. Also 3000 multimedia DVS's were realized and in addition tri-lingual informational panels were placed on the created tourist routes (according to the website www.thematic-routes.eu).

Within the framework of some consultancy of the interested factors, 10 thematic tourist routes were identified: route of guesthouses, route of craftsmanship's, route of vine, route of landscape values, route of health, route of water, route of famous people, route of museums and traditional houses, route of traditional products and route of caves and karst formations.

It is the first project of this type, which includes 3 counties, respectively 10 routes. It contains some very original ideas, even though a small dose of subjectivity is denoted. Unfortunately the project did not benefit from a generous financing so this way it could not have been advertised properly.

The cross-border project entitled: *"Adventure, rest, fun - promotion of tourist offers in Hajdú-Bihar and Bihor Counties"* reunited as partners the Hajdú-Bihar County Council, Megyegazda Nonprofit Kft. (Ltd.), together with the Oradea City Hall and Bihor County Council.

The purpose of the project was to develop tourism in Bihor and Hajdú-Bihar County, not just in local and national plan, but in international plan as well through a common offer. To reach this purpose, the tourist areas of the two counties were taken into inventory, and after organizing them, tourist packages were released with main attractions from this region. In parallel, to promote tourism on the level of the two counties, the project partners have launched an advertising campaign that contained 7 tourist packages within the framework of the project, on themes like cultural patrimony and monuments, popular art, national parks, gastronomy, rural tourism and business tourism, calendar for county holidays in 2011 or therapeutic tourism and wellness. For each theme an informative brochure was printed in 4 languages, the purpose of the tourist packages were to increase the number of tourists registered in the housing units from the cross-border region and to increase the incomes resulting from tourism. In the framework of the project 45.000 informative booklets were printed. To complete the tourist information, the partners have realized a website to promote the offers of the two counties (www.bihar-bihor.eu), which is available in 7 languages.

This project answers the best to the requests of the actual advertising, being the most complex, diversified and by far the most advertised tourist project among all of the projects analyzed in this study. Of course, this fact was backed up by a budget over half of million Euros.

This contains elements, which covers all types of tourism that can be practiced in this area. Regarding the viability of these packages, it is still will be seen which one of them will consecrate.

Another cross-border tourist project was implemented by the Chamber of Commerce and Industry from Hajdú-Bihar County in partnership with Association for Business Promotion in Romania and the Federation of Employers of Bihor County. This project ran under the name of: *"Innovative realization of some common tourist packages in order to develop tourism in Hajdú-Bihar and Bihor Counties"*

The general purpose of the project was to consolidate economic competition in the region with the development of the tourism, and also promoting objectives, destinations and tourist manifestations from the two counties as well as the realization of a more active propaganda.

Another purpose is to encourage co-operation among companies and organization with tourist profiles on both sides of the border. Local actors in the tourism sector must recognize the fact that the only way they can stay competitive is if they realize strategically thought developments together with other actors (companies, organizations) in this way overcoming on competition.

Within the framework 6 big packages were created, each having more "sensational" tourist packages. Almost all of the packages contain a destination on both sides of the border or involves

the fact that tourists who arrived from outside the area to a balneary resort can take a trip of a day to the neighbor county, which is based on the complementarity of the tourist objectives.

Most of the packages contain a program for a day, but in some cases also circuits are proposed, which can be realized in more days.

This was the fourth type of project that realized tourist packages in the Euroregion. In this time, however, the implementation of an innovative element was tried, especially in the names of the packages full of fantasy, which sometime are not only fantasist but even a little futuristic. With all these the project managed to bring some new elements and ideas to the tourist packages as well as the other projects offered the opportunity to create a business relationship among those actors who are implicated in tourist activities on both sides of the border.

The Department of Geography and Territorial Arrangement within the Faculty of Geography, Tourism and Sport of Oradea University, is implementing during the year 2011 and 2012, as the Leader, a project entitled: *“Common development and integrated promotion of thematic rural tourism in Bihor–Hajdú-Bihar Counties.”* (HURO /0901/017/2.1.3). The project has a total length of 18 months and the Hungarian partner is the Department of Social Geography, Development and Regional Planning of the University from Debrecen.

The general purpose of the project is the sustainable development of the cross-border tourism in the Bihor–Hajdú-Bihar Euroregion, through developing new, thematic product that are specific for the rural tourism, to promote these products and their development with the help of tourism in the border side rural economy of the area. The project addresses to all interested parties in developing thematic tourist products – investors, owners of pensions, hotels, motels, restaurants, farms, persons from rural environment who wish to begin a business in the domain of tourism, tourism agencies in whose offer appears the thematic tourist products, tour operators, non-governmental organizations, etc.

Because this project is not yet finished it is hard to predict its success or failure, but considering the fact that the project will be developed by a staff formed by professionals (university professors) it is almost certain that the result will be no other than satisfactory.

Another ongoing cross-border tourist project is entitled: *“Opportunities for capitalization of the cultural patrimony through cross-border co-operation in order to develop tourism and business environment”* (HURO/0901/192/2.1.3.) This project was realized by the City Hall of Salonta together with the City Hall of Debrecen, respectively the Arany János Cultural Association from Salonta and it was implemented between the period of 06.12.2010 and 06.05.2012. Even though Salonta is not in the area of study, I included this analysis in this project because it is connected to the cross-border tourism from the Bihor–Hajdú-Bihar Euroregion.

The general objective of the project is to develop tourism with the purpose of enforcing the socio-economic cohesion within the Bihor–Hajdú-Bihar Euroregion.

Specific objectives of the project are: durable development of existing cultural-historical values, prospecting common tourist development opportunities among Salonta and Debrecen through common cultural-tourist activities, respectively extension and consolidation of cross-border relations through the realization of a tourist partnership.

Within the framework of the project the following activities were realized: project management, communication, advertising materials were printed and edited, common participation at tourist fairs, study-tour to Brussels, respectively tourist development strategy was developed for the two cities (Salonta and Debrecen) for the period of 2011-2016. This project is also not finished yet, but because of the high volume of financing (total budget over 500.000 Euro) it is expected to give spectacular results in the same measure.

The project called *“Business incubator for cross-border tourist development”* was submitted within the framework of Priority axe no. 2 - „Enforcement of social and economical cohesion in the border region” by the city hall of Vadu Crișului Community, in partnership with the city hall of Hajdúszoboszló city, respectively the Hotel Owners Association from Hajdúszoboszló. The

general objective of this priority axe is to intensify economic competition in the area through development in the business environment and improving the quality of human resources.

The service providers from Hajdúszoboszló offer also today quality tourist services, but they wish to be more prepared for welcoming the guests from Romania and also they wish to diversify their offers of programs and mountain trips, while Vadu Crisului has a generous offer from this point of view. Within the framework of the project in Vadu Crisului a business incubator will be established, which will be built on the site of the old city hall, and in Hajdúszoboszló city tourist information center will be built, at the main entrance of the spa. At the finalization of the program, in both localities a tourism agency will be opened that will promote balneary tourism and mountain tourism together, making both locations more attractive for tourists. The business incubator will offer the headquarters for 11 companies with the condition that they will create jobs in the community of in the region.

Conclusions

Even though through these projects in the last 6 years more than 5 million Euros were accessed for tourism development for the Euroregion, this did not lead to a substantial improvement of the tourist flow. Normally, measurable results of a project are direct proportional with the volume of financing. This way we cannot expect that a project of 50.000-100.000 Euros to bring major change in the tourist circulation of the region. For notable results, massive investments are required first of all in the general infrastructure and the one specific for tourism, especially in Bihor County, because without adequate access paths or diversified and quality housing units it is very hard to generate more requests than the existing ones. For this, more projects would be necessary that are financed within the framework of Regional Operational Program through which major investments can be made that would have major impact on this domain.

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A THEORETICAL APPROACH OF THE CONCEPT OF SOCIAL CAPITAL IN SUPPORTING ECONOMIC PERFORMANCE

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Any activity requires the presence of labor resources. If centuries ago the concept was that their presence was enough, now it takes a lot more. Moreover, since Aristotle the issue was taking into consideration all aspects of the community life that can lead to a "better life". In the current conditions we may consider resources in the broader context of the human factor and of the relations established within a society. Thus social capital was conceptualized. As opportunities of economic growth - based purely on the quantitative aspects of the determinants – were limited, the need occurred to reconsider the qualitative and structural components.

Social capital considers a number of the integrative components of social life. These refer to the relations established at family level up to the level of societal institutions. It is necessary that these relationships be well established, and for the proper performance it is necessary that aspects of education and health should be properly valued and assessed. This helps setting up strong institutions. Developed countries have the ability to create a proper environment for the manifestations of social capital; in these countries one can observe the growing importance of formal and more impersonal relations. But this just reinforces the occurrence and development of economic activities based on efficiency criteria leading to the countries' economic development. The interpretations of economic development issues have undergone changes in recent decades. If previously it was considered that the essential difference between rich and poor countries is reflected in the amount of physical capital per person, later on the concept of capital has been expanded to include as well human capital, the lack of which was considered a serious obstacle to development, particularly in the case of poor countries. And given the fact that the transactions within an economic system take place in an institutional and cultural framework that defines the majority of the transaction's features, the present paper analyzes the concept of social capital - which alongside other forms of capital significantly influences economic progress - in order to emphasize the link between the functionality of institutions, culture and the level of economic development.

Keywords: social capital, trust, civic cooperation, effectiveness, economic development

JEL code: D03, O43, Z13

Individual behavior and the economic activity

The economic activity comprises first of all relationships of production, exchange and consumption of goods, implying – at a deeper level – interactions with other individuals, the coordination of human activity being basically a social problem, referring to how people's behaviors are interconnected, thus being closely related to the social order in general.

The individuals' preferences are formed under the influence of the environment in which they live, the alternatives being determined by the structure of institutions in which they are integrated and in which they perform their activity. The individuals' behavior is shaped by social and cultural norms, regarding both perception and decision, their needs being induced by the society, and the choices they make are conditioned by the social and cultural context they are part of (Ekkehart, 1998).

To explain the phenomena related to their material life, people make use of the economic theory. The human activity is largely repetitive; people consume goods, which are to be produced under certain conditions and distributed according to certain rules. The condition for an activity to take place is precisely the existence of order in the society, an order provided by culture, habits,

institutions and by rules. The economic mechanism, on the other hand, requires a stability regarding behavior in order to reduce the degree of uncertainty.

The performance of an economy depends not only on the existing technologies but also on the way these are used, i.e. the way the individuals act and interact. North (1995) emphasizes the role of institutions in the functioning of the economic mechanism, arguing that they have an essential role in shaping preferences and in establishing the level of transaction costs. Coase argued the importance of the New Institutional Economy, namely the fact that a country's institutions (the legal system, political system, social system, education and culture) are the ones that manage the performance of an economy. The institutions are considered to also have the role of providing the necessary knowledge to the agent in his interaction with other decision makers; in this regard, the institutions provide a means of orientation leading towards reducing uncertainty and allowing the formation of a valid expectation about the future actions of the agents, disposing of the information on the expected behavior of the others.

Given these conditions, the social norms have a more and more increasing role in the successful development of some economic activities. These norms are based on cultural values (Coleman, 1988) and therefore rooted in a country's national culture. If social norms induce compliance with contractual obligations and fairness in conducting business, the need to resort to the judiciary to impose these obligations is far less necessary; the legal system is more efficient and the economy is more likely to develop. North (1981) argues that "the existence of ethical and moral codes in a society represents the glue for the social stability that makes the economic system turn viable". Viewed through Putnam's analysis of social capital (1993), the issue arises of how social capital can be formed – "trust, norms and networks that improve the efficiency of the society by facilitating coordinated actions". First there would be education – through participation in various civic and religious organizations – which may lead to establishing rules and attitudes that facilitate cooperation. Second, cooperation is the result of including norms of reciprocity into the society's culture. And in order to understand the contractual behavior it would be important taking into account its relationship with the formal institutional structure and with the informal social norms, as neglecting the institutional framework's impact on the contractual behavior and cooperation in general can lead to flawed conclusions.

The way people act is largely determined by their experience – their perception of values and ways of forming preferences, decision-making and acting – mental patterns (North) or the software of the mind (Hofstede). These mental patterns are influenced both by people's national and organizational culture – both of them playing an important role in the working of an organization in particular and of a country's economy in general.

The transactions within an economic system take place in an institutional and cultural framework that defines the majority of the transaction's features; the standard theory ignores this element, considering that this framework is given, it is not likely to change and it is exogenous to the system (private property, freedom of trade, the lack of non-economic and cultural barriers). Following these assumptions makes it almost impossible to justify the performance differences between the world's economies. Studies have shown that the efficiency of running a business depends particularly on cultural factors, which vary from country to country, or even within a country from one region to another.

The impact of social capital on economic development

Many economists and other social scientists studying less developed countries have been aware that the institutional environment in these countries differed from that in industrialized and developed ones. In the early postwar decades there were intense debates about the degree to which standard neoclassical economics needed to be modified to apply to less developed countries; the standard neoclassical economics was based on institutions that existed in industrialized countries but that did not necessarily exist in less developed countries. After World

War II development economics assumed that the institutions of the economy were different, but there was little attention among economists to the evolution of these institutions or to deep explanations of them. Thus occurred the need for new variables to be introduced, one of the most important being the social capital.

The concept that underlies social capital has a much longer history. Aristotle and Thucydides observed and analyzed human behavior, stressing that there had to be a framework within which the members will together pursue the object of their common purpose; point of view which was subsequently criticized with the “rational choice theory”. Many other thinkers questioned the complicated relationship between “modern society” and the importance of “old institutions”, in particular family and traditional communities. Analyzing the evolution of capitalist societies it can be observed that urbanization and industrialization were transforming social relationships in an irreversible way, observing a breakdown of traditional bonds and the progressive development of alienation in society. Tocqueville integrated the concepts of social cohesion and connectedness, and the first direct use of the term “social capital” might be allotted to Dewey, although in 1900 he did not offer a definition.

Early attempts to define social capital focused on the degree to which social capital as a resource should be used for public good or for the benefit of individuals; it can be defined as representing the norms and social relations embedded in the societies’ social structure, due to which people coordinate their actions in order to achieve the expected results; thus it can be noted that social capital comprises those features of social relationships – interpersonal trust, norms of reciprocity, participation in civic organizations, and interpersonal and inter-organizational networks – which facilitate cooperation and collective action oriented towards a general benefit, being thus incorporated into the structure and quality of social relationships between people.

Social capital, in terms of social potential, is considered to improve the economic activity background in a way similar to technical infrastructure; social capital influences the quality of education and health, facilitates access of individuals to markets, supports complex operations and enables the activities’ long-term planning. Thus it was established close correlation between social capital, the quality of social governance and organization and the level of a country’s economic development (Putnam, 1993), showing that economic activity improves its effectiveness in a community that disposes of a substantial stock of social capital, where the networks of individuals civically involved strengthen norms of reciprocity and further leads to social trust, these networks facilitating communication and cooperation, thus offering a solution to the collective action issue. Other ideas state that generalized trust (based on the ethical behavioral habits and moral norms of reciprocity tacitly accepted by the members of the community) is essential for cooperation and economic development, determining the industrial structure of an economy; it can be argued that social capital is a necessary precondition for successful development, but a strong rule of law and basic political institutions are necessary to build social capital. He believes that a strong social capital is necessary for a strong democracy and strong economic growth. The USA, Japan, and Germany are high trust societies, where trust is not restricted to the family, but generalized, and there can be easily found large, professionally managed corporations, as people are better able to cooperate on an enlarged scale, while in Italy and France, for example, smaller and family owned and managed firms dominate the industrial structure. The strength of family ties may be detrimental to the emergence of large organizations, and where these are not accompanied by a strong culture of work and education it may lead to stagnation. Even so, this does not necessarily mean that high trust, and hence large organizations are better for aggregate growth, since what they gain in scale may be lost in flexibility and promptness of decision-making.

Less developed countries cannot ignore the issue of social capital; the former communist countries face a shortage of social capital, the communist period being characterized by a hypertrophied relation between state and citizen, respectively the lack of voluntary association in

joint projects. On the other hand, the level of trust proved to be much lower, given that individuals did not compete for limited resources – that having immediate effect on trade. Also, it can be noted that the lack of informal rules that constrain individual behavior is often futile to states' legislative efforts.

Studies in the field have identified several forms of social capital, including trust as integrative part of social structures, rules and sanctions, informational channels (Coleman, 1990), the main components of social capital being trust, norms of conduct and networks of people (Putnam, 1993), trust and norms of conduct being allotted special importance, reflecting a different perspective on institutions existing in a society. Coleman states that social interaction brings about long lasting patterns of relations, which represent a resource available to individuals; such resource may be accumulated or depleted over time. The World Bank defines social capital at the broadest level as “the norms and networks that enable collective action” Another conclusion states that these rules are the result of repeated interactions in the community (Ostrom, 1990), and – once established – they are transmitted to future generations through a process of socialization. Of course, a common way to create social capital – intentionally and consciously – would be the establishment and enforcement of formal rules by an authority; their repeated acceptance and employment further leads to their functioning similar to informal norms. Compared to other forms of capital – financial or human capital – the social capital is less tangible and more difficult to measure, its dimension being of more qualitative nature; moreover, the goals pursued by one group can be in accordance or contrary to those of other groups, so that the externality effect cannot be overlooked, which can be positive – offering incentives also to individuals outside the group responsible for creating the capital social, or negative – in case the group members develop and encourage intolerance against non-members. Collier (1998) focuses on both these aspects, analyzing social capital in terms of those externality-generating social interactions which are either themselves durable or whose effects are durable, distinguishing among the various institutional levels at which social capital may be present – the family, the organization, the government and the civic society (the World Bank site also considers communities, ethnicity and gender as specific sources of social capital, particularly relevant in the context of development).

The concept of social capital is related to a certain number of other concepts. Narayan (1999) discusses its relationship with the notions of social capability (defined by Adelman and Morris), of social exclusion and of civic engagement. Corneo and Jeanne (1999) study the connection between growth and social organization, a concept related to social capital but independent of it. Cole, Mailath and Postlewaite (1992) is a classical reference of the contribution on the link between social norms and growth, although Hirsch (1976) provided an earlier analysis of the social limits to growth. Knack and Keefer (1997) discuss three main relationships – between trust and civic norms and economic development, between associational activity and growth, and between trust and civic norms and their determinants, including associational activities and formal institutions; their findings show that “trust and civic cooperation are associated with stronger economic performance”, adding though that “associational activity is not correlated with economic performance”.

Studies have also shown a positive correlation between the degree of trust in a particular geographic area and the effectiveness, respectively, the level of economic development of that area, stressing that the issue of trust is more sensitive in societies / groups consisting of a large number of people, given that the available information is scarce due to the impersonal character and to the reduced frequency of interactions; trust is considered as an essential component of social interactions both on the market and within the enterprise, starting from the idea that trust, as an institution, plays an important role in facilitating cooperation between agents, but the idea of the existence of a market for trust being obviously a contradiction of terms (Arrow, 1974). Its

key role is to reduce uncertainty by limiting probable alternatives, turning predictable the behavior of partners.

Even the legal system's effectiveness depends on the trust of contracting parties on its working properly; it would be important to note that detailed contracts are concluded when the parties show reduced mutual trust. Several studies also show that the quality of government is positively influenced by social capital. Hall and Jones (1999) point out that a relevant part of country productivity is due to the country's institutions and government policies (i.e. social infrastructures).

One of the possibly most relevant contributions of social capital is to the formation of human capital, fact which was early recognized by Coleman (1998) who argued that the same basic individual skills have much better chances of being well cultivated and developed in a socially rich environment than in a socially poor one, stressing the link between social capital and education. He also stresses the fact that social capital, determining the degree of social cohesion, may have a relevant influence on the rates of crime and violence (Coleman, 1990). Positive correlation between average education and social capital was found also by Helliwell and Putnam (1999), stressing the virtuous dynamics between human capital and social capital accumulation, trust-enhancing policies being considered able to start a multiplier mechanism. These policies may have relevance for the purpose of long-term growth, i.e. reputation mechanisms may substitute trust in well-operating markets, but in emerging markets such element of stability is absent, so that the level of trust and trustworthiness may determine whether some innovative or idea-intensive activities develop or not.

Conclusions

The analysis of social capital allows us to consider social development in terms of its accumulation. Clearly put, social capital comprises those features of social relationships – interpersonal trust, norms of reciprocity, participation in civic organizations, and interpersonal and inter-organizational networks – which facilitate cooperation and collective action oriented towards a general benefit, being thus incorporated into the structure and quality of social relationships between people; the notion of social capital refers to a form of capital that is encompassed in the social structure of a group, rather than in physical objects or in single human beings, like physical and human capital. Therefore it can be noted that the institutions' input towards economic success is related to their capacity to support impersonal transactions. The importance of trust to economic performance is reflected by the fact that the lack of it leads to a decreased number of opportunities.

Emphasized is also the social potential induced by social capital, being considered to improve economic activity background in a way similar to technical infrastructure; social capital influences the quality of education and health, facilitates access of individuals to markets, supports complex operations and enables the activities' long-term planning. In this regard it was also stressed the importance of social cohesion towards a country's economic development, the concept of social capital being considered as influencing development theory, practice and policy.

It can be noted that the analysis of social capital at enterprise level would bring about clearer results, as the internal organization of an enterprise is intentionally designed to register profit, so this is one of the few cases in which social capital is the product of a specific investment (money spent not only to design internal structures, but also to train managers and workers to work in groups) and not only the by-product of other activities.

We can add that one of the key contributions of social capital is to the accumulation of human capital; it is much easier to develop individual skills in a socially rich environment than in a

socially poor one. Since human capital accumulation constitutes an engine of growth in advanced economies, social capital could be regarded as a deep root of growth processes.

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MIGRATORY FLOWS ACROSS SPANISH PROVINCES: 1960-2010

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Internal migration is a controversial topic among researchers because of both its determinants and consequences on the market economy. Different empirical studies have offered different answers to how migration is influenced and influences economic disparities within a country.

As an introduction to a more comprehensive study about the determinants of this phenomenon, this paper carried out a quantitative statistical analysis of the main evolutions of domestic migration across and within Spanish provinces. The period of analysis is 1960-2010 during which migration patterns changed considerably from intense to moderate flows and from moderate to constant flows.

Over the entire period, only seven provinces registered exclusively net inflows and only two provinces remained inflexible as regards their favourite internal destinations, inter-provincial migration dominated intra-migration only during the first decade, the provinces on the Mediterranean axis formed the main attraction pool due to their climatic conditions and tourism expansion, negative balances dominated positive balances except for 1981-1991, Madrid turned negative in the decade of the 90's while Barcelona did it in the 80's.

Keywords: internal migration, provinces, destinations, Spain

JEL Code: R23

I. Introduction

Internal migration in Spain has witnessed geographical and compositional changes over time. Population redistribution through internal migration in the past four decades must be analyzed considering economic, social and political transformations. In general, the transition from an industrial-based economy to a service-based one, in which tourism is the key issue, has been accompanied by the transition to a more liberal, open and international economy as consequence of the entrance in the European Community in 1986. Besides the socio-economic changes, there has been a political shift from dictatorship (following Franco's death in 1975) to democracy and from centralism to regionalism (García Coll and Stillwell 1999: 98).

The Spanish National Institute of Statistics (INE) defined internal migration as those *residence changes from one municipality to another inside the same national territory*, i.e. entries and exits. The remainder of the article comprises five sections: section II is dedicated to a short literature review on Spanish internal migration, section III displays the main trends in migration patterns, section IV puts together inter- and intra-provincial migration, section V offers some information on the favourite internal destinations, and section VI offers some insights on future work.

II. Literature Review

Over the last decades domestic migration patterns in Spain changed dramatically (Bover and Velilla 1999; Antolín and Bover, 1997). Thus, *during 1960-1975*, Spain was subjected to intense migratory movements amid: reducing regional inequalities in income and unemployment; rapid and very polarized industrial growth, causing severe rural out-migration with massive transfers of employment from agriculture to industry, constructions and services; mainly young adults left the rural areas and moved to the big industrial cities in search of jobs; flows were mainly unidirectional from the rural underdeveloped southern regions to the urban industrialized northeastern, plus Madrid. Later, *during 1975-1985*, new patterns of internal migration emerged: decreasing flows in spite of great differences in (non-)economic factors between provinces;

declining long-distance (inter-provincial) migration and increasing short-distance (intra-provincial) migration; following the expansion of the welfare system, traditional industrial provinces with net in-migration have become areas of net loss (Barcelona, Biscay, etc.) or of only marginal gain (Madrid, Valencia, etc.), while some of the traditional rural provinces have experienced positive net migration, due in part to the return of former out-migrants. And finally, *until 1995*, gross inter-regional migration started again to rise, although high aggregate unemployment rates continued to persist.

Hence, “*the factors that have shaped inter-provincial population redistribution in the 1980’s are technological change and innovation, sectoral and occupational restructuring, globalization and feminization of the labour force, as well as demographic structure*” (García Coll and Stillwell 1999: 102). They also point to the creation of the autonomous communities in 1978, the return to rural areas and migration patterns among the elderly as exerting a great influence on migration.

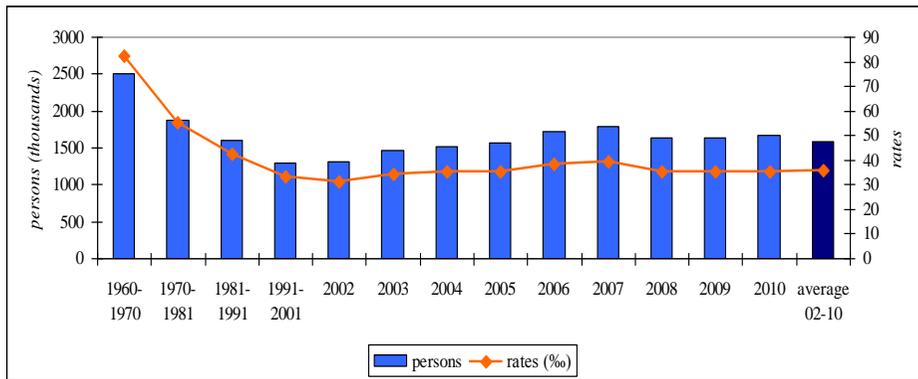
In a recent review, Hierro and Maza (2010: 620) points out the main features of internal migration in Spain since the early 1980s: steady increase of internal migration; high rates of intra-provincial movements mainly explained by a drift of people from large cities towards smaller towns and rural areas, as well as from metropolitan areas towards suburbs; increasing return migration; major role of location-specific amenities in migration decision; dramatic drop in overall net migration rates and important reversals from strong net in-migration to net out-migration (and vice versa); and an increasingly high role played by the foreign-born population.

Samuel Bentolila (2001) distinguishes between demographic and economic factors. The **demographic factors** are: population aging due to lower natality and higher mortality (negative impact); changes in family structure due to increasing divorce rate (positive impact) and higher participation of the women in the labour force (ambiguous impact); high level of family self-help, i.e. children leave parental house at elder age, or use their parents’ networks to find employment, also a supporting legislation for household heads to keep their job (negative impact); and an increasing educational level. The **economic factors** comprise institutional changes and economic differentials. The *institutional changes*, all with positive effects in reducing differences between regions, are: political decentralization (creation of the autonomous communities), higher proportion of social aid in national GDP, lower unemployment benefits since 1993, increasing help for the least developed regions as a consequence of both national and EU funds, favourable fiscal system for house acquisition, and an overwhelming trade union coverage.

III. Main Evolutions of Migration across Spanish Provinces

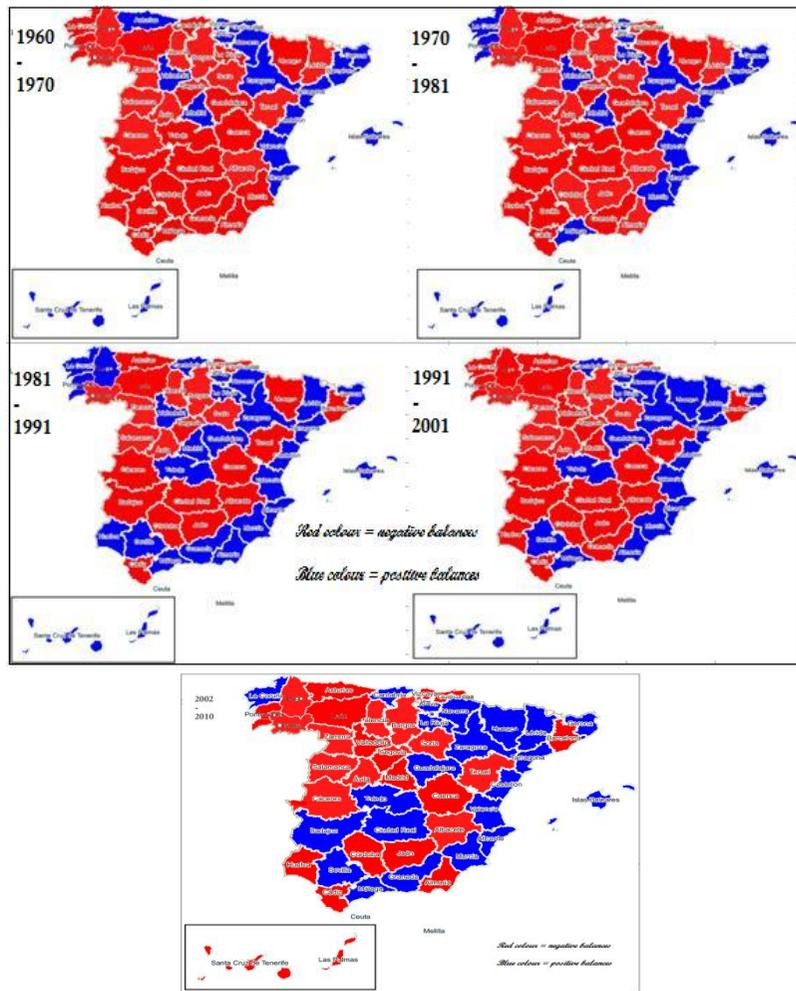
According to census data (1960-1970, 1971-1981, 1981-1991, 1991-2001), Spain witnessed constant falls in internal migration from one decade to another; if in 1960-1970 the migration rate reached 82.5‰ in 1991-2001 fell at 33.02‰. Instead, according to the year-by-year data, there was a constant upward trend from 2003 to 2007, after which migratory flows decrease slightly and remained quite steady. On average, 2002-2010, Spain registered an annual average number of migrants of 1,589,463 persons, i.e. an annual average rate of 35.57‰. See fig. 1.

During the inter-census period 1960-1970, 33 provinces had negative balances and 17 positive balances (Madrid +19, Soria -20.8); during 1970-1981, 31 provinces turned negative while 19 positive (Alava +9.4, Cuenca -10.4); during 1981-1991, 23 balances were negative and 27 positive (Balearic Islands +4.1, Guipuzcoa -4.5); while during 1991-2001, 29 provinces turned negative and 21 positive (Guadalajara +12.1, Biscay -2.8). Instead, for the year-by-year period 2002-2010, Spain had 28 provinces with net outflows and 22 with net inflows (Guadalajara +20.9, Cuenca -3.5). Fig. 2 illustrates the balance map by each decade. And after, I will analyze in more detail the patterns in domestic migration.



Source: Own elaboration based on INE data

Figure 1. Numbers and rates of internal migrants in Spain 1960-2010



Source: Own elaboration based on INE data

Figure 2. Provincial maps of net migration, 1960-2010

1960-1970 - migration reached very high levels:

- the highest positive net migration rates belonged to Madrid (19‰), Barcelona (18.3‰) and Alava (16.3‰); at the opposite pole there were Soria (-20.8‰), Cuenca (-19.1‰), Guadalajara and Teruel (both with -17.9‰);
- positive balances were also registered along the Mediterranean axis (along the east coast from the French border to Alicante, including Balearic Islands) and the Ebro axis (the diagonal joining Catalonia with Basque Country, along the Ebro river valley) due to the tourism economy.
- 1970-1981** - the volume of balances decreased both for those with positive figures and with negative figures:
 - the highest balance rates belonged to Alava (9.4‰), Tarragona (7‰) and Madrid (5.8‰); Cuenca (-10.4‰), Ciudad Real (-9.5‰) and Segovia (-9.4‰);
 - the Mediterranean axis continued to have positive net streams and both Murcia and Malaga joined this axis as tourism strengthened;
 - on the west coast, the balances of Corunna and Pontevedra turned positive, whereas the balances of Navarre, Guipuzcoa and Asturias became negative because of the industrial and mining crisis (Ródenas Calatayud 1994: 172);
 - compared with the previous decade, the balances of Barcelona, Guadalajara, Madrid, Biscay and Soria recorded the largest variations;
 - the direction of migratory streams was from the southern and central areas to Madrid (from the Centre) and Barcelona (from Andalusia).
- 1981-1991** - the volume of balances decreased very much:
 - the highest net rates belonged to Balearic Islands (4.2‰), Gerona (3.9‰) and Malaga (3.7‰); Guipuzcoa (-4.5‰), Biscay (-4.3‰) and Teruel (-3.1‰);
 - Almeria and Granada joined the Mediterranean axis, whilst Navarre and Cantabria consolidated the Ebro axis;
 - Lugo, Seville and Huelva became positive; Barcelona and Biscay turned from positive to negative; Madrid and Valencia decreased significantly their positive balances;
 - the changes occurred in migration trends were due to the industrial crisis during the early 1980s which provoked the closure of many companies, an increase in job losses and a reduction of labour demand; Madrid and Barcelona were affected by the entry in the labour force of the baby-boom generation in the 1960s and by previous in-migration, both altering labour supply and demand (García Coll and Stillwell 1999: 102); the descending trend was somewhat slowed down by the admission into the European Community (1985);
 - the Mediterranean axis became the main attraction pool;
 - compared with the previous decade, the provinces of Badajoz, Alava, Cuenca, Caceres and Ciudad Real recorded the largest changes.
- 1991-2001** - internal flows continued to fall:
 - the highest net migration rates were those of Guadalajara (12.1‰), Tarragona (5.3‰) and Toledo (4.3‰); Biscay (-2.8‰), Teruel (-2.1‰) and Guipuzcoa (-1.9‰);
 - Madrid turned negative for the first time, together with Corunna, Granada, Huelva, Lugo, Pontevedra and Valladolid; Huesca was the only province to turn positive;
 - compared with the previous decade, Guadalajara, Tarragona and Toledo registered the strongest variations;
 - similarly to the last two decades, the provinces forming the Mediterranean axis continued to attract more and more migrants.
- 2002-2010:**
 - Madrid and Barcelona continued to remain negative but accelerated their out-migration;
 - Almeria turned negative after two decades of being a net receiver of migrants;
 - Las Palmas and Santa Cruz de Tenerife turned negative for the first time;
 - Badajoz, Cadiz, Corunna and Granada turned again positive;
 - the greatest changes belonged to Guadalajara, Toledo and Almeria.

Overall, 1960-2010, only seven provinces recorded permanent positive balances of migration, six of them situated on the Eastern Spain: Alava, Alicante, Balearic Islands, Castellon, Gerona, Tarragona and Valencia. Instead, 16 provinces recorded only negative balances: Albacete, Avila, Burgos, Caceres, Cordoba, Cuenca, Jaen, Leon, Orense, Palencia, Salamanca, Segovia, Soria, Teruel and Zamora.

IV. Intra-Migration versus Inter-Migration

During the period 1960-2001, the annual rate of migrants dropped from 16.1‰ (1960-1970) to 13.7‰ (1970-1981) and 12.1‰ (1981-1991), and increased to 13.4‰ in 1991-2001. As regards the inter-provincial rate, this fell continuously from 9.2‰ in the first decade to 3.7‰ in the last, while the intra-provincial rate rose from 6.2‰ to 7‰. This means a shift from long-distance movements to short-distance ones. Also, the internal migration rate for those leaving abroad at the beginning of the census periods expanded rapidly from 0.8‰ to 2.7‰. See table 1.

This shift from inter- to intra-migration is attributed to the development of the service sector (and its properties). As evidence, the employment percentage in services rose from 38% in 1977 (27%-Orense, 60%-Madrid), to 57% in 1995 (40%-Orense, 75%-Las Palmas & Balearic Islands), 60% in 2004 (45%-Teruel, 75%-Las Palmas & Madrid), and finally, to 68% in 2010 (55%-Cuenca, 80%-Palmas).

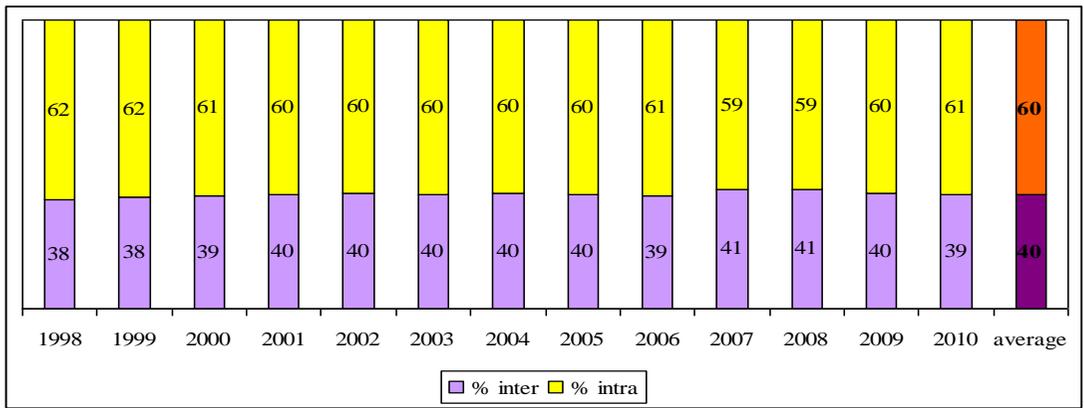
Table 1. Evolution of provincial migration in Spain 1960-2001

<i>Spatial scale</i>	<i>1960-1970</i>		<i>1970-1981</i>		<i>1981-1991</i>		<i>1991-2001</i>	
	<i>No. (1000s)</i>	<i>Annual rate (‰)</i>	<i>No. (1000s)</i>	<i>Annual rate</i>	<i>No. (1000s)</i>	<i>Annual rate</i>	<i>No. (1000s)</i>	<i>Annual rate (‰)</i>
Intra-provincial	1,703	6.2	1,913	6.3	2,086	6.1	2,483	7.0
Inter-provincial	2,510	9.2	1,867	6.1	1,595	4.7	1,297	3.7
Foreign migration	209	0.8	399	1.3	408	1.2	975	2.7
Total	<i>4,423</i>	<i>16.1</i>	<i>4,181</i>	<i>13.7</i>	<i>4,090</i>	<i>12.1</i>	<i>4,756</i>	<i>13.4</i>

Source: Own elaboration based on INE data

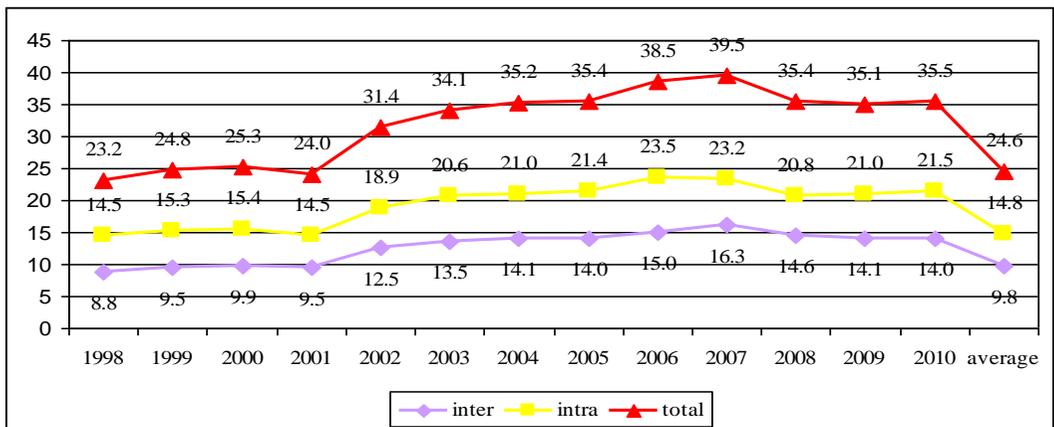
N.B.: Data exclude the autonomous cities of Ceuta and Melilla, and rates are computed by dividing the number of migrants (annual average) by the initial population of each censual period.

Additionally, for the year-by-year period 1998-2010, figs. 3 and 4 show that intra-migration was, on average, 20 p.p. higher than the inter one and both types follow the national trend, with peaks in 2007 and bottoms in 1998.



Source: Own elaboration based on INE data

Figure 3. Distribution of inter and intra-provincial migration in Spain



Source: Own elaboration based on INE data

Figure 4. Inter and intra-provincial rates of migration in Spain

V. Favorite Destinations for Migration: Province to Province

Cadiz and Huesca were the only provinces that did not change their three favorite destinations, meaning that Spanish migrants were very flexible as regards their choices. People from Madrid chose the adjacent Toledo and Guadalajara, Badajoz, Ciudad Real, Alicante, Malaga and Barcelona. Instead, people from Barcelona preferred in the first two decades ('60 and '70) long-distance destinations such as Cordoba, Granada and Seville, whereas in the last decades ('80-'00) the neighbors Gerona, Tarragona and the capital Madrid.

The most popular destinations were: Madrid, Barcelona, Valencia, Seville and Zaragoza, followed by Biscay, Granada and Valladolid.

VI. Future Research

In a future article, I will carry out a comprehensive analysis of the main determinants of Spanish migration using an extended gravity model which accounts for both push and pull motivations.

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SUSTAINABILITY OF ECONOMIC GROWTH AND INEQUALITY IN INCOMES DISTRIBUTION

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The problem of inequality in incomes distribution is a present one, much discussed. Economic growth is considered an essential force to reduce the level of poverty by increasing the labor demand and finally the wages within the economy. But the extent to which poverty is reduced as a result of economic growth depends mostly on the initial inequalities in income and on how the distribution of income changes with economic growth. A lot of researches are focused on studying the evolution of inequality in incomes distribution and others have attempted to explore the relationship between income inequality and economic growth. There are also studies which try to identify the main factors which have impact on inequality in incomes distribution. The objective of this study is to put in discussion another possible factor that affects the variability on inequality of incomes distribution – economic growth variability. As background research, until now, we did not find any studies which are investigating this possible relation between inequality of incomes distribution and economic growth variability. To provide some empirical evidences for a positive impact of social output volatility on inequality of incomes' distribution we are involving a small sample of 27 developing countries for an observation time span between 1995 and 2006. The values of the Gini coefficient reported in World Income Inequality Database are used as dependent variable. As a first step in testing our research hypothesis, we are involving a static panel data model with pooled ordinary least squares (OLS), fixed effects (FE) and random effects (RE) estimators. The F statistics tests the null hypothesis of same specific effects for all countries. If we accept the null hypothesis, we could use the OLS estimator. The Hausman test can decide which model is better: random effects (RE) versus fixed effects (FE). The FE model was selected because it avoids the inconsistency due to correlation between the explanatory variables and the country-specific effects. For a robustness assessment, we also apply the so-called GMM-System estimation. According to our results, an increase in the volatility of the social output (a decrease in the sustainability of the growth processes) leads to a greater inequality in incomes distribution. Such outcome appears to be robust to the changes in estimation methodology.

Keywords: inequality, inequality in incomes distribution, inequality factors, economic growth, economic growth volatility,

JEL Classification: O15, Q01

I. Introduction

Inequality is a feature of contemporary society which has lately led to the initiation of extensive debate on how it should be addressed. Themes are diverse but can be grouped in two directions – one to address the level of inequality and the other aiming the factors that influence the level of inequality. As follows:

– inequality is positive, negative or both depending of the circumstances. If it is positive should be increased and if negative should be eradicated. Or should we find an optimal level of inequality – the duality case. Moreover, if the level of inequality has an influence on economic growth to what extent is that level;

- *is there a relationship between the dynamics of economic growth and inequality*. How the economic growth and why not, its fluctuation correlates with the level of inequality. Why first of all a relationship with economic growth? Because economic growth is generally accepted as an indicator of welfare growth, while inequality as an indicator of social security which is being reflected indirectly, in many countries, by the issue of eradication/reduction of poverty;
- in what way global economic growth was passed over the regions/states. In recent years economic growth led to an increase or decrease in inequality between states. As a phenomenon, inequality has the same trend or has been manifested differently depending on the degree of development of states (developed, developing, and underdeveloped);
- in what way economic growth of states has impacted the members of their populations. There was a decrease, continuity, or an increase of inequality. The conclusions differ depending on the degree of development of states (developed, developing, and underdeveloped);
- what *other factors* influence the level of inequality, and what is the place, based on importance, of the economic evolution (increase / decrease / economic fluctuations) among them.

Without proposing to sentence the issues raised we will make a short review of the literature to point out a few opinions and research on these issues.

A lot of researches are focused only on studying *the level and the evolution of inequality in incomes*' distribution. Many analysts claim that world income inequality fell sharply in the second half of the 20th century especially because of globalization (Omerod 2000: 42-45; Wright 2000: 34-38; Wolf 2001: 25). There are also opinions that cross-country income inequality is rising (Wade 2001). After using seven different popular indexes for global income inequality estimation Xavier (2002) concluded that in general during the last two decades within countries disparities have increased slightly, but at cross-country level they have declined substantially.

Regarding the *desired inequality level*, an increase is driven by the worsening situation of the poor or by the improvement situation of the rich. If the first situation is undesirable, being a potential promoter of social tension and political instability, the second one is disputed, the general opinion being that an excessively equal income distribution can be bad for economic efficiency.

From the point of view of the *relation between inequality level and economic growth*, some studies suggested that countries with a more equal income distribution tend to have higher levels of income (Galor and Zeira 1993, King and Levine 1993, Banerjee and Newman 1993, Persson and Tabellini 1994, Aghion and Bolton 1997, Galor 2000 etc.; after Tabassum and Majeed 2008: 727-743).¹⁹ Forbes (Forbes 2000: 869) concludes that over short and medium time intervals, increases in inequality tend to precede increases in growth. He emphasizes that these estimates do not directly contradict the previously reported long-run negative relationship across countries. Later, Tabassum and Majeed (2008: 727-743) concluded that it might be possible that more inequality facilitates economic growth for a short time period but overtime, it has strong negative effect on economic growth due to credit market imperfection.

Based on a bigger range of data Barro (2000: 5-32) found that the empirical results are sensitive to the specific choice of sample of countries. In poor countries higher inequality tends to slow down growth and in richer places encourage growth. The same conclusion was made by Castelló-Climent (2007). From this perspective Subarna and Heyse (2006) concluded that developing countries with higher income inequality do not grow at a slower rate than developing countries with a more equal income distribution.

A lot of researches approach the problem from the reversed perspective – *the relation between economic growth and inequality* (how economic growth affects the level of inequality). Kuznet (1955: 1-28) suggested that, at low levels of per capita income, inequality increases in the initial

¹⁹ The first country that notified the European commission was Great Britain, on 24th November 2011, then Ireland on 15th December, on 21st December Germany, followed by Belgium, Luxembourg, Malta, Austria, France and Nederland on 22nd and 23rd December 2011.

phase of development and then decreases in the course of development. Later research, based on other data, found no evidence for Kuznets hypothesis (Deininger and Squire 1997: 38). Recently García (2007) concluded that unlike the Kuznets hypothesis of the 1950s, we can-not expect the growth process to autonomously bring about a reduction of inequality – “redistribution will remain a policy concern even in affluent societies”.

From the literature review we can conclude that the empirical findings are largely inconclusive, so it cannot be stated with certainty the different hypothesis. In general, the inconsistency of the results is put mostly on data quality, limited availability of data, period length, sample selection and estimation technique.

There are also studies which try to identify *the main factors which have impact on inequality in incomes’ distribution*. Dobrotă (1997: 273) enumerates among causes: inequality in wealth, differences in ability, differences in attitude, different qualifications, different number of hours worked, the different positions on goods markets, discrimination, the degree in which government is involved in redistributing income, unemployment, etc.. Examining the long-run determinants of income inequality Roine et al. (2008) found that economic growth disproportionately benefits “the rich”; financial development is also significantly pro-rich, particularly in the early stages of a country’s development; openness to trade has no clear distributional impact; tax progressivity significantly reduces top income shares; government spending has almost no effect on inequality at all. Afonso et al. (2007) found that public policies significantly affect income distribution, notably via social spending, and indirectly via high quality education/human capital and via sound economic institutions. Hesmati (2004) studying the different factors that affect the global income inequality concludes that the factors having the highest impact on inequality across countries are political and capital market factors, and within-country inequality land reform, expanding education and active regional policy, and that the within country redistribution has little impact on the global inequality. Kaasa (2003) grouped the factor described in the literature into five groups: economic growth and the overall development level of a country, macroeconomic factors, demographic factors, political factors, historical, cultural and natural factors.

In the following study we want to put in discussion another possible factor that affects the variability of inequality of incomes distribution – economic growth variability. As background research, until now, we did not find any studies which are investigating this possible relation between inequality of incomes’ distribution and economic growth variability.

II. Data and methodology

For this analysis we looked at a small sample of 27 developing countries for an observation time span between 1995 and 2006. For these countries we took into consideration the values of two indicators: GDP and Gini coefficient. The GDP values were obtained from the “World Development Indicators” of the World Bank and are used to reflect the output volatility. For the description of inequality we use the values of the Gini coefficient reported in “World Income Inequality Database” of United Nations, which is one of the most popular representations of income inequality. To study the correlation between the proposed indicators as methodology we used a descriptive model in which the output volatility is the independent variable and the values of the Gini coefficient are the dependent variable. A formal description of our research hypothesis can be synthesized as:

$$GINI_{i,t} = \beta_0 + \beta_i X_{i,t} + \delta_t + \eta_i + \varepsilon_{i,t} \quad (1)$$

Where:

- the dependent *Gini Index* variable is linked to a set X of the considered explanatory variables;
- η_i is the unobserved time-invariant specific effects;
- δ_t captures a common deterministic trend;

– ε_{it} is a random disturbance assumed to be normal, and identical distributed (IID) with $E(\varepsilon_{it})=0$; $\text{Var}(\varepsilon_{it})=\sigma^2 >0$.

As a first step in testing our research hypothesis, we are involving a static panel data model with pooled ordinary least squares (OLS), fixed effects (FE) and random effects (RE) estimators. The F statistics tests the null hypothesis of same specific effects for all countries. If we accept the null hypothesis, we could use the OLS estimator. The Hausman test can decide which model is better: random effects (RE) versus fixed effects (FE). The FE model was selected because it avoids the inconsistency due to correlation between the explanatory variables and the country-specific effects. For a robustness assessment, we also apply the so-called GMM-System estimation. The GMM-System methodology – as proposed by Arellano and Bover (1995: 29-51), Blundell and Bond (1998: 115-143) and Windmeijer (2005: 25-51) – is involved because estimators like fixed and random effects, IV or standard GMM may yield to biased results. Also, since a small panel sample may produce “downward bias of the estimated asymptotic standard errors” in the two-step procedure (Baltagi 2008: 154) we use the “Windmeijer correction” for the estimated standard errors. More exactly, Windmeijer (2005: 25-51) observes that part of downward bias which can appear for the standard errors in small samples is due to extra variation caused by the initial weight matrix estimation being itself based on consistent estimates of the equation parameters. In order to correct this bias, it is possible to calculate bias-corrected standard error estimates which take into account the variation of the initial parameter estimates. We employ a version of this correction applicable for GMM models estimated using an iterate-to-convergence procedure.

The GMM-System tries to simultaneous estimate the Equation 1 together with a re-specification designed to eliminate the country-specific effects by using first differences of the involved variables as:

$$\Delta GINI_{i,t} = \beta_i \Delta X_{i,t} + \delta_t + \eta_i + \Theta \Delta Z_{i,t} + \varepsilon_{i,t} \quad (2)$$

Where:

– Z is a set of instruments for the dependent and explanatory variables.

The system-GMM approach estimates equations (1) and (2) simultaneously, by using lagged levels and lagged differences as instruments. The presence of both lagged levels and differences is justified by Arellano and Bover (1995: 29-51) and Blundell and Bond (1998: 115-143) which showed that lagged levels can be poor instruments for first-differenced variables, particularly if the variables are “persistent”. For comparison purposes, we are reporting the results of a dynamic GMM (Arellano and Bond 1991: 277-297).

III. Empirical results

After applying the Hausman test we reached the results reported in Table 1. The values of the Hausman tests confirm the viability of the inclusion of the fixed effects. It appears that the level of GDP is positive and statistic significant associated with the *GINI* index.

Table 1. Inequality in incomes distribution and economic output volatility: a static panel data model

Explanatory	Fixed Effects	t-Statistics	Significance
GINI(t-1)	0.24	4.05	***
Real GDP volatility (10 years variance coefficient – standard deviation / average)	0.26	2.16	**
Cross-section <i>F</i> test	6.23 (p=0.00)		
Cross-section <i>chi-square</i>	144.79 (p=0.00)		
Period <i>F</i> test	2.63 (p=0.00)		
Period <i>chi-square</i>	28.84 (p=0.00)		
Cross-section / Period <i>F</i>	5.68 (p=0.00)		
Cross-section / Period <i>chi-square</i>	173.40 (p=0.00)		
R ²	0.90		
Observations (balanced)	297		

t-statistics (heteroskedasticity corrected) in round brackets.
 ***/**/*- statistically significant, respectively at the 1%, 5%, and 10% level.

Source: made by authors

Table 2 shows the results of the extended model. The most important result is that the output volatility variable remains positive and statistically significant, displaying some robustness to the changes in methodology. However, the estimation of relative importance of output volatility to be sensitive to such changes and the statistical significance decline in the GMM-System framework.

Table 2. Output volatility and incomes inequality: a GMM-System and dynamic GMM estimation

Explanatory	Dynamic GMM	GMM-System
GINI (t-1)	0.07*** (6.90)	0.74*** (4.57)
Real GDP volatility	0.18*** (5.02)	0.21* (1.65)
M1		-2.18 (0.03)
M2		0.56 (0.57)
Sargan	0.54	1.00
Observations (balanced)	270	270

t-statistics (heteroskedasticity corrected) are in round brackets. The null that each coefficient is equal to zero is tested using the second-step robust standard errors.
 ***/**/*- statistically significant, respectively at the 1%, 5%, and 10% level.

Source: made by authors

M1 and M2 are tests for first-order and second-order serial correlation in the first-differenced residuals, asymptotically distributed as $N(0, 1)$ under the null hypothesis of no serial correlation (based on robust two-steps GMM estimators). Sargan is a test of the over-identifying restrictions, asymptotically distributed as χ^2 , under the null of instruments' validity (two-steps estimators). White period instrument weighting matrix and White period standard errors & covariance (no degree of freedom correction) are used for dynamic GMM.

IV. Conclusion

We can conclude, according to our results, that social output volatility has a positive impact on inequality of incomes' distribution. The results clearly indicate that an increase in the volatility of the social output (a decrease in the sustainability of the growth processes) leads to a greater inequality in incomes' distribution.

The clear observation that spans is that for a developing country to have a sustainable development it must make efforts not only to increase its GDP but also to maintain a continuous trend of its increase. It matters not only the level achieved but also how it is achieved. Although in a given period of time the economy shows permanent positive results in GDP terms, if it has variations, although it remains positive, the country development is not a sustainable one from the point of view of inequality evolution.

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GLOBALIZATION AND MASS-MEDIA IN THE CONTEXT OF ECONOMIC CRISIS

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Globalization is a reality that we cannot deny or run away from. The economic, political or social issues, even if they have a starting point, spread very quickly, covering large areas in a very short time. Modern communication systems enable crisis transfer. They also bring us information about the actions that have been taken in order to overcome those critical circumstances. Does recession have positive aspects, too? If it has, what are these positive aspects and how can they be used to produce highest benefits? We will try to describe the concepts we maintain by means of some notorious works written by authors with a vast experience, some of them being Noble Prize winners. The idea that we propose is to bring hope out of this situation generated by crisis and globalization. The economic crisis has created a huge opportunity to the mass-media system: it brings the required information to citizens from different nations. Taking this into account, mass-media has played and still plays an important part in making the people involved find solutions and communicate whenever the decision makers are trying to hide facts. With the help of innovation and transformation, let's look for solutions to develop our abilities, relationships, products, markets and results. We should never forget that the greatest and most impressive changes are often born in times of crisis.

Key words: globalization, media, economic crisis, TV, Internet.

JEL Code: L82 - Entertainment; Media; D12 - Consumer Economics: Empirical Analysis

I. Introduction

Is it professionalism or pure coincidence? This question arises every time we look for success factors when dealing with crisis situations. Is it enough being happy with the reality of globalization and copying other people's solutions, hoping they will also be good for us, or should we do more? This is our main concern when approaching the globalization phenomenon, a concern which is deepened by mass-media in the context of economic crisis. This is the reason why, in the first part of this study, our aim is to approach globalization and present economic crisis on a positive note, emphasizing the opportunity we have to find appropriate solutions to the complex circumstances we are facing. In this process, the first winners are those who overcome crisis successfully and manage globalization skillfully. In the second part, we will try to demonstrate the link between globalization and mass-media, having in mind the dissemination of the flow of information. We would also like to reveal the dark side of mass-media; the costs regarding time and resources which especially the young generation pays for this modern vice called multimedia. The perspective from which we approach this subject is related to immediate every day reality. Our aim is to provide a descriptive and explanatory study. From this point of view, our analysis will sometimes become passionate, but will be strongly rooted in the reality that is shaped by each and every action of man.

II. Globalization and economic crisis

When discussing about globalization and future, we cannot ignore economy and mass-media, because both are essential and decisive factors in modern man's life. Globalization can be analyzed in 2012 from the perspective of economic crisis and of the adopted solutions as well as from the perspective of its consequences on the entire world. The economic crisis we are now

undergoing is one of the deepest crises ever existed. „When crises acquire worldwide dimensions, as it is often the case with the worst ones, their end depends on the possibility that the international reaction should be characterized by cooperation or conflict. In this case there are so many things at stake. If they are not given much attention, crises will bring about huge losses, wiping out industries from the face of the earth, destroying wealth, leading to massive dismissals of employees and overloading the administrative department with heavy taxes. But it's even worse than that. Crises overthrew governments and bankrupted nations; they forced countries to apply the *lex talionis* and get involved in commercial wars. Sometimes crises paved the way to armed conflicts, in the same way The Great Depression prepared the ground for the Second World War. We are not allowed to ignore crises.“ (Roubini and Mihm 2010:36). In this respect, both on a macroeconomical and microeconomical level, the present stage is characterized by all kinds of challenges, unknown things as well as opportunities which should not be overlooked.

A Crisis or growth?

It seems that in every person's life moments of crisis mingle with moments of growth. Is giving birth to a child a moment of crisis? What about weaning? Are puberty, adolescence, looking for a job, marriage, having the first child, all moments of crisis which indicate each person's growing up and development? We can ask ourselves if all these elements in somebody's life are crises or growth stages. It is true that when we undergo them, we feel pain rather than pleasure and disappointment instead of hope, but when all these become simple memories, we understand that they actually were growth stages. We forget all the pain and remember only the beautiful part. „In economic analysis, we start from man and his needs. The evolution of human society is actually the history of a constant growth process, multiplication and diversification of needs and this evolution process interwove with the entire development and progress of society.“ (Bădulescu and Vancea 2011:7)

Similar to man's life, but on a much larger scale, the life of nations and of all mankind carries on. There are many records which prove that difficult economic stages have given birth to spectacular ideas, which turned hardships into opportunities. In 1937, Howard Stephenson wrote a book, *They Sold Themselves*, about people who could easily find a job during the devastating economic crisis in the 1930's. He says that those who were successful in finding a job were „people who didn't have a brother-in-law to hire them to sweep the floors of a warehouse; these people were full of creativity and managed to fill good positions or even started their own business which brought them satisfaction and prosperity.“ (quoted by Roubini, Mihm, 2010:41). In this respect, we have the example of George Washington Carver, who was born into slavery, lived till the age of 10-12 on the cotton plantation of his first master and afterwards worked as a servant in different households. He finished high school after he had been 20 years old, then he took the degree of Bachelor of Science and a master's degree at the Iowa State Agricultural College. The Alabama state built him a national monument because after the cotton crops had been devastated by the cotton beetle, Carver promoted and organized the cultivation of fields with peanuts, sweet potatoes and beet root, helping people in Alabama become rich.

The moments of crisis are difficult especially when you experience them personally. But your whole perspective will change when you see them as growth stages. Here is how, in 2009, a year after he had been awarded the Nobel Prize for economy, Paul Krugman spoke about the Great Depression from the 1930's: „When they think about this topic, most of the economists consider the Great Depression from the 1930's a free tragedy, which they think wasn't necessary.“ (Krugman 2009:7). Mister Krugman continues saying that three or four measures would have been enough and, if they had been adopted in 1929, they would have led the following year to a „kindergarten recession“. Even to this famous economist, the crisis that started in 2008 carries within itself a much deeper anxiety than the one from 1930. Why is it so?

B. Trust or mistrust?

If we remember history well, when states emerged in Europe, people put their hope in the state. The state was the agent or the instrument which would solve all the problems. It was empowered to do justice by the laws it issued and applied. The state was also in charge with education, health and citizens' safety. Whether we refer to the communist or the capitalist state, each of them tried to show its almightiness. First, the communist state revealed its real face and the most obvious aspects were the economic incompetence and the leaders' lack of ethics. At the end of the 80's, the European countries, some which underwent violent revolutions while others experienced „velvet“ revolutions, passed from communism to capitalism. In capitalist vision, the role of the state is still very important. In every election campaign, politicians promise to solve all people's problems. Of course, they promise more than they can do or even intend to do. Thanks to mass-media, the public opinion has become more and more aware of the discrepancies between words and facts. It seems that nowadays people trust less and less those who represent the state, no matter who these are or whatever state we refer to. Every day mass-media brings into light many corruption cases or, at best, cases of administrative incompetence. The „almighty“ capitalist or communist state went bankrupt.

Together with the establishment of capitalism, we have witnessed another worshipping, namely to the market. It was said that the market would bring solutions to every problem. „Let the market function and everything will be all right!“, was the idea we've heard from many political and economic decision makers. But lately we have witnessed the market bankruptcy. The instability is so big that we need more and more money to cover at least the critical part of deficits. Disappointed by the state, by the market and by the system, people have started going out in the streets. Last year we saw what happened in London, in New York, in the African states and in Greece, when extremely unhappy people protested and almost all these demonstrations degenerated into acts of violence. Unfortunately, in the first part of this year people from Romania have gone out in the street, too. It seems that their protest does not regard only one aspect, but is caused by dissatisfaction on multiple levels.

Beyond what it can be seen, a collective conscience seems to take shape and this phenomenon is prompted by the modern means of communication. Nowadays, information spreads at a very high speed. We read or listen to the news, but the whole process is much more complex, we take over unconsciously and involuntarily the mentality of those who convey us the information. Here is how the famous psychologist C.G. Jung explains this phenomenon: „Each Roman was surrounded by slaves. The slave and his psychology invaded ancient Italy and every Roman became in his own self a slave, without even noticing it. Because Romans lived on a constant basis in a slave context, they were unconsciously infected with their psychology. No one could avoid such an influence.“ (C.G. Jung 1928:135). C.G. Jung's diagnosis is also valid for our society. Dissatisfaction as well as a negative vote is rather a rule than an exception.

If we come back to the economic field, in our opinion in this period of time the nations' leaders, especially those involved in the economic sphere, have adopted an anti-panic management strategy. Therefore, they speak of debt guarantee funds in order to „settle down markets“. They also speak of a „negative economic growth“, instead of an „economic decrease“, so different communications strategies are set up rather than some practical recovery measures. In this context, we wonder how big will be our losses in reestablishing a proper balance? And our second question is how big will be the invoice or the share each of us will have to pay for? Will this generation try to pay the bill or will it condemn the next generation to cover its cost?

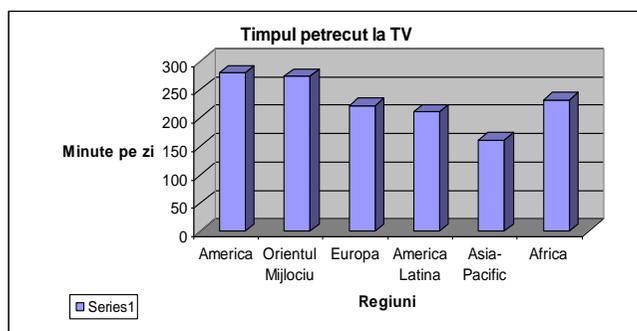
II. Globalization and mass-media

We live in a world which absorbs more and more information. The economic crisis has increased both the amount of information that is supplied and the demand for information. More than that, the flow of messages carries the deep mark of the worldwide area. The interest of the citizens

who live in more developed countries is not limited to the events taking place in their own country, but to all the factors involved in the worldwide stage which have an impact on the entire world's economy. In the same way, the community members of less developed countries have learned from the very first days of the economic crisis that what happens in their countries is the direct result of the worldwide economic situation or, more precisely, of the events taking place in the more developed countries. Thus, we can see the interest of all parties in finding out more and more. Mass-media has proved to be extremely skillful and examined this issue in every possible way. Each news bulletin has received a double amount of space from the time allocated to the economic field. Analysts, economists, politicians, jurists and other specialists have been invited to debates, which turned either violent or peaceful, each debate trying to meet the increased demand for information. In this way, mass-media represents an important tool in the globalization process. „In the last few decades, the world became more and more «globalized». Goods and services trade reached an international dimension and this is also the case with migration of work and spreading of information. Globalization went hand in hand with technological progress, each supporting the other.“ (Roubini and Mihm 2010:498) As Roubini suggests, on the overall the main feature of globalization is the continuous flow of information, propagated all over the world by media industry at a very high speed. The development of the communication system had a huge impact on all countries.

A. Mass-media – globalization accelerator

One of the accelerators of globalization is television. This filtering tool and means of broadcasting information on a global level enables social exchanges and also promotes and



outlines behavioral patterns and lifestyles. The impact of movies on viewers is not limited to the time spent in front of the TV set, but extends to the values which are presented, taken over and eventually adopted. Mediafax quotes from a research made by Eurodata TV Worldwide, which shows that the inhabitants of the earth spent in 2009 an average of three hours and 12 minutes daily in front of their TV set,

Source: Mediafax

which indicates an increase of 3 minutes compared to 2008.

„Therefore, this research shows that as a result of recession people haven't changed their behavior towards their use of mass-media. As far as a region analysis is concerned, the North America consumers spend the longest time in front of their TV sets, with an average of four hours and 40 minutes daily, followed by those from Middle East, who, on the average, watch TV four hours and 34 minutes daily and by those from Europe, who watch TV programs three hours and 42 minutes. In Latin America, a normal consumer watches TV around three hours and 30 minutes daily, while those from Asia-Pacific region spend around two hours and 41 minutes in front of their TV sets. Africa is the only region where the average time spent by consumers in front of their TV sets hasn't increased, but remained constant to three hours and 52 minutes.“ (Mediafax)

B. The dark side of modern systems of communication

It seems that television remains one of the most enjoyed sources of information for the postmodern man. Nowadays man's life without a TV set is unconceivable, even if many things have been said or written about the dark side of the television impact. In almost every home, the

TV set, whether it is bigger or smaller, expensive or cheap, represents a props element of the living room and sometimes of the bedroom.

As a globalization tool, the internet skips some of the underdeveloped regions, overlooking the population from the poorest areas of the earth which, out of economic reasons, doesn't have access to internet. Even if internet represents an efficient means of communication and information, its participants being able to exchange messages quickly in spite of the huge distances between them, it can have negative connotations. Especially for children, internet is time and resource consuming. In our globalized world, internet tends to become a life pattern changing tool.

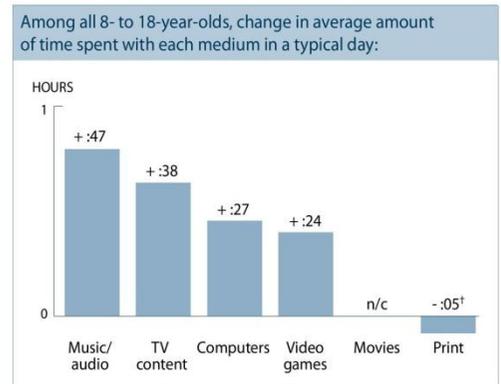
A research on the behavior of 8 to 18 years old mass-media consumers, initiated by Kaiser Family Foundation and published in 2010, shows that the time children spend in interaction with mass-media is gradually growing. (Kaiser Family Foundation)

According to this research, children spend 7 hours and half daily interacting with mass-media. In 10 years, we notice an increase in mass-media use to 79 minutes daily. This research also shows that a portion of time children are connected to several media channels and, if we sum up all the hours, we come to an average use of mass-media services of 10 hours and 45 minutes per day. So, in 10 years we have an increase in mass-media use of 3 hours and 15 minutes daily.

Media Use Over Time

Among all 8- to 18-year-olds, average amount of time spent with each medium in a typical day:			
	2009	2004	1999
TV content	4:29 ^a	3:51 ^b	3:47 ^b
Music/audio	2:31 ^a	1:44 ^b	1:48 ^b
Computer	1:29 ^a	1:02 ^b	:27 ^c
Video games	1:13 ^a	:49 ^b	:26 ^c
Print	:38 ^a	:43 ^{ab}	:43 ^b
Movies	:25 ^a	:25 ^{ab}	:18 ^b
TOTAL MEDIA EXPOSURE	10:45^a	8:33^b	7:29^c
Multitasking proportion	29% ^a	26% ^a	16% ^b
TOTAL MEDIA USE	7:38^a	6:21^b	6:19^b

Changes in Media Use, 2004–2009



[†]Not statistically significant. See Appendix B for a summary of key changes in question wording and structure over time.

Source: Kaiser Family Foundation

If we study the behavior associated to mass-media use during 2004-2009, we notice an increase in the average amount of time spent daily as follows: music-audio 47 minutes, TV 38 minutes, computer 27 minutes and video games 24 minutes. In 2009, there was a decrease of printed materials. It seems this was only the beginning, because after 2009 we witnessed an accelerated decrease in printed media product use.

But the biggest difference in TV watching is that nowadays 8 to 18 year-olds, on the average, watch daily around one hour (56 minutes) of TV content and movies on other platforms, too, including internet (24 minutes), cell phones (15 minutes) and iPods (16 minutes).

Talking and Texting on a Cell Phone

Among 8- to 18-year-olds, time spent in a typical day using a cell phone for:												
	Among all	AGE			GENDER		RACE/ETHNICITY			PARENTS' EDUCATION		
		8-10	11-14	15-18	Boy	Girl	White	Black	Hispanic	HS or Less	Some College	College +
Talking	:33	:10 ^a	:36 ^b	:43 ^b	:28 ^a	:38 ^b	:25 ^a	:46 ^b	:37 ^b	:35 ^{ab}	:41 ^a	:28 ^b
Texting [†]	1:35	~	1:13 ^a	1:51 ^b	1:14 ^a	1:58 ^b	1:22 ^a	2:03 ^b	1:42 ^{ab}	1:40 ^{ab}	1:56 ^a	1:21 ^b

Note: Statistical significance should be read across rows, by section.
[†] Among 7th–12th graders only.

Source: Kaiser Family Foundation

Concerning the use of cell phones, the research indicates an obvious tendency in using this terminal more for texting than for talking. Only one third of the time the cell phone is used classically, two thirds being used for written communication.

Time Spent with Cell Phone Media, by Demographic

Among 8- to 18-year-olds, time spent in a typical day using a cell phone for:									
	Among all	AGE			GENDER		RACE/ETHNICITY		
		8-10	11-14	15-18	Boy	Girl	White	Black	Hispanic
Listening to music	:17	:08 ^a	:18 ^b	:23 ^b	:16	:18	:08 ^a	:35 ^b	:21 ^c
Playing games	:17	:06 ^a	:18 ^b	:22 ^b	:17	:16	:09 ^a	:29 ^b	:24 ^b
Watching TV	:15	:06 ^a	:15 ^b	:22 ^b	:14	:17	:09 ^a	:23 ^b	:19 ^b
TOTAL CELL PHONE MEDIA	:49	:20 ^a	:51 ^b	1:06 ^b	:47	:51	:26 ^a	1:28 ^b	1:04 ^c
Percent who did any of the above	43%	28% ^a	48% ^b	48% ^b	42%	44%	33% ^a	59% ^b	53% ^c

Note: Statistical significance should be read across rows, by section.

Source: Kaiser Family Foundation

Our contemporary society joins the virtual media on a constant basis, which is increasingly accessed from mobile terminals. The cell phone is often used for listening to music, playing games and watching TV. Almost half of its use time, the cell phone is used as an internet access terminal. Coming back to the economic aspect, internet is the medium in which on-line orders and financial transactions are made, being the new human interaction platform. Optimism or skepticism regarding internet doesn't change the reality of on-line expansion in all fields. The use of the internet is vital both for local and worldwide economy.

IV. Conclusions

„Nothing lasts forever, and crises will always come back. But they should not darken our horizon; they should not overshadow permanently our economic existence. If we set up protective dams around our financial system, we will be able to overcome the crises of the coming years. Although high waves will roar against us, we will be protected. But if we don't manage to get ready for inevitable hurricanes – if we deceive ourselves, thinking our obsolete defenses will never be broken – , the danger of future floods will surely lie ahead of us.“ (Roubini and Mihm 2010:460)

In the first part of this study, we tried to show that globalization and present economic crisis also have a positive aspect, emphasizing the opportunity we have to find appropriate solutions to the complex circumstances we are facing. In this process, the first winners are those who overcome crisis successfully and manage globalization skillfully.

In the second part, we tried to demonstrate the link between globalization and mass-media, having in mind the dissemination of the flow of information. The negative aspects are related to the costs regarding time and resources which especially the young generation pays for this modern vice called multimedia. The perspective from which we approached this subject is related to immediate every day reality.

We've got crisis, globalization and mass-media, but what are we doing about them?
 „Globalization is a reality, the reality of our times, having positive outcomes, as science

propagation, but also vicious effects, as the lamination of national cultures. Nowadays the idea of refusing or accepting globalization cannot even be raised.“ (Guetta 2000:328) With the help of innovation and transformation, let's look for solutions to develop our abilities, relationships, products, markets and results. We should never forget that the greatest and most impressive changes are often born in times of crisis.

We have got crisis, but can we make an opportunity out of it!?

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DYNAMICS OF DEVELOPMENT IN EUROPE: ANALYSIS OF TWENTY YEARS DATA ON GDP AND HDI

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The aim of this study is to analyze the data on both GDP per capita and HDI related to the member States of European Union for the period from 1990 to 2010 in order to verify if these data are more related to the macro-region to which each State belongs than to European area. In particular, this paper considers four macro-regions: North, Centre, East and Mediterranean. Each of the four macro-regions are characterized by a peculiar dynamic of economic growth over the temporal period here considered. The results show that macro-regional dynamics prevail on European ones when European States are characterized by low values of both GDP per capita and HDI. More specifically, the values on GDP per capita are more correlated to the macro-regional average than to the European one. At the same time, States with high values of both GDP per capita and HDI are more related to the macro-regional dynamics of HDI.

Hence, it is possible to observe that not only allows a macro-regional level of analysis to highlight socio-economic dynamics of dependence, but also to underline that some macro-regions are characterized by the prevalence of the economic component on the social one whereas other macro-regions are typified by the opposite dynamic. In fact, if the level of both GDP per capita and HDI are high, the social aspect prevails on the economic one.

Keywords: socio-economic development, European economies, correlation analysis.

JEL code: C32, O11, O52.

1. Introduction and related literature

“United in diversity”, which is the official motto of the European Union (EU) adopted in May 2000, shows two of the main characters of EU: the desire for integration and the diversity. That European diversity is undeniable and inescapable is clear as EU is an economic and political union of 27 member States. The EU arises from member States’ desire for achieving a complete integration. In fact, one of the basic principles of the European Governance is the commitment to promote integration by also making reference to the idea of conditionality (Smith 1998). Conditionality “*entails the linking, by a State or international organisation, of perceived benefit to another State, to the fulfillment of conditions relating to the protection of human rights and the advancement of democratic principles*” (Smith 1998, p. 256). The path towards the European Strategic Development Framework has revitalized the current European debate about GDP and HDI analysis, making it a key element of European socio-economic development and, in particular, of the new strategic framework for cohesion policy (Barca 2009, Evers 2010). Indeed, the socio-economic reality of the European Union is quite unbalanced today, with the growing presence of situations of macro-regional disparities. One of the main objectives is represented by the challenge of promoting a development which bridges economic gap in the EU by implementing policies of socio-economic cohesion (Barro and Sala-i-Martin 1991, Allard *et al.* 2008). On this regard, our research is related to the studies concerning European socio-economic

development and is aimed at describing relationships among European States. In particular, our main purpose is to observe if economic growth and human development of each European State are more related to European area than to the macro-region to which each State belongs.

2. Research methodology

We have chosen to use the Gross Domestic Product per capita in current US\$ (GDPpc) to represent economic growth and the Human Development Index (HDI) to describe human development. We have analyzed 28 European States; indeed, we have also considered data concerning Croatia which is an acceding State of the European Union, with full membership expected in July 2013. Each European State belongs to one of the following macro-regions:

- NORTH (N): Denmark, Finland, Ireland, Sweden, United Kingdom;
- CENTRE (C): Austria, Belgium, France, Germany, Luxembourg, Netherlands;
- EAST (E): Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic;
- MEDITERRANEAN (M): Croatia, Cyprus, Greece, Italy, Malta, Portugal, Slovenia, Spain.

The time period considered goes from 1990 to 2010.

Data on GDPpc have been obtained from World Bank database accessed on 24 April, 2012 whereas the data on HDI have been gotten from UNDP database retrieved on 24 April, 2012.

Firstly, we have determined both GDPpc percent variations (VGDPpc) and HDI percent variations (VHDI) over a five years horizon. The data on VGDPpc and on VHDI are presented on Table no 1.

Secondly, we have calculated the following correlations with the aim of verifying if the data on GDPpc for each European State are more related to European area than to the macro-region to which each State belongs:

- CEU: correlation between GDPpc of each State on yearly basis between 1990 and 2010 and the European yearly average of GDPpc;
- CEUc: correlation between GDPpc of each State on yearly basis between 1990 and 2010 and the European yearly average of GDPpc. This average was corrected by removing the GDPpc value of the considered State;
- CMR: correlation between GDPpc of each State on yearly basis between 1990 and 2010 and the yearly GDPpc average of the macro-region to which each State belongs;
- CMRc: correlation between GDPpc of each State on yearly basis between 1990 and 2010 and the yearly GDPpc average of the macro-region to which each State belongs. This average was corrected by removing the GDPpc value of the considered State.

Finally, we have determined the following differences in order to highlight if data on macro-regional basis describe data on national basis better than data on European basis: DIF (difference between CMR and CEU) and DIFc (difference between CMRc and CEUc). The obtained values are shown in Table no 2.

Table no 1 - *Percentage variations of data on GDPpc and HDI for European States from 1990 to 2010*

EU country	VAR GDP 90-95	VAR GDP 95-00	VAR GDP 00-05	VAR GDP 05-10	VAR HDI 90-95	VAR HDI 95-00	VAR HDI 00-05	VAR HDI 05-10
AT (C)	40	-20	55	22	3,04	3,07	2,50	2,67
BE (C)	38	-19	59	20	5,30	2,58	-0,34	1,37
FR (C)	24	-17	55	16	5,41	3,30	2,72	1,61
DE (C)	43	-26	46	20	5,03	3,47	3,59	0,89

LU (C)	52	-8	74	30	3,55	4,66	1,29	0,00
NL (C)	37	-11	62	20	3,71	1,85	0,91	2,13
BU (E)	-35	3	133	69	0,00	2,44	4,76	2,54
CZ (E)	59	3	120	50	-	3,55	4,66	1,05
EE (E)	-5	37	149	39	-0,14	8,38	5,80	1,34
HU (E)	38	3	141	18	4,39	5,16	3,61	1,37
LV (E)	-25	59	111	54	-2,89	8,77	7,10	2,30
LT (E)	-23	50	133	44	-	7,61	5,87	1,51
PL (E)	113	24	79	54	-	5,91	2,73	2,53
RO (E)	-5	6	177	65	-1,86	2,47	6,25	4,14
SK (E)	112	13	114	41	0,67	3,59	3,98	2,72
HR (M)	-9	3	108	36	-	4,91	4,28	1,79
CY (M)	47	-6	67	28	5,49	1,52	1,13	3,71
EL (M)	34	-7	90	23	1,31	3,35	6,73	0,70
IT (M)	-1	-3	57	12	4,06	3,77	4,36	1,39
MT (M)	34	6	48	35	2,39	3,63	3,25	0,61
PT (M)	48	-1	58	19	6,07	3,60	1,41	2,41
SI (M)	21	-5	78	28	-	6,06	5,34	4,01
ES (M)	13	-5	81	17	6,94	4,74	2,15	2,22
UK (N)	13	26	51	-5	4,88	2,08	2,64	0,82
DK (N)	32	-14	59	17	2,97	3,36	2,79	0,90
FI (N)	-8	-8	59	19	3,53	1,82	4,54	0,57
IE (N)	36	37	91	-3	3,96	6,89	3,34	1,00
SE (N)	1	-3	47	19	4,78	4,56	0,22	0,56

made by the authors

3. The result of the research

Each of the four macro-region N, C, E and M is characterized by a peculiar dynamic of economic growth. Indeed, the VGDpc analysis shows that, for some States, macro-regional dynamics are more significant than the European ones. This is particularly evident in the region E whose values of economic growth are higher than 100% over the period 2000-2005 (see Table no 1). The VHDI analysis reveals, on one hand, that macro-regions with the lowest values of GDPpc are characterized by a great internal variability, and, on the other hand, that macro-regions with high values of GDPpc are typified by a level of HDI which varies according to their typical ranges of VHDI. Moreover, the study of the correlation of GDPpc (see table no 2) shows that States belonging to macro-region E are strongly correlated with macro-regional data.

If we focus on VGDppc, it is possible to note (see Table no 1) that the variations of each macro-regions are coherent in both sign and value. In general, the range of variation is between 14% and 30% for each macro-region. In particular, it is between 39% and 69% for E, between 16% and 30% for C, between 17% and 36% for M, and between -5% and 19% for N. It is possible to identify best in class States for each macro-region. For example, if we look at E, the economic growth rate of Poland and Hungary is high, above all over the period 1995-2000, and then, it tends to coincide with the economic growth rate of the macro-region they belong to.

Then, if we pay attention to VHDI (Table no 1), it is possible to note that there is a variability which is higher than the variability related to VGDPpc. The VHDI trends are characterized by a high variability within the macro-regions with low values of GDPpc rather than within the macro-regions with high values of GDPpc where the values of HDI varies according to the typical macro-regional ranges of VHDI. For example, if we consider N, there is an increase of 4% over the period 1990-1995 and a growth of 0,80% from 2005 to 2010.

Now, it is important to observe if the data on GDPpc for each European State are more related to European area than to the macro-region to which each State belongs. On this regard, when DIF and, more specifically, DIFc (see Table no 2) assume positive values, the macro-regional dynamic explains the data better than the European one. Moreover, the data on GDPpc for 17 States out of 28 are more correlated to CMRc than to CEUc. Specifically, in E, 7 States out of 9 are more correlated to CMRc than to CEUc whereas in N, the most of countries is more correlated to CEUc. Hence, the average value of macro-regional GDPpc reasonably well represents the potential dependence of each State on macro-regional dynamics.

Table no 2 - Correlations between national GDPpc and European GDPpc and macro-regional GDPpc

EU country	CEU	CMR	DIF	CEUc	CMRc	DIFc
AT (C)	0,986771	0,997813	0,011042	0,985561	0,997124	0,011562
BE (C)	0,990789	0,99888	0,008091	0,989963	0,998536	0,008573
FR (C)	0,990215	0,997037	0,006823	0,989463	0,996273	0,00681
DE (C)	0,959552	0,982048	0,022496	0,956804	0,977973	0,021169
LU (C)	0,996929	0,997245	0,000316	0,99593	0,992593	-0,00334
NL (C)	0,998071	0,997086	-0,00099	0,997857	0,995948	-0,00191
BU (E)	0,963483	0,978941	0,015458	0,962799	0,976476	0,013677
CZ (E)	0,991935	0,995566	0,00363	0,991473	0,993723	0,00225
EE (E)	0,991433	0,996584	0,005151	0,990999	0,995364	0,004365
HU (E)	0,992376	0,988569	-0,00381	0,992073	0,985523	-0,00655
LV (E)	0,976552	0,990509	0,013957	0,975618	0,987947	0,012329
LT (E)	0,985407	0,995471	0,010064	0,98486	0,994332	0,009472
PL (E)	0,981825	0,990315	0,008489	0,981178	0,988022	0,006844
RO (E)	0,980463	0,991948	0,011485	0,979956	0,990607	0,010652
SK (E)	0,994594	0,994488	-0,00011	0,994317	0,992493	-0,00182
HR (M)	0,985393	0,988359	0,002967	0,984791	0,986063	0,001272
CY (M)	0,995916	0,996781	0,000865	0,99562	0,995565	-5,5E-05≈0
EL (M)	0,997621	0,998615	0,000994	0,997449	0,998095	0,000646
IT (M)	0,984744	0,986497	0,001753	0,983731	0,981911	-0,00182
MT (M)	0,991007	0,993626	0,002619	0,990603	0,992242	0,001639
PT (M)	0,993408	0,993724	0,000315	0,993084	0,992216	-0,00087
SI (M)	0,991837	0,9927	0,000863	0,991305	0,990273	-0,00103
ES (M)	0,994492	0,994846	0,000354	0,994071	0,99277	-0,0013
UK (N)	0,942739	0,974726	0,031986	0,937463	0,963693	0,02623
DK (N)	0,996285	0,983306	-0,01298	0,99583	0,97323	-0,0226
FI (N)	0,978411	0,976723	-0,00169	0,97623	0,965613	-0,01062

IE (N)	0,962621	0,983654	0,021034	0,956226	0,967594	0,011368
SE (N)	0,970875	0,972958	0,002082	0,968182	0,961355	-0,00683

made by the authors

4. Conclusions

The analysis of the data on GDPpc reveals that European States with low values of GDPpc are more linked to the macro-regional trend than to the European one. In particular, the values of GDPpc are better explained by the average values of the macro-region to which each country belong than by the European average values. This is verified by a corrected correlation which is calculated by removing the value of the considered State from both macro-regional and European averages. The percentage variations of HDI are slightly different from the ones of GDPpc. The analysis of the variations of both GDPpc and HDI show that States with high values of both GDPpc and HDI are rather tightly linked to the dynamics of the macro-region to which they belong. In conclusion, the macro-regional dynamics especially influences the States with low values of both GDPpc and HDI. Therefore, in an era of globalization, it is still fundamental to take into consideration the socio-economic characteristics of macro-regions in order to understand the European dynamics of development.

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CHANGES IN CONSUMER'S BEHAVIOUR ON THE ROMANIAN RETAIL MARKET IN THE CONTEXT OF ECONOMIC CRISIS

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In order to observe the impact of the economic crisis of consumer's behaviour on the Romanian retail market, I focused my research on the evolution of consumption expenditure of households. I studied aspects from European Union and Romania. The study is based on the research taken in the project of PhD research with the theme: The impacts of Economic Integration on Romanian Retail. I used data from Eurostat, the Romanian Statistical Institution, specialised studies etc.

Key words: consumer behaviour, higher expectations, crisis,

JEL classification: E21, E32, M16

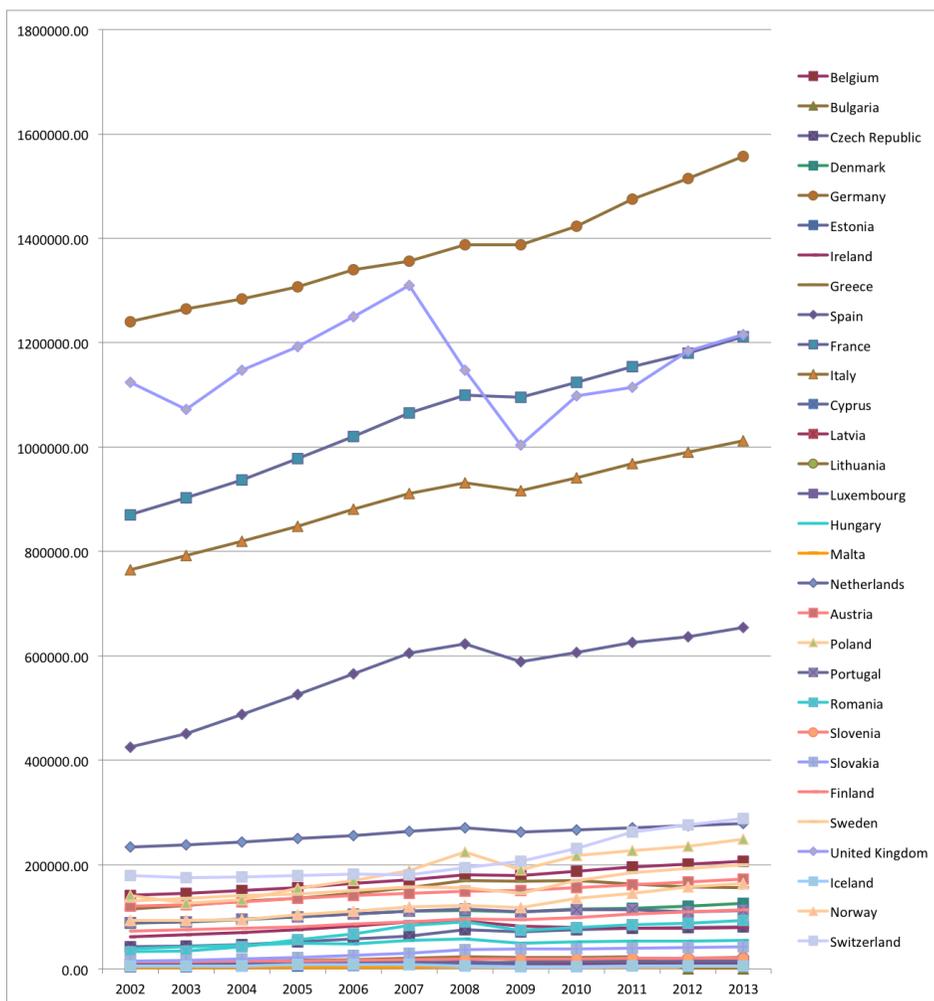
1.Introduction

The global economic crisis, through its effects, caused changes in consumer behaviour. A new character was identified, the wise consumer, which is more judicious in shopping and considers the prospects for the future. It changed the consumer life in general, and how he/she makes buying decisions. The effects of the crisis are multiple: lower income, rising prices, rising unemployment, job losses, loss or fringe benefits, increase loan rates due to the devaluation of currency. All this leads to redefining income destinations, sense of fear, uncertainty, etc. In crisis consumers have lost their optimism, they had to postpone and rethink their future projects, reduce expenditure for less necessary goods, limit to the main needs, reduce maintenance costs of housing, and they were limited in consumption and home activities searching ways to support consumption at home, therefore consumers have resorted to limiting consumption. (money.ro, 2010)

Consumption expenditure evolution in the European Union

In order to determinate the consumption evolution in Europe, I used data from Eurostat: the consumption expenditures of households at each EU member countries, data in percentage changes household consumption expenditure also nationwide.

Figure 1: The consumption expenditure evolution of EU member countries during 2000-2013



Source: the author according to the data available on Eurostat

From the chart above we can see changing developments in consumer spending for households in all the states of the European Union. Thus, the total consumption in the European Union fell with 2.2% in the year of 2009 compared to 2008. Most affected by the economic crisis were states like Portugal, with a decrease in consumption by 2.4% in 2009 compared to 2008, Estonia with a decrease of 1.8%, Spain with a decrease of 1.1, %, France with a decrease of 1.1% in 2009 compared to 2008 when there was registered an increase of 3.6% over the previous year. In Lithuania, the consumption expenditure of households increased by 3.2% in 2009 compared to 2008, when consumption had increased by 10% over the previous year. A similar situation was found in Romania where consumption grew by 3.8% in 2009 compared to 2008, year in which it recorded an increase by 10.1% compared to 2007, and Latvia had an increase consumption by 3.1% in 2009 compared to 2008, when consumption increased by 15,8 % compared to the value registered in 2007. The economic crisis produced no negative effects on Iceland, where the expenditure consumption increased by 12% in 2009 compared to 2008 and with 11.6% in 2008 compared to 2007. (Eurostat, 2011)

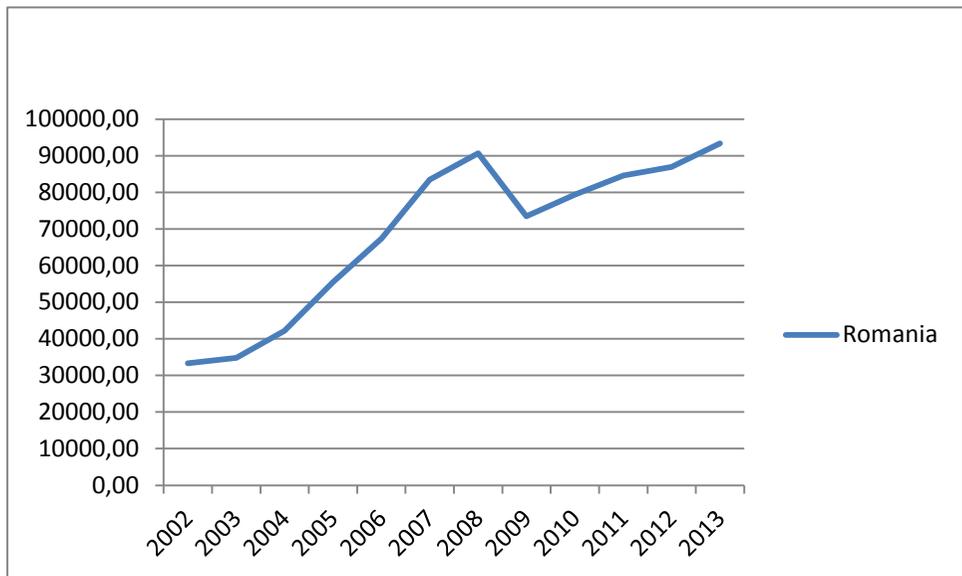
In 2010 there weren't any decreases in consumer spending, but there were registered procentual increases of consumption with values ranging between: 0.1% in Czech Republic, 1.2% in France, 1.4% in Italy, 4.3% in Iceland and 4.5% in Hungary. (Eurostat, 2011);

3. Consumption expenditure evolution in Romania during the last decade

Romania is a country with the most significant evolution of consumption in Europe and is one of the largest markets in terms of population (7th place in the European Union after Poland), and the country with the highest GDP growth during 2005 and 2008. (Contrast Management Consulting, 2011).

Also, the Romanian retail market recorded the highest growth rate from the Central and Eastern Europe region in the last 10 years. However the average amount spent by a Romanian consumer is still less than half compared to the European average (23%).

Figure 2. Evolution of final consumption expenditure of households from Romania during 2002-2013



Source: the author according to the data available on Eurostat

Thus, as can be seen in Figure 2, there were significant increases of consumption in Romania: 20.2% in 2002 compared to 2001, 16% in 2003 compared to 2002, 10.1% in 2008 compared to 2007, and in 2009 when the economic crisis had led to a reduction of the revenue, increasing unemployment etc the consumption expenditure registered a smaller increase, by 3, 8% compare to 2008. In 2010 there was an increase in consumption by 7.9% compare to 2009, while in 2011 consumption increased by 6.1% over the previous year.

Projections for the following years are meant to increase, those with 2.65%. In 2012 compared to 2011 and by 7.3% in 2013 to 2012. (Eurostat, 2012). Increases in recent years have been lower due to the economic crisis, the imbalances in the economy, the uncertain political situation from Romania, etc.

In this period, Romanian consumers had to give up certain activities (GFK România 2010), in the way in which they:

- spent 32% less money on clothing and footwear;
- reduced holidays and travel expenses by 28%
- allocated 25% less money for savings and investment;
- spent 23% less on having dinner with friends, 21 % less on dining outdoors;

- decreased by 20% mobile costs;
- reduced 19% budget for housing decoration;
- reduced 18 % electricity costs that households own;

Consumers have turned to other activities such as receiving guests at home, walks in the park, watching movies at the cinema. According to a study by the European Audiovisual Observatory, in Romania, in 2009 cinemas have reported earnings 70% higher than in 2008. If in 2008 cinema tickets were sold in the amount of about 46 million lei in 2009, cinema receipts were over 78.2 million lei. (kappa.ro, 2010)

Studies (<http://ww.kappa.ro>, 2011) show that in 2010, 10 million Romanian consumers have been affected by the economic crisis, especially in the manner of reducing extra-wage incomes and 2.1 million peoples had lost their jobs. People with an average and low income were the most affected by the crisis effects in 2009. They cancelled almost all projects in order to survive. For the population with high incomes, the impact was more on psychological level, but they became more moderate, more cautious, delaying taking the decisions to projects than the financial impossibility to would bring them fulfilment. (financiarul.ro, 2010).

A similar evolution had the consumption credit. During 2004-2008, there was a period of expansion in consumer loans, placing Romania in a different situation compared to other states of the European Union: loans balance of the consumption is significantly higher than prime mortgage balance. Currently, the share of consumer credit in the total balance of loans to population is of 66% in Romania and in the euro area its share only of 13%. Banks in Romania have ongoing consumer loans that are worth 16 billion or the equivalent to 13% of the GDP, well above the euro area of 7%. Exuberance with which banks have granted such loans in recent years has generated the problems that now the banking system is facing, meaning that consumer credit arrears are much higher than mortgage (businessday.ro, 2010).

The decrease of incomes determined the increase of the income rates in total disposable income so the available budgets for consumption fell. Consumers have become aware of the promotions in stores, the main anti crisis traders lever, focusing on cheaper products, including the brands owned by the stores. As evidence, discount store chains have opened most new sale items between 2008 and 2011. Currently, the retail stores, the discount stores are preponderant, counting 365, and the superstores that are in a number of 224. Most of the discount stores were opened in 2007-2009, namely 46 in 2007, 52 in 2008, and 86 in 2009. In 2010 the number of new stores decreased as a negative effect of the world economic crisis, the decline of the consumers' purchase power and their orientation towards purchasing necessities at low prices. (financiarul.ro, 2010).

The main effects of the economic crisis in terms of consumer's behaviour lead to a reorganization of the budget for shopping and thus to reshape its life style. Consumers will be more careful, more judicious in consumption.(money.ro, 2010).

Studies show that the mood of the Romanian consumer has changed dramatically in the last years; on top of the list of consumer concerns were aspiring to a better standard of living and more comfort, now the mood of the Romanian consumer is characterized by uncertainty, fear and a sense of vulnerability (money.ro, 2010).

4. Trends regarding consumers and retailers behaviour

Although consumers have not yet recovered after the shock created by the economic crisis, however, they have changed their behaviour regarding consumption, being forced to adapt to a new lifestyle. Starting from this fact, various researchers made predictions about consumer behaviour, considering that they will adopt a long-term behaviour inspired by a new set of values, modified by the economic crisis. Several trends (Comăneci, 2011) were identified:

-Consumers are prepared for hard times. Left with the feeling that proved to be an economic collapse caused by the global recession, consumers will adopt future preventive behaviour, considering savings and investment as priorities. Consumers would be better informed before making purchases, choosing products that will be efficient and provide long-term benefits, trying to be careful and find on time the hidden additional costs of products or contracts;

-Retail Trade Renaissance. Along with the rapid development of the online commerce experience, offering discounts, there isn't a winning battle against the Internet. Many consumers recognize that they chose to buy products at reduced prices, or expect the time when promotions are announced. Traders need to become more creative and work harder to attract customers to stores. They should be able to offer more than selling a product. Services must be extended to advice and demonstrations, while exclusivity and design concept of selling space should provide to the client a picture of the real world as opposed to the virtual world experienced when buying on-line;

-Interest in the intellectual preparation. The economic uncertainty caused changes in the perception of the job. As a result, consumers show increasing interest in studies that provide a higher qualification. In future, companies could invest more in training and the continuous education of employees, than other paid benefits.

-Identifying new markets. People often work, even after the time when they can retire because of the financial needs or because they are attached to a particular lifestyle. Thus, this untapped market may become a target group for different companies producing various beverages, foods, or other products with aging properties. In UK, almost one quarter of women under the age of 18 and one third of men are overweight, also more than 30% of children. This could become a market niche by creating obese services: catering, with controlled meals, nutritional products with more information on the packaging, etc.

-Choice for organic products. Modern urban dwellers increasingly express the need for more natural products, organic, finding different ways for consumers to have access to such products. In U.S., 26% of users have purchased vegetable seeds online, 19% have bought fertilizers for vegetables and flowers, and 27% grow vegetables at home. In UK one in five consumers grows vegetables and fruit. In U.S. 40% of people have a garden and grow vegetables and fruits. This could also increase the demand for rural tourism, farm holidays, and can exploit a niche market, consumers of seeds of vegetables and fruit and other auxiliary products used for cultivation.

5. Conclusions

On the analysis of consumer household budgets in the European member countries, especially Romania, I identified the following aspects of consumer behaviour:

In Europe, the trend between 2000 and 2008 resulted slightly flattening at the top of the regional income distribution band, caused in particular by substantial relative falls in regions with high levels of income. Over the same period, the 10 regions at the bottom of the scale, all in Bulgaria or Romania, caught up by a range between 4.4 and 12.0 percentage points compared to the EU average.

Romania is a country with the most significant evolution of consumption from Europe, is one of the largest markets in terms of population (7th in the European Union after Poland), and the country with the highest GDP growth during 2005-2008.

This upward trend is expected to continue over the next ten years, when the prediction is of an average increase of 5% per year for the Romanian market. The main pillars that will support this growth are: increasing the purchasing power of the population, the further expansion of modern trade sector and changes in consumption behaviour.

Today, customers are better informed and have higher expectations from retailers. They expect stores to offer products at good prices to help them save money. Buyers are armed with a lot of information and change easily a brand to another. Stores are facing the new behaviour of

consumers which arises from the fact that they have become more educated and better informed about products they wish to purchase. Consumers are increasingly seeking safety, healthy experiences no matter if it is about goods or services. Shopping places become for consumers as important as the products they buy.

Beyond the negative effects of the crisis we can identify the positive effects like those that have forced temperance to the Romanians' behaviour which now make their purchasing decisions. Consumers will spend less money on unnecessary expenses, will be more cautious and will not spend money of products that are not meant to satisfy their most fundamental needs, and those who have difficulties in paying rates on loans will not contract loans before they inform themselves better.

Constraints caused by the behaviour of the consumer forces companies to seek innovative solutions, unique, creative, which can lead to the revival of the industry. Similarly, since 2009, all merchants have operated cost savings that had as consequence significant efficiencies in their activities. In fact, everyone has to get used to living in an unpredictable climate and learn lessons from crisis.

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DEVELOPMENT STAGE OF RETAIL TRADE IN THE EUROPEAN UNION

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According to Karel De Gucht, Trade Commissioner from the European Commission, trade is working for Europe's economic recovery by ensuring growth and jobs. The European renewed trade strategy will open markets and connect Europe to the main sources and regis of global growth. The aim is to ensure that European business gets a fair deal and that countries' rights are respected so that all can enjoy the benefits of trade.

Thanks to the ease of modern transport and communications, it is now easier to produce, buy and sell goods around the world which gives European companies of every size the potential to trade outside Europe.

This paper's objective is to analyse the development stage of the European Union's retail, and its member countries. The study is based on the research taken in the project of PhD research with the theme: The impacts of Economic Integration on Romanian Retail. For my research I used data from Eurostat, National Statistical Institute, European Union official website

In the past 10 years, the volume of retail trade in EU member states has increased, but the extent of the changes varies substantially from one country to another.

Key words: commerce, development, transformation

1. Introduction

In Europe, in the past 50 years, retailing has evolved differently from one region to another, the result of this process focusing on the commercial development of heterogeneous systems (different) from one country to another. Retail trade owes in each country its own configuration and influences originated in the culture, tradition, economic context and the legislative, climate or religion. Regardless the geographic location the essential merit in the realised structural changes is mainly the responsibility of economic operators may they be producers or traders. (European Commission, 2011).

2. Characteristics of retail trade in European Union

In the last decades, retail activity was marked by numerous evolutionary trends that have led to a number of changes including the following (Patriche, 2000, p):

- concentration, reflects the increases of the number of big operators and vertical connections that are established between producers and middlemen;
- transformations due to the differences between countries, the deceleration of the increase rate of hypermarkets in developed countries, the franchise expansion and the development of distance selling;
- the diversification of the activity through its involvement in other service sectors;
- internalization, by orienting towards consumer goods markets of other countries;

Activity's diversification manifests in the manner in which producers conduct retail operations, or offer to retailers certain consumer services: consulting, financing, product tastings, demonstrations, transport on the doorstep etc.

Internationalization begins by approaching the areas close to the member states because of cultural similarities. Consumption patterns become similar and thus the euro-consumer's profile is shaped.

Concentration is especially evident in developed countries, being accompanied by the rationalization of the direct retail sector, and also by the appearance of buying groups and voluntary chains, that offer the advantage of economies of scale. Wholesale operators, are often considered to be remnants of the past and are removed, either due to the manufacturer's desire to control himself the distribution process of commodities, as a consequence to retail companies practices to expand inside marketing channels. (Patriche, 2000, p.62).

Retailers have rapidly become multinational forces. There can be observed the dominance of a growing minority of traders in this market. Each and every one of them fights for market shares as large as they can get in order to dominate the market.

For example, in several member states of the European Union, five main retailers represent over 70% of the agri-food products: Finland - 90%, Sweden - 82%, Slovenia - 82%, Ireland - 81%, Estonia - 79%, Austria - 79%, Germany and France - by 70% (Global Retail Concentration, Planet Retail, 2006).

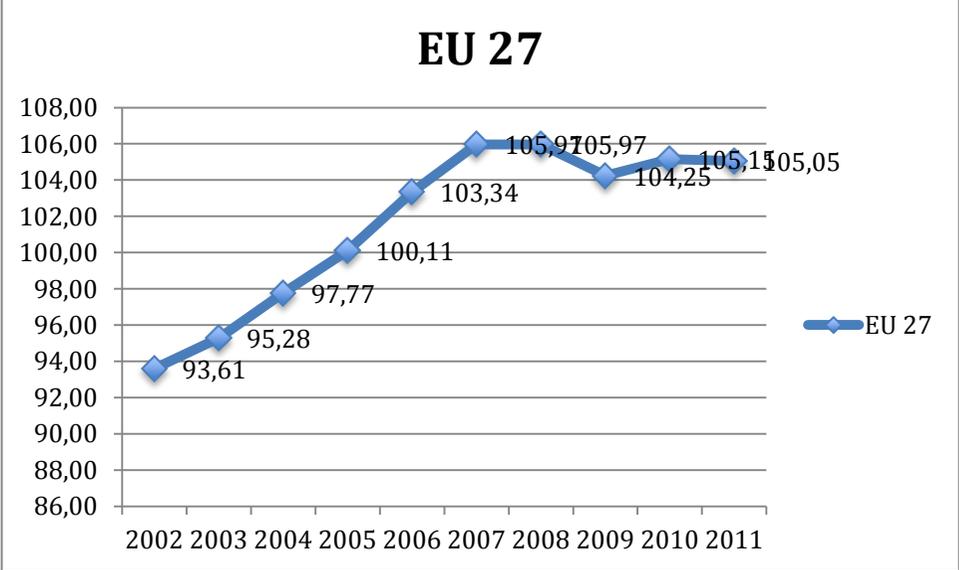
Naturally, the concentration of power is not indictable unless it slides towards abuse of dominant position. The development of European purchasing groups itself where the supermarkets of different countries join forces to take over suppliers, contributed to the increase of the buying power of retailers, thus increasing the possibility that they may resort to restrictive and confidential agreements with competitors, by exchanging information that exceed national borders of the member states. In 2005, of the eight largest retailers - Carrefour (France), Metro Group (Germany), Tesco (Great Britain), Rewe, Schwarz Group, Edeka (Germany), Auchan (France), Aldi (Germany) - seven were operating both in Central and Eastern Europe and Western Europe. Edeka is the exception. The first four retailers mentioned above are the largest chain stores as market share in both regions. (A. Vass, 2008).

Large units of retail are multiplying considerably.

3. Retail development in the European Union in the last decade

Since 2000 retail trade in the European Union grew steadily and reached its peak in early 2008. The ascending trend of retail activity was interrupted by the economic crisis that caused a decline in the evolution of this activity, which lasted until mid-2009. Since then, retail trade increased again, and after a year it reached the value recorded for 2007.

Figure no.1. Retail developments' evolution in the European Union between 2002 and 2011



Source: Created by author based on data taken from Eurostat

Figure no. 1 shows the evolution of the value of retail trade in the European Union, during December 2010 and up to November in 2011.

During this period, growth was stopped and the volume of retail trade remained almost unchanged.

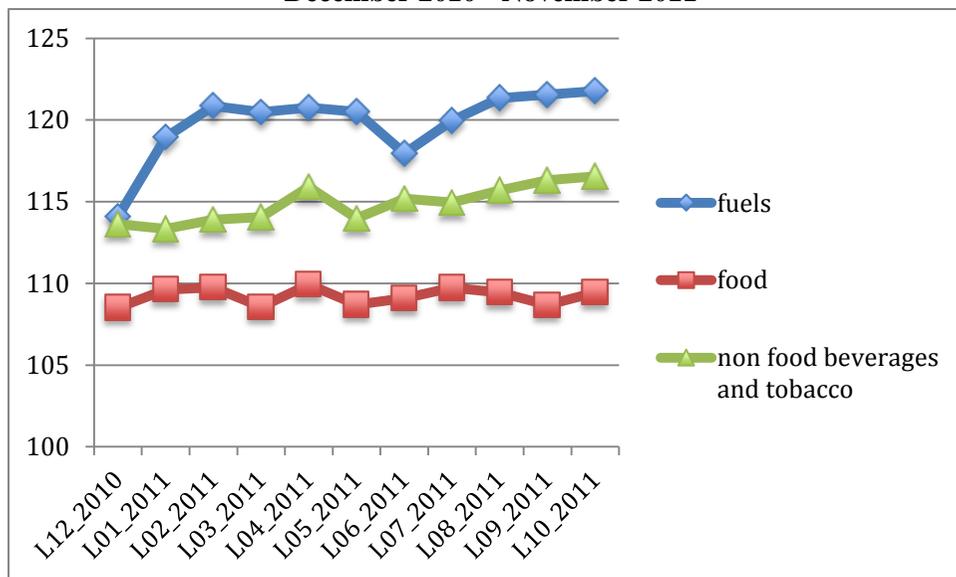
In recent decades, household consumption has seen many changes (Pop Coșuț I, 2004, after Didier M, 1998, p.33), passing from the concerns for buying products strictly for maintenance of life - food, clothing, housing - to goods and services to follow and embellish life. These changes were caused by:

- mass production's expansion,
- the occurrence and perfection of means and communication systems,
- the continuous increase of the level of education of the population,
- the revenue increase;
- the increase of leisure time etc.

In this context, the study of family budgets revealed some clear trends of consumption's restructuring. Among these concerns are those of the German economist Engel, who noted that comparing the evolution of different consumptions with the evolution of the national revenue, others more slowly, while others, have the same rhythm. These observations were the basis for his laws regarding consumption. Engel's laws reveal the existence of a hierarchy of needs:

- in the situation in which the standard of living is lower, the most urgent needs are the first to be satisfied: food, clothing, housing;
- the increase of the standard of living primarily is reflected in the goods that aren't indispensable, as: leisure time, transportation, vacations (health care expenses represent a special case because they are supported mainly by social security);
- a consequence of this law is that the part of the budget intended for relatively useless goods increases when the income increases. Therefore, some have considered that due to this law, rich companies will tend, more and more, to transform themselves into services company, these being part of luxury goods.

Figure no.2. Retail evolution on groups of goods in the European Union during December 2010 - November 2011

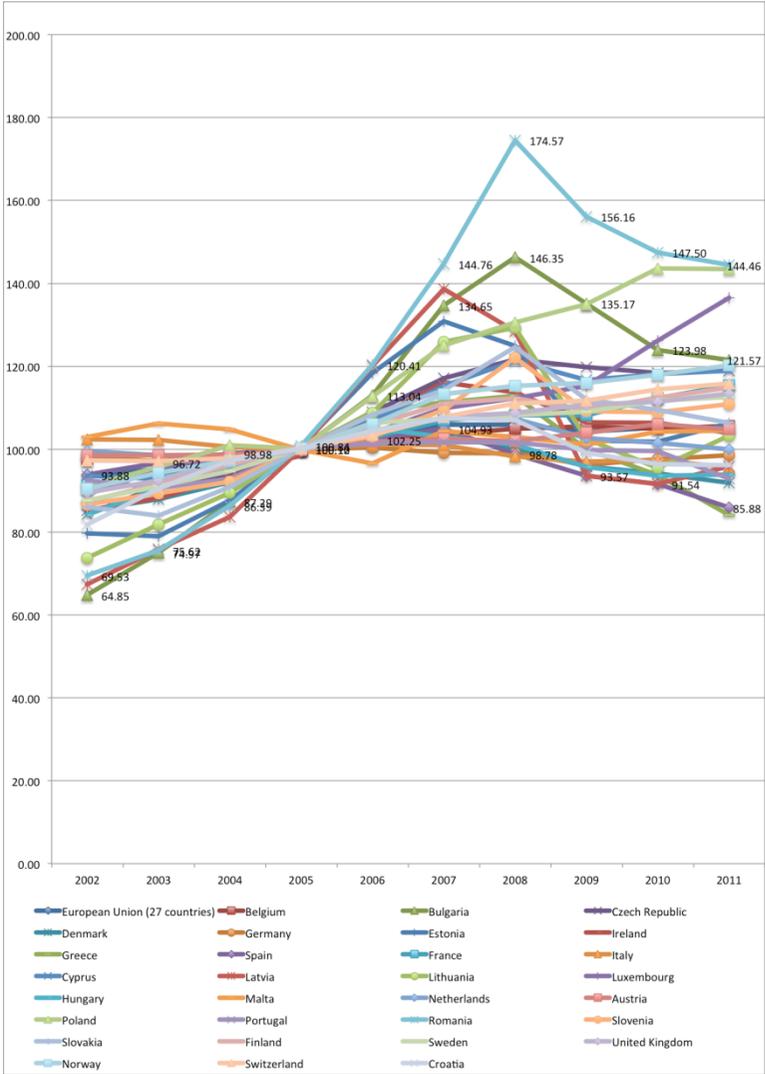


Source: Created by author based on data taken from Eurostat

Figure No. 2 represents the evolution of trade in different product categories, depending on the distribution of the expenses regarding on commodity groups: food, beverages and tobacco, non-food products, motor fuel, as the analyzed period was between December 2010 and November 2011. Of the three product groups, the largest sales were recorded by fuel, followed by food and non-food products. The highest sales are for fuel, these figures being recorded due to high prices of these categories. It can be seen that non-food products have registered higher values than food products, and according to Engel's law it can be stated that the buying power of European citizens has increased and therefore the available income meant to satisfy superior or luxury need has increased.

Retail volume of food products (plus beverages and tobacco) reacted stronger during the time of the economic and financial crisis than the volume of trade with non-food products. However both groups of products developed in ways largely comparable. Retail volume of fuel (sold in specialized stores, of filling and certain stations) followed a less clear tendency since 2000, with higher sales in 2003, 2006 and the beginning of 2008 and a constant decline since then.

Figure no.3. Retail trade evolution in the European Union countries during 2001 and 2010



Source: Created by author based on data taken from Eurostat

Figure No. 3 shows that the volume of retail trade in the member states of European Union, generally increased in the last decade, but the magnitude of the changes differ substantially. Between 2000 and 2007, retail trade volume has doubled in Romania and Bulgaria, Estonia, Latvia and Lithuania. Between 2001 and 2006, can be observed increases of 50% or higher in Slovakia, Slovenia, Czech Republic and Ireland.

In all these countries, development stopped between 2006 and 2008 when the retail trade volume dropped significantly. However, the general development in the last 10 years for these countries is still positive and the increases of the total retail volume is still higher than for the rest of the European Union.

Retail trade had a similar development pattern in other countries, where it had registered increases of 30% or greater in: Cyprus, Hungary, Denmark, Greece and Spain.

An exceptional development of retail trade was in Poland and Luxembourg, which were not affected at all by the economic crisis. Retail trade increased between 2011-2010 with more than 50%.

Positive evolutions with no significant effects during the crisis could also be seen in the United Kingdom, France, Sweden and Finland (in these countries the decrease due to the crisis in 2009 was compensated a year later).

In countries like, Malta, Germany and Italy, retail volume declined between 2001 and 2010. In these countries, the crisis was perceptible and retail declines were felt since the middle of the last decade.

In practice two forms of retail can be identified, that is modern trade represented by stores with large areas for sales and traditional trade, which incorporates shops located in neighbourhoods with small lots. Since the emergence of the first large stores the weight of modern trade in the total value of commerce is growing at the expense of traditional, its share reaching values up to 50% in developing countries and up to 70-80% in developed countries.

4. Conclusions

From the analysis of retail in the European Union, we can draw the following conclusions:

Now, the retail trade in the European Union has the following characteristics:

- concentration, reflected in the increase of the number to big operators;
- the deceleration of growth rhythm of hypermarkets in developed countries,
- the diversification of the activity through its involvement in other service sectors,
- internalization, by orienting towards consumer goods markets of other countries.

The volume of retail trade in the member states of the European Union, generally increased in the last decade, but the magnitude of the changes differ substantially from one country to another. The ascending trend of retail activity was interrupted by the economic crisis that caused a decline in the evolution of this activity, which lasted until mid-2009. Since then, retail trade increased again, and after a year it reached the value recorded for 2007.

The highest sales, according to products' category were fuels, followed by non-food goods, and food, beverages and tobacco. This fact is due to higher fuel prices, in all EU countries. It can be observed that non-food products are better sold than food products, because due to the increase of the standard of living the allocated sums for services of the disposable income, are rising.

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UNDERGROUND ECONOMY, GDP AND STOCK MARKET

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Economic growth is affected by the size and dynamics of underground economy. Determining this size is a subject of research for many authors. In this paper we present the relationship between underground economy dynamics and the dynamics of stock markets. The observations are based on regression used by Tanzi (1983) and the relationship between GDP and stock market presented in Tudor (2008). The conclusion of this paper is that the dynamics of underground economy is influenced by dynamic of financial markets. Thus, using specific stock market mathematical tools analysis, one can analyze the dynamic of underground economy.

Keywords: *underground economy; currency demand; stock market volatility; wavelet analysis.*

JEL Classification: *C30, G12*

Introduction

Underground economy size, scourge that touches all the world economies has values that can not be neglected. Therefore, between the fundamental principles underlying fiscal policy there is the one regarding the control and it level reducing. All paperworks that refer underground economy point out two important aspects: its inconsistent definitions and measurement difficulty. In this paper we try to address only the second aspect, which is measuring the size of underground economy. We use the widest definition of underground economy that is one which considers underground economy as all economic activities whose results are not in the GDP.

Emphasize from the beginning, that underground economy can not be measured directly and therefore any method that allows a good approximation of it is welcome. First we provide an overview of the main methods for estimating the size of underground economy (Caus, 2011)

Methods for estimating the size of underground economy

Literature refers mainly to three lines of approach to the process of determining the size of underground economy:

- a) Issuance by the authority of speculative value, taking actions to counter and measuring results;
- b) A second direction is based on logical reasoning and a good knowledge of economic activity (formal and informal). This method calls and international comparisons with countries which have a similar structure in terms of economic, legal and cultural;
- c) A third line is the estimates based on clearly defined evaluation methods, for which calculation methodologies are developed, methods based on the same idea, namely that the economy scars that appear on the labor market, monetary aggregates or as disagreement between income and expenditure form.

In this last way of determining the size of underground economy the following general approaches are known:

- methods based on national accounts system;
- evaluation based on data from fiscal controls and other control methods;
- methods using macro-economic modeling.

Methods based on national accounts system

A way of measuring the underground economy in this group of methods is to compare the results achieved in national accounting records, in the determination of GDP by two approaches: income approach and expenditure approach. In general, calculating national product in terms of providing income figures lower than those obtained by summing costs. "Unexplained residual" set up by the

spread between the two units can serve as a basis for estimating size of underground economy. These methods have several drawbacks, among which most important are (OECD 2002):

- errors in estimating both units;
- errors caused by differences in statistical coverage;
- GDP estimates are not always independent estimates based on income tax (unnoticed revenue by the tax authorities may be absent in the national accounts).

We present some examples where these methods were used:

- in 1965, Ray M. (1965) calculated that 52.44% of income that would have been collected from the tax on goods movement in Italy was stolen from taxation. His method was based on identifying consumption and gross domestic product and estimates the amount that would have paid versus what was actually paid;

- Pissarides and Weber (1989) concluded that the unobserved economy represented 5.5% of GDP in the UK;

- Feige and McGee (1983) find that the underground economy represents 10% of gross domestic product of Sweden.

Evaluation based on data from fiscal controls and other control methods

This evaluation method is based on data obtained from authorities as a result of direct checking, ignoring thus voluntary responses, based on questionnaires. This method emphasizes those professions declaring less income than real one. Fiscal outcomes are applied, by extension, to the entire population.

Methods using macro-economic modeling

a) Monetary transaction method

The existence of the underground economy is closely linked to the monetary area, in particular by strong inclination to liquidity, which shows those working in this field. The reason for this behavior is obvious: cash transactions are less visible than banking.

Monetary transactions method (method of Feige 1979) assumes that there is a constant relationship in time between the volume of cash transactions and total GDP, official and clandestine. The method is based on Fischer's known quantitative relationship:

$$(1) \quad M \cdot V = p \cdot T$$

where M is money supply, V velocity of money circulation, p price level and T the volume of transactions.

Observing the total money supply M , which includes both currency and deposits, total GDP size can be inferred. By deducting from it the official GDP, the informal GDP is obtained, as a residue in terms of GDP. The hypothesis that this assessment is built on is that the speed of money circulation, in the two sectors is equal.

b) Cash-deposits ratio method

Is widely used and is based on the ratio of currency in circulation and sight deposits. According to this, clandestine economy transactions are reflected in changes in the ratio of currency in circulation and sight deposits held in banks.

Gutmann (1977) states that this ratio is only affected by tax changes and regulations issued by the government, causing behavioral changes which are motivated by the desire of people to hide certain economic activities in order to avoid payment of taxes.

c) Liquidity demand method

Starting from the idea that the release of increasing amounts of high value denominations to facilitate payments is a testament of underground activities expansion, the authors try to accredit the idea that they could then determine the size of informal activities. This method, simplifying a very complex reality, gives early indications that show trends in this area, but not relevant informations on the size.

Contrary to statements by Gutmann, Tanzi (1980) assumes that the demand for liquidity is not only affected by tax changes in regulation, but also by other factors. However, Tanzi support Gutmann's idea that excess cash generated only by changing the tax regime is found, in whole, in the underground economy.

The underlying assumption of the method application for cash is: assuming that the speed of movement of currency is the same in the underground economy and official economy, any increase in demand for liquidity may indicate an expansion of underground activities. Using this method, Gutmann (1977) estimated that the informal economy represents 10% of legal activity measured.

Tanzi regression used is as follows:

$$(2) \quad \ln\left(\frac{C}{M_2}\right) = \beta_0 + \beta_1 \ln(T) + \beta_2 \ln\left(\frac{WS}{NI}\right) + \beta_3 \ln R + \beta_4 \ln(Y) + \mu,$$

where C/M_2 the ratio of cash and money supply, T is the taxation level, WS/NI is the ratio of total wages paid in cash and national income, R is the annual interest rate and Y is per capita income.

d) Latent variables method

Unlike the first three methods using macro-economic modeling, latent variables method developed by Frey and Weck (1983) uses a much larger number of variables. Underground economy is estimated starting from variables changes which, on the one hand, affect the size and growth rate and, on the other hand, represents the traces which it leaves in the real economy. This method uses a technique (known as **LISREL - L**inear **S**tructural **REL**ations) which allows cross-comparisons of the relationship between unobserved dependent variables and explanatory variables.

The critiques on the monetary methods refer to the assumptions on which research is built:

- involves choosing a base year, which requires a certain level of underground economy, the most often considered void;
- cash transactions, even in this sector are increasingly being regulated by using checks and other modern means of payment;
- speed of circulation of money, considered the same in the two sectors is very difficult to see even in the official economy.

e) DYMIMIC method

A method different from the above is **DYMIMIC** method (Schneider 2002) (dynamic multiple-indicators multiple-causes), dynamic version of the **MIMIC** method (multiple-indicators multiple-causes). It takes into account multiple causes that determine the expansion of underground economy, and its multiple effects over time. The method is based on statistical theory of observable variables. In this case a single unobserved variable, underground economy size is used. It starts with a set of causes and a set of indicators that are influenced by the size of underground economy in order to identify the structural dependency between these variables and the underground economy. This dependence is used to predict future changes in underground economy size.

f) Method based on electricity consumption (physical input method)

It is one of the most popular methods using global indicators and one of the few methods based on the measurement of physical data. To measure all activities (formal and informal) in an economy, Kaufmann and Kaliberda (1996) considers electricity consumption as the single and best physical indicator for measuring activity throughout the economy. The study suggests that the increase of overall electricity consumption is an indicator for increased representation of official and unofficial GDP. Thus, the difference between the growth rate of official GDP and the growth rate of total electricity consumption is attributed to the growth of underground economy.

The main criticism of the Kaufmann-Kaliberda method is that not all economic activities require electricity consumption and, moreover, other energy sources can be used, therefore this method can not cover the entire underground economy.

GDP and stock market

In Cristiana Tudor's paper (2008) the following regression was tested, regression that links economic growth (expressed by increasing GDP / capita) and the stock market (BSE), in the case of Romania (note that we have adapted the notation to the notations of this paper and we take into account the fact that the author has specified that the logarithmic increase of the variables were used):

$$(3) \quad \ln(Y_t) = \alpha_t + \gamma_1 \ln(X_{t-2}) + \gamma_2 \ln(Z_{t-2}) + \gamma_3 \ln(Q_{t-2}) + \gamma_4 \ln(W_{t-2}) + \hat{\eta}_{it},$$

where

X = volume of transactions on the BSE in year $t-2$;

Z = value of transactions on the BSE in year $t-2$;

Q = capitalization trading on BSE in year $t-2$;

W = number of issuers on BVB in year $t-2$;

Y_t is the indicator in year t (GDP growth/capita).

Gamma coefficients are the slopes of the regression equation and express the linear relationship of the four indicators to capital market development.

According to the article there is a positive link between capital market development and macro-economic development (with a time-lag of two years).

Underground economy and stock market

Relations (2) and (3) allow us to express C/M_2 ratios which (in Tanzi's view) is an indicator of the underground economy level, by the following regression:

$$(4) \quad \ln\left(\frac{C}{M_2}\right)_t = \beta_0 + \beta_1 \ln(T_t) + \beta_2 \ln\left(\frac{WS}{NI}\right)_t + \beta_3 \ln R_t + \\ + \beta_4 \ln(X_{t-2}) + \beta_5 \ln(Z_{t-2}) + \beta_6 \ln(Q_{t-2}) + \beta_7 \ln(W_{t-2}) + \omega$$

Equation (4) establishes a link between underground economy and major stock market indicators. According to this relationship the underground economy dynamic (which is found in the dynamic of C/M_2 ratio) is influenced by the level of taxation, the ratio of total wages paid in cash, the national income, the annual interest rate and the dynamic of stock market activities.

Conclusions

Given that regression (4) will be tested and may establish a relationship between volume of the underground economy and, among other things, stock markets dynamic there is a possibility to use finer mathematical tools to determine underground economy size. Wavelet analysis, which has applications in studying the behavior of stock markets, is one such tool.

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SOCIAL CAPITAL AND INDUSTRIAL DISTRICT DEVELOPMENT: THE ROLE OF THE LOCAL GOVERNMENT

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The paper represent a theoretical attempt to investigate the role that the local government can play in improving the level of social capital for the development of industrial districts. The social capital is not, as generally suggested by the socio-economic literature, an individual attitude towards something which does not imply privately appropriable economic benefits, as it is for a pure public good (which would not imply privately appropriable benefits). Social capital should be interpreted as a public component of an investment which implies private and public benefits entangled with each other. Firms could not have sufficient incentive to increase its investment in social capital, because this investment strictly depends on the economic convenience of investing in the impure public good. Starting from this point of view, we underline the importance of investing local public resources (funds, time and effort) for the development of the local social capital.

Keywords: industrial districts; social capital; local government aid.

JEL code: H49, D21, J39

1. Introduction

Large body of research in the social sciences in the past decade underlined a positive relationship between social capital and economic success. Particularly, social capital may be the primary and leading key to the successful performance of an industrial district. Social capital, however, is frequently depicted as an impure public good, since agents face private incentives to create and preserve it, but such behaviour generates externalities. Therefore, local government can play an important role in the solution to the problem of free riding. Actually, scholars continue to debate existence, nature, measurement and impact of social capital as a conceptual framework. Before dealing with any other question, it is important, therefore, to clarify exactly what one implies while referring to social capital. Social capital has been defined in a number of different ways, but scholars generally refer to the ideas of Putnam (1995) and Coleman (1988). Putnam (1995: 664-665) defines social capital as a community-level characteristic involving “*features of social life – networks, norms, and trust – that enable participants to act together more effectively to pursue shared objectives*”. In the Putnam’s view, social capital refers to the quality of human relations within some well-defined group that enables its members to act in cooperation with one another for achieving mutual benefits. A wider definition is given by Coleman (1988: 598), who describes social capital as “*a variety of different entities, with two elements in common: they all consist of some aspect of social structure, and they facilitate certain actions of actors – whether personal or corporate actors – within the structure*”. This concept is wider since it includes associations as well as the behaviour among other entities such as firms. Social capital, just like other forms of capital, is productive and facilitates the attainment of goals that otherwise would not be possible.

Accordingly, high stock of social capital increases individuals' and groups' ability and willingness to cooperate, improves monitoring and enforcement of contracts, and reduces free-riding and information asymmetry. Social capital therefore reduces transaction costs (see also Degli Antoni 2006), encourage innovation and dissemination of technology and thus leads to better economic outcomes. The most encompassing view – the one that has attracted plenty of interest among economists – also includes “*the social and political environment that enables norms to develop and shapes social structure*” (Serageldin and Grootaert 1997: 13). This broadest definition includes not only the largely informal and often local relationships, but also the more formalised institutions such as the government, the political regime, the rule of law, the court system, and civil and political liberties. This article is based up on this last definition. We argue it is essential to move away from “associative” based concepts of social capital as presented in Putnam (1993), toward frameworks where social capital is considered as an intangible capital stock with some public good-like properties. Economics and regional science literatures make a strong case that “*non-economic*” factors influence economic growth and development. Many authors argue that increased levels of social capital can create better chances for economic development than markets and political institutions. The idea of social capital has been used to explain phenomena varying from technology adoption to the formation of informal institutions. Scholars have attempted to document the various ways in which social capital can improve the performance of economic systems (see, for example Putnam 1993 and 2000, Fukuyama 1995, Levi 1998 and Cook 2000), both at the micro-level, focusing on household income, financial transactions, and the knowledge exchange between venture capitalists and new firms (Wilson 2000, Rauch 2001, Maula, Autio and Murray 2003, Cainelli et al. 2007, Bigsten et al. 2000, Fafchamps and Minten 2002) and at the macro-level underlining the important role that social capital can play in the growth dynamics (Kraybill and Weber 1995, Rainey et al. 2003, Rupasingha et al. 2000 and 2002, Rupasingha and Goetz 2007, Helliwell and Putnam 1995, Temple and Johnson 1998, Zak and Knack 2001, Beugelsdijk et al. 2004, Tabellini 2006).

Our analysis moves from these studies by treating the role of social capital and local institutions relationship in the development process of industrial districts. The paper is organized as follows. In section two, we describe the role that the local government can play in the provision of social capital is discussed. In section three, a theoretical model is presented, in which social capital is assumed as the public component of the impure public good provided by the local government, and the main implications of the model are discussed. Section five provides conclusions.

2. Investment in social capital and the local government role

Many economists argue that social capital should be described as an impure public good, since agents face private incentives to create and preserve social capital but such behaviour generates public benefits, or externalities. Collier (1998) was among the first to apply microeconomic theory in the analysis of social capital with an emphasis on the external benefits of social interaction. He states that “[...] *social capital is “social” because it generates externalities arising from social interaction. Both the initiation of social interaction and its consequences generate effects which are not internalized into the decision calculus of each agent*” (Collier 1998: viii). Social interactions may generate different kinds of positive externalities. They facilitate the transmission of information about the behaviour of other agents and this reduces the problem of opportunism. They facilitate the transmission of knowledge about technology and markets and this reduces market failures in information. So the presence of high level of social capital reduces information and transaction costs. When such a costs are reduced, less risk is involved and more exchange takes place, thus enlarging the scope of transactions and interactions. Conversely, a lack of social capital results demand for more external controls such

as tougher law enforcement, security systems, monitoring and enforcement (Rupasingha et al. 2000). Moreover social capital reduces the problem of free-riding and this facilitates joint action. The provision of public goods is subject to free riding if most users do not participate in collective actions to make the provision of public good a success. Conventional theories of collective action have concluded that individuals will resort to strategic behaviour by refusing to contribute toward the public good in order to obtain a benefit far greater than the cost they have to pay. When social capital is present, externalities are internalized, which has the effect of eliminating or reducing the free rider problem (Rupasingha et al. 2000). Because it generates externalities, social capital will be under-provided also in an industrial district where, despite the civic culture, agents have not sufficient incentive to increase their investment in social capital, because this investment strictly depends on the economic convenience of investing in the impure public good. The government's main policy could be to improve its provision. For instance, a firm in the industrial district may invest in R&D activities that require a cooperative effort. In this case, innovations are only partially owned by the firm and the investment may be thought of as one in an impure public good, that is each unit of investment produces both private and public benefits. The district benefits from positive network externalities, but the intentional production of joint social benefits is costly and public incentives may be crucial. Actual demonstrations of the effectiveness of investment strategies in social capital are rare. As Fernandez and Castilla argue, "if the term 'social capital' is to mean anything more than 'networks have value', then we will need to demonstrate key features of the analogy to 'real' capital. If 'social' capital is like 'real' capital, we should be able to isolate the value of the investment, the rates of return, and the means by which returns are realized" (Fernandez and Castilla, 2001: 85). Anyway, the local government can play an important role against certain kinds of opportunism and remove source of insecurity in such relationships and allow firms to cooperate with each other more efficiently.

3. A simple model

Our approach for assessing public resources to social capital in industrial districts is based on Brueckner's bid-rent model of property value determination (Brueckner 1979, 1982 and 1983). The result derived from this model is that efficient public good provision occurs at the level that maximizes aggregate value. In our model, firms are assumed to have identical functions of profit which depend on the level of social capital, SC , other local public goods, G , level of prices, P , human capital, H , and physical capital, K . All firms in a district benefit from the same level SC and G . Firms with the same level of financial resources must achieve the same profit level. Formally, a firm with resources R achieves profit $h(R)$ and her resources bundle must satisfy

$$\Pi(SC, G, P, H, K) = h(R). \quad (1)$$

This equality is guaranteed since if a firm could achieve higher profit elsewhere, she would move. A firm's budget constraint can be written as $K + W = R$, where W represents the wages paid for H and the price of K is normalized to 1. Then, W must satisfy $\Pi(SC, G, P, H, R - W) = h(R)$. This equation determines the bid-wage function

$$W = W(SC, G, P, H; R). \quad (2)$$

The bid-wage function specifies the wage necessary to equalize a firm's profit across differing level of H . Differentiating Eq. (2) with respect to SC gives

$$W_{SC}(SC, G, P, H; R) = \frac{\Pi_{SC}(SC, G, P, H; R - W)}{\Pi_K(SC, G, P, H; R - W)}, \quad (3)$$

where subscripts denote partial derivatives. Eq. (3) shows that the required change in the wage resulting from a change in SC is equal to the marginal rate of return between social capital and physical capital, K . Similarly, the required change in the wage resulting from a change in G is equal to the marginal rate of return between the other public goods and K . Then, assume that

local revenues for social capital are financed exclusively by a local firm tax rate, t_{SC} , and the other public goods by a local firm tax rate, t_G . The tax rates are applied to the gross value of each firm V . By definition, one of the most important element that traditionally characterize the industrial district organizational model lie in a vertical division of labour that favours an accumulation of technical and production skills and competencies within the sector the firm belongs in (Bellandi 2003). Basing on the efficiency wage hypothesis, wages are higher than the market-clearing ones in order to increase the productivity or efficiency of labour force. From this point of view, the value of a firm is here defined as the capability of paying wages W .

Letting δ be the discount rate, the value of the firm i is

$$V_i = \frac{W - (t_{SC} + t_G) \cdot W}{\delta} = \frac{W(SC, G, P, H_i; R_i)}{\delta + t_{SC} + t_G}. \quad (4)$$

The aggregate value of an industrial district is here defined as the sum of the individual firms values within the cluster

$$V = \sum_{i=1}^N V_i = \sum_{i=1}^N \frac{W(SC, G, P, H_i; R_i)}{\delta + t_{SC} + t_G}, \quad (5)$$

where N is the number of firms in the district. Assuming that the local government contributes amount S to local district (the local community fully finances the other public goods, G , for simplicity), the cluster budget constraint is

$$(t_{SC} + t_G) \cdot V = SCC(SC, N) - S + GC(G, N), \quad (6)$$

where SCC and GC are (convex) cost functions for SC and G . The fact that cost is a function of the district size, N , reflects potential congestion costs. Combining Eqs. (5) and (6) gives

$$V = \frac{1}{\delta} \left[\sum_{i=1}^N W(SC, G, P, H_i; R_i) - SCC(SC, N) + S - GC(G, N) \right]. \quad (7)$$

Aggregate value is a function of the aggregate wages, the local government aid, the discount rate, and the production costs of social capital and the other public goods. Differentiating Eq. (7) with respect to the local government aid and assuming that changes in public resources for social capital have no effect on the provision of other public goods, i. e. $\partial G / \partial S = 0$, yields

$$\frac{\partial V}{\partial S} = \frac{1}{\delta} \left[\sum_{i=1}^N W_{SC}(SC, G, P, H_i; R_i) - SCC_{SC}(SC, N) \right] \frac{\partial SC}{\partial S} + \frac{1}{\delta}, \quad (8)$$

where, as shown in Eq. (3), W_{SC} is equal to the marginal rate of return between social capital and the physical capital, K . As a result, Eq. (8) establishes that $\partial V / \partial S = 1 / \delta$ when the “*Generalized Samuelson Condition*” for the optimal provision of social capital is satisfied, i. e., the sum of the marginal rates of return between the social capital and the physical capital equals the marginal cost of providing social capital (a similar condition holds for all other public goods as well). Assuming that W is a strictly concave function of SC and G , that SCC is convex in SC and that GC is convex in G , it follows that V in Eq. (7) is strictly concave in SC and G . As a result, aggregate district value reaches a global maximum at values of SC and G where the Generalized Samuelson Condition holds, *ceteris paribus*. Thus, one can determine whether social capital is under-provided or over-provided relative to the district value maximizing level as $\partial V / \partial S = 1 / \delta$. Note that under or over provision of social capital may result either from productive or allocative inefficiencies. One might conclude that social capital is over-provided in a district in which the “*right*” level of social capital is being provided but the district is not cost minimizing.

Alternatively, the district may be productively efficient but not provide the value-maximizing level of social capital.

4. Conclusions

Basing on the literature on social capital mainly developed during the last decade, the aim of this paper was to investigate the role that the local government can play in improving the level of social capital for the development of industrial districts. The analysis conducted, both theoretical and empirical, helps to understand the role of social capital and local institutions in the development process of industrial clusters. Introducing a nexus of complementarity between cluster value and social capital, a good in a cluster of firms, the “*civic culture*” of the cluster area where the firm acts may not be a sufficient explanatory factor to increase the firm investment in social capital, since this investment strictly depends also on the economic convenience of investing in the impure public good. So the government’s main policy could be improving the provision of social capital by assessing public resources, on the whole in the present age of increasing integration, where the possibility to compete internationally largely depends upon the ability to innovate and to increase labour force productivity.

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ANALYSIS FOR THE DEGREE OF EUROIZATION IN ROMANIA

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Euroization is defined as the adoption of the Euro currency by the authorities from a country outside the Euro area, as a legal currency and as an official currency, and this means that the country chooses to give up its national currency and that the national bank gives up using the monetary policy as an instrument of the economic policy. The objective of this study is to adjust the extent of meanings of the Euroization concept for Romania and to explain it under the terms of the optimum currency areas theory. Thus, an economy characterized by a high Euroization will be more ready to give up its national currency in the future, as that economy has passed the test of using the currency it wants to adopt. This study makes an analysis for the causes of Euroization, based on the economic literature and we have examined the forms of occurrence of Euroization in the Romanian economy, insisting upon the aspects related to the preferences of the economic agents for crediting and saving in the Euro currency. We consider that the increase of the Euroization degree may be considered an opportunity for the economies which propose to adopt the unique European currency, meanwhile constituting a vulnerability if adopting the unique currency is delayed and if that economy is affected by the external shocks which induce a depreciation of the national currency. The partial Euroization of the Romanian economy has encouraged the overheating of the national economy until 2008, but it fractured the adjustment capacity of the shocks by means of the monetary policy and of the rate of exchange. Thus, a partial Euroization acquired a characteristic of a unilateral Euroization, in which the capacity of the economy to neutralize the shocks gets decreased and the dependence on the decisions of the Central European Bank, respectively of the economic agents from the highly commercially and financially integrated countries with Romania gets increased.

Keywords: euroization; Euro area; financial integration

JEL codes: F15, F36

I. Introduction

Euroization is defined as the adoption of the Euro currency by the authorities from a country outside the Euro area, as a legal currency and as an official currency, and this means that the country chooses to give up its national currency and that the national bank gives up using the monetary policy as an instrument of the economic policy. Euroization supposes to give up its own currency and to adopt the Euro currency, before meeting the nominal convergence criteria. Actually, Euroization may be under several forms. One of them is that of setting up a monetary council according to the Euro currency, and this reduces the stabilization role of its own monetary policy. Another one refers to the unilateral Euroization decision, by accepting the Euro as currency, such as Kosovo, Montenegro and Monaco. The last form is the least met and it refers to the decision of the economic agents to achieve bank, trade operations in the Euro currency or to express certain priced in the unique European currency. The first section of this study makes an analysis for the theoretical meaning of this concept and the costs, respectively the benefits

associated to this decision, and the second part of the study makes a research of the degree of Euroization in the Romanian economy.

II. Causes of Euroization

Euroization is determined by certain European economies' desire to consolidate the trade relationships with the Euro area member countries, and also the need to import monetary stability and low inflation. Among the causes of Euroization, mentioned in the economic literature, we may also find: macroeconomic instability, the monetary policy regime adopted, the foreign exchange risk, and also the instability of the institutional and regulating environment. Another cause of Euroization is a volatile and unpredictable inflation, as well as the economic and political uncertainty cases. The countries with a higher Euroization are quite small countries, geographically located near Euro area countries, with political and trade relations with them. Unilateral Euroization protects the countries against the foreign exchange crises, but it cannot prevent other types of crises. For example, an unsustainable public debt or the worsening of the foreign unbalances may determine the international investors to withdraw their investments. Buitier and Graf (2002) consider that the unilateral Euroization allows a good entrance in the Euro area, thus avoiding foreign exchange crises. Nevertheless, the unilateral Euroization cannot be considered as a substitute of the economic and monetary integration: it does not allow nominal adjustments during the convergence period and it prevents the market from assessing the sustainability of the exchange rate.

The unilateral Euroization contributed, in some of the countries, such as Kosovo and Montenegro, to a quick macroeconomic stabilization after an economic and political crisis. Nevertheless, Euroization involves long-term risks of financial instability associated to the loss of the function of lender of last resort, especially in the countries characterized by a low number of banks with foreign capital and with a fragile external position. Kosovo and Montenegro used the German mark as their currency and they unilaterally adopted the Euro currency, although they do not have an explicit agreement with the European Union which could allow it to them. Euroization is not a quick solution for the structural problems or for the stability policies. The economic benefits cannot be obtained if they are not supported by solid economic policies and by continuous reforms. These aspects suggest the fact that a high prudence is necessary in assessing the proper characteristic of the unilateral Euroization.

The most important costs involved by Euroization refer to the following:

1. **The loss of an adjustment mechanism for the economic shocks.** Euroization involves the loss of the monetary policy independence and the impossibility to use its instruments to correct the asymmetric shocks and to react in order to synchronize the business cycles with those of the Euro area. Euroization increases the uncertainty referring to the effects of the monetary policy. Due to the high degree of Euroization, the interest rate is an instrument with low efficiency in fighting against inflation. The Euroized economy should rely on other adjustment mechanisms in order to avoid the output gaps due to the asymmetric shocks or to the business cycles' non-synchronization with that of the Euro area.
2. **The loss of the function of lender of last resort.** The Euroization determines the loss of power of the domestic authorities in reacting to the pressures related to converting the credits into assets. Due to Euroization, the central bank can no longer intervene to provide emergency financing to the financial institutions facing short-term liquidity blockages. Under the terms of the total Euroization, the central bank has no longer the possibility to issue currency, and the last resorts lose their financing source. Thus, in order to avoid the liquidity crises, Euroization should be accompanied by providing alternative financing sources to the last resorts.

The most important benefits generated by Euroization refer to the following:

- **Macroeconomic stability and lowering the rate of inflation.** Euroization encourages the macroeconomic stability by solving the credibility problems occurring when a central bank is not able to provide a low rate of inflation. Moreover, Euroization increases the financial discipline by eliminating the possibility to issue currency in order to finance the budget deficits. By implementing the monetary policy by the European Central Bank, which provides a higher credibility degree, the rate of inflation and the rates of interest in the Euroized economy are expected to be decreased towards the levels recorded in the Euro area countries. These benefits are much higher, especially for the countries which faced financial instability and where the monetary policy measures implemented did not decrease inflation.
- **Decreasing the risk premiums.** If they are determined by the evolutions of the rate of exchange and not by the country risk, then the Euroization should result in their decrease, because a sudden and massive depreciation of the rate of exchange will no longer occur. At the same time, Euroization could generate an improvement of the access to the markets with a low foreign exchange risk, with a more stable financial sector, respectively with a lower risk of sudden infusions of capital. Eliminating the foreign exchange risk and the eventual depreciation of the national currency, as well as the price stability, the unilateral Euroization allows a decrease of the rates of interest, of the financing costs and of the public debt (Schoors, 2002; Levasseur, 2004).
- **Development of the domestic financial sector.** Euroization is accompanied by a development in the financial sector, as a stable currency is a prerequisite for the financial development, resulting in a higher and more sustainable economic growth. The main benefits of Euroization are the decrease of the transaction costs, of the costs with information, of the foreign exchange risk premiums, stimulating investments and trade and macroeconomic stability. Eliminating the costs with the foreign currency exchanges is one of the major benefits of Euroization, saving costs proportionally with the number of transactions made in the foreign currency.
- **Economic and financial integration.** Euroization encourages the financial integration of that economy with those of the Euro area countries. Euroization encourages the trade integration, due to the elimination of the transaction costs and, as a consequence, the intensification of the trade with the Euro area member countries. Lower foreign exchange reserves are needed, as a margin of maneuver is no longer necessary by means of interventions to protect the rate of exchange, and to cover the imports, considering that most of them are denominated in the Euro currency.
- **Higher synchronization with the business cycle of the Euro area.** As a consequence of a higher economic integration, Euroization results in the increase of the degree of real convergence of the business cycles with those of the Euro area countries. Finally, the shocks will become more symmetrical between the Euroized country and the Euro area, while the business cycles will become more synchronized.

III. Occurrence forms of Euroization in Romania

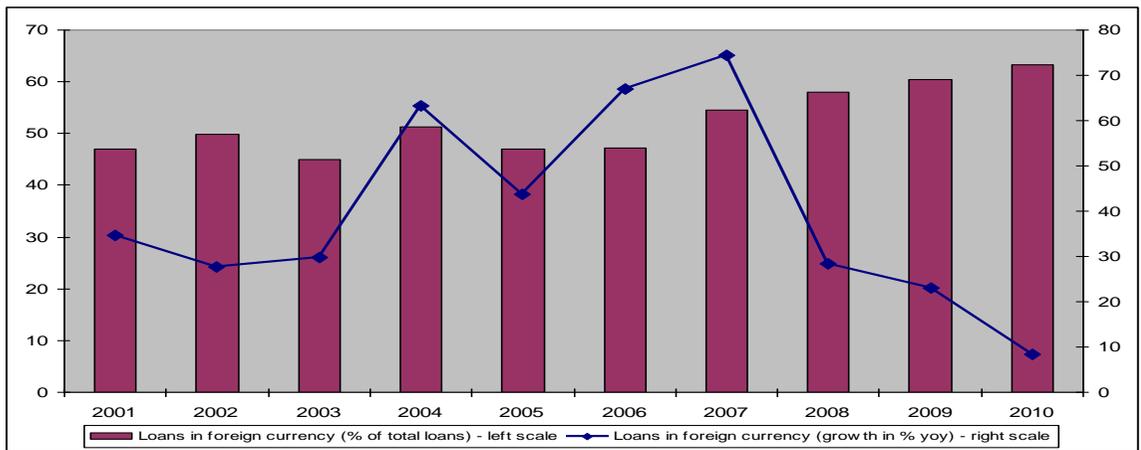
Doing a short exercise, we may assume that Romania could decide to suddenly adopt the Euro currency, giving up its national currency. The significant advantage of such a strategy is the decrease of inflation at the level of the Euro area, without unemployment costs. Inflation in Romania would be equal to that of the Euro area, and the economic agents know this and, consequently, they correspondingly delineate their inflation expectancies. Thus, Romania benefits from the ECB credibility import, thus being able to obtain welfare benefits generated by the monetary union. Such a sudden strategy would not need the decrease of inflation before joining the monetary union. Even though the Euroization phenomenon in Romania is a partial and not total one, such as in the previous section, it may be explained according too the previously presented costs-benefits balance.

Euroization followed a Dollarization trend occurred when the transition started, and it constituted a refuge of the private economic agents and also of the state, under the terms of a difficult macroeconomic stabilization, which also reflected in the persistence of a quite high rate of inflation in the national economy. This phenomenon occurred together with Romania's commercial and financial integration with the economic agents from the European Union, being amplified by the trend of appreciation of the national currency during the economic boom period. Under these terms, there were positive effects of wealth and balance upon the domestic economic agents, which induced a trend of taking loans/making deposits in the foreign currency and also the acceleration of consumption during the economic expansion period. Nevertheless, the Euroization of the Romanian economy has determined certain risks, which occurred more pregnantly along with the economic and financial crisis. Thus, the efficiency of the monetary policy in stabilizing the economy decreased, as the mechanism for transmitting the rate of interest controlled by NBR has been fractured. Moreover, the depreciation of the national currency has negatively influenced the payment capacity of the lenders in foreign currency, this resulting in the increase of the financial risk in the banking system. As a consequence, the partial Euroization of the Romanian economy encouraged overheating the national economy until 2008, but it fractured the adjustment capacity of the shocks by means of the monetary policy and of the rate of exchange. Thus, a partial Euroization acquired the characteristic of a unilateral one, in which the economy's capacity to neutralize the shocks gets decreased and the dependence on the decisions made by the European Central Bank, respectively by the economic agents from the highly commercially and financially integrated countries with Romania gets increased. This section includes a few forms of occurrence of Euroization in Romania, which are specific to the financial substitution of the national currency with the unique European currency – the tendency to give loans in foreign currency, to make deposits in the same currency and to emphasize the role of the banks from the Euro area within the national banking system.

IV. Loans in foreign currency

The loans in foreign currency have been determined, among others, by the stability of the macroeconomic environment, by the relative level of the rate of interest in the foreign currency and by the trend of appreciation of the national currency during the economic expansion period. The percentage of the loans in the foreign currency of the total loans given was quite stable during the period 2001-2005, despite of a level of 51.3% in 2004. In 2007, NBR relaxed the conditions for the loans in foreign currency, so that the volume of the loans increased by 71% if compared to the previous year, and the loan in foreign currency increased by 76%, and the loan in lei increased by 68%. Out of the total loans, 45% were in the national currency, and 47% in the Euro currency. In 2009 the rhythm of increase of the total loans was of 13%, and the rhythm of increase of the loans in foreign currency was of 23%. In 2010, the rhythm of increase of the loans in the Euro currency was of 5%, and the loans in lei remained at the same level as in the previous year, the percentage of the loans in the Euro currency exceeding 70% of the volume of the total loans (according to the chart below).

The loans contraction was due both to the low offer of the banks (aversion towards the risk), and also to the low demand caused by the unfavourable economic conditions: the increase of the rate of unemployment, the decrease of the available revenues, the depreciation of the Euro currency, and the high costs of the creditors.

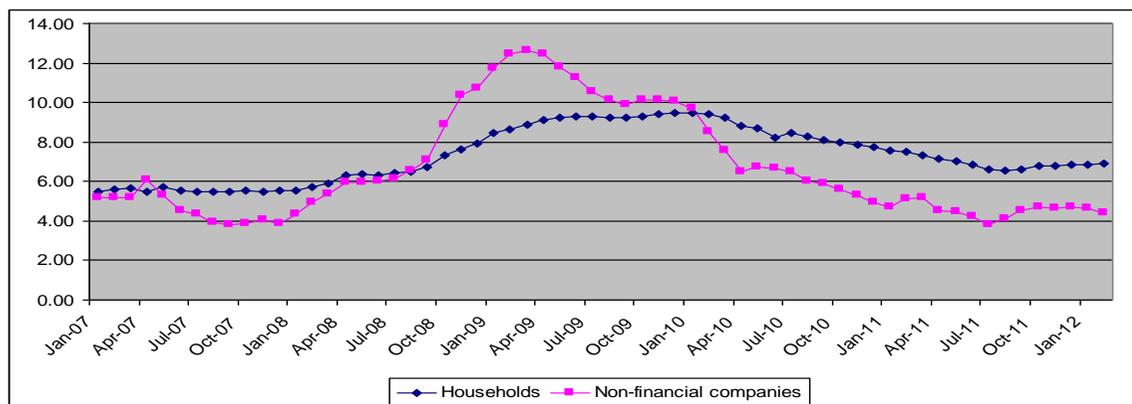


Source: CEE Banking Sector Reports 2006; 2009; 2011

Figure 1. Evolution of the loans in foreign currency in Romania

The increase of the loans in the Euro currency may be considered a cause of the natural catching-up process, generating the increase of the share of loans in the foreign currency given to the private sector in the GDP, so as to approach the levels recorded in the more advanced countries. Nevertheless, the increasing rhythm of the loans in the Euro currency should have been sustainable, as this increase, by supplying the internal demand, contributed to deepening the current account deficit and the increase of financial risk in the banking system. The share of the loans in foreign currency from the balances of the national banks was of 62.9 percents at the end of June 2011, on the background of recording a significant foreign currency position for the population. The loans in foreign currency became more risky if compared to those given in lei, from the point of view of the loan risk: (i) the non-performance rate for all the categories of loans in foreign currency given to population is superior or is close to that related to the loans in lei, and (ii) the dynamics of non-efficient loans in foreign currency given to companies is more emphasized than in the case of the segment in lei (recording an increase of 185 percents for the foreign currency, in comparison with approximately 91 percents for lei during the period December 2009 – June 2011).

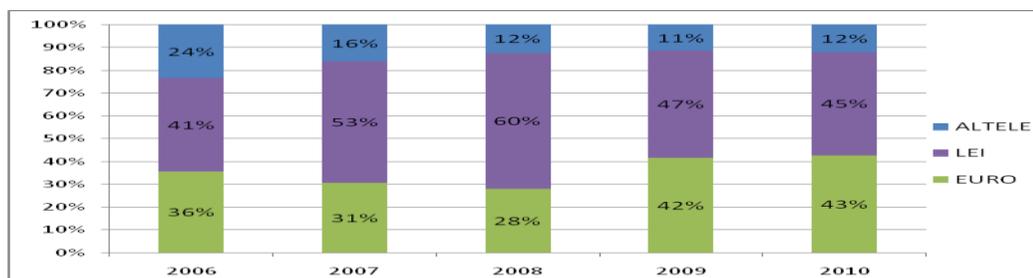
The access to loans in foreign currency has been facilitated by the quite low level of the rate of interest for this type of credits. Moreover, during the economic expansion period, the rate of interest in the national currency was increased in order to stop the economy's overheating phenomenon, and this determined the increase of attractiveness of the loans in foreign currency. After the crises has started, the national bank kept the high level of the interests in order to keep the stability of the rate of exchange and to brake the increase of inflation, not to stimulate the loans in foreign currency. The chart below presents the difference between the rates of interest of the loans in lei and for those in foreign currency for households and for companies, in order to explain the higher inclination towards loans in foreign currency.



Source: NBR, 2012

Figure 2. Differences between the rates of interests for loans (lei vs. Euro) (%)

Another factor stimulating the loans in foreign currency was the appreciation tendency of the national currency during the period 2004-2008. The economic and financial crisis emphasized the vulnerabilities of the Romanian economy, thus reducing the financial flows towards the Romanian economy and contributing to the depreciation of the national currency. This phenomenon does not generate the increase of the private debt only, expressed in the national currency but also of the rate of non-efficient loans, and also of the public debt, under the terms in which 55% represent the public debt expressed in foreign currency and, out of it, 43 percents represent the debt accumulated subsequently to the loans in the unique European currency. According to the chart below, we can notice that the doubling of the public debt starting from 2009 supposed the significant increase of the loans in the unique European currency.



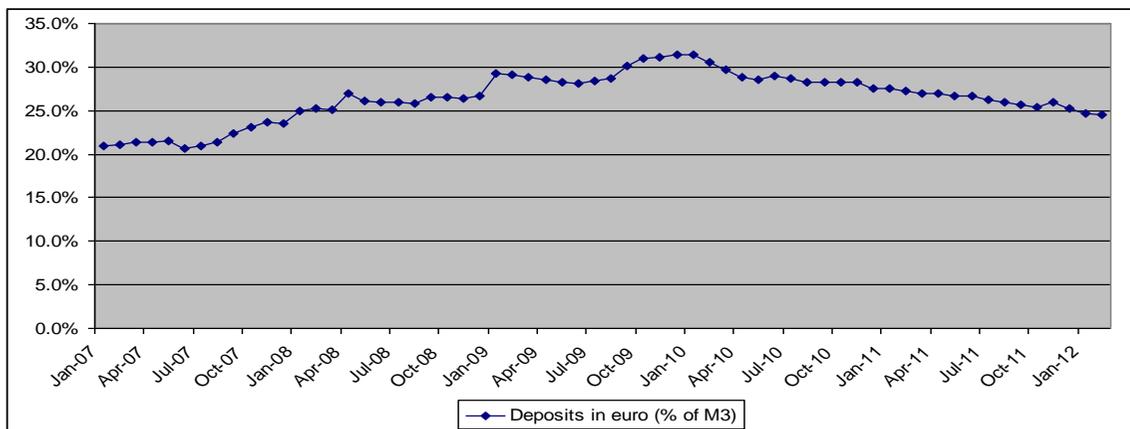
Source: Ministry of Finance – Public debt report 2011

Figure 3. Foreign exchange structure of the public debt

V. Deposits in foreign currency

The preference for Euroization of the deponents depends on their confidence in the national currency. In an economy with a high inflation which puts depreciation pressure the national currency, the population will choose to save in a stable currency. During the last 10 years, the population's confidence in the national currency as a saving modality increased very little, the share of the deposits in lei increasing from 60% in 2000 to 61% in 2010. The economic crisis affected the volume of the deposits in foreign currency, of which annual increasing rhythm decreased from 57% in 2008 to 5% in 2010, due to the lack of liquidity in economy under the terms of the financial crisis. In 2009, the banks constrained their loan activity and drawn their attention towards the activity of attracted deposits. As a consequence of the new strategy, the ratio between the loans given to the customers and the deposits attracted by it decreased from 122.0% at the end of 2008 to 112.8% in December 2009. In order to assess the importance of

Euroization in the deponents' preferences, we have calculated the degree of Euroization as a ratio between the total of the deposits in Euro currency and M3, according to Honohan and Shi (2002). The figure below presents the recording of an increase of the degree of Euroization from 21% at the beginning of 2007 to 31.4% in December 2009, this level decreasing as a result of the persistence of the difference between the interests for lei and for Euro and after decreasing the volatility of the rate of exchange.



Source: NBR, author's calculations

Figure 4. Evolution of the degree of Euroization

VI. Conclusions

The increase of the Euroization degree may be considered an opportunity for the economies which propose to adopt the unique European currency, meanwhile constituting a vulnerability if adopting the unique currency is delayed and if that economy is affected by the external shocks which induce a depreciation of the national currency. The partial Euroization of the Romanian economy has encouraged the overheating of the national economy until 2008, but it fractured the adjustment capacity of the shocks by means of the monetary policy and of the rate of exchange. Thus, a partial Euroization acquired a characteristic of a unilateral Euroization, in which the capacity of the economy to neutralize the shocks gets decreased and the dependence on the decisions of the Central European Bank, respectively of the economic agents from the highly commercially and financially integrated countries with Romania gets increased.

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CONVERGENCE IN THE EUROPEAN SOCIAL POLICY

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The European Union has developed a series of strategies that aim to limit the consequences of non-employment (due to the continuing crisis). These strategies aim by the objectives and mechanisms specific to the eco-social area, to improve the access to employment, social services, professional education and a more efficient European fund management. All this are subordinated to the coupling policy public-private in terms of partnerships both at a national level and European level. The problem is related to differences manifested between the social objectives at the national level and those imposed by the European context. The differences come from different degrees of economic development of the member states, economic development which is reflected on the living standards. The convergence between the social policies is based on the economic convergence, which represents the only way to ameliorate the discrepancies between the united nations of Europe. Social Europe dream or certainty? The answer can be found in the words of Jean Monnet: “we are not bringing together states, we are uniting people”. The efforts to define the four types of actions regarding the free movement of labor force and the correlation of the social security schemes, ensuring equal opportunities, respecting labor rights and the fight against discrimination can be found in the results obtained on these priorities.

Key words: social policy, subsidiarity, economic and social convergence, the workforce flexibility, the continental model of welfare, regulated profession, felxicurity, equal opportunities, social dumping.

JEL Codes: J 01, J 08, J 44, J 64, 65, J 83

National social policies are credited to solve some local social problems. They give evidence of inconsistency or partiality with regard to certain stated objectives, often, electoral. Thus, if at a national level the convergence of the social policy objectives cannot be achieved, the efforts for common approach at the European level will face objective difficulties and precaution measures. The occupational insurance schemes face the economic crisis' effects which affect all levels (for Romania it emphasizes the impediments regarding the labor migration).

The coherence in the European social policies context becomes, currently, a concept based on relativity.

The limited competence of the European social policies is based on the following pillars: legislation, action programs and financial incentives form the structural funds.

Currently, the problematic of the interest zone is reflected in: education and training, health, living and working conditions, social protection, equal payments and equal treatment for all employees, protection of children-the elderly and of the disabled population. To this problematic package the problem with maximum urgency is added regarding the social exclusion at the European level.

The White Paper in the European social policy (published in July 1994) provides a summary of the social policy thinking of the Union, demonstration the role of the social dimension of the E.U. at the end of the 20th century.

The social dialogue, the intervention of the labor management in the social dimension of the Union aims to create a closer union between the populations of Europe. However, the decisions have been taken (based on the subsidiarity principle) far from the will of the citizens of Europe.

Implementing the legislation for equal opportunities leaves much to be desired. The decisions, the recommendations, the opinions are, often, debates reasons which do not materialize, practically in effective measures.

Social policy or social philosophy?

The social affairs and the directions of development of the European social policies for the future are facing, currently, multiple disadvantages. Some areas of the social life have remained untouched by the official regulations, directives, decisions, recommendations and resolutions. This is due to the significant changes at the European labor market level.

The increase in the number of poor people, the increase of unemployment, lower-class extension, are phenomena that contribute to the pressure on the social services.

Promoting competitiveness and social progress are presented as being dependent on the economic prosperity. The approach between the levels of productivity of labor in the EU countries has contributed to the high social standards "reconciliation". Thus, compliance and economic convergence by similar levels of development, as an effect to the economic growth, will lead to the initiation of programs regarding the flexibility and continuous training of the labor force.

Coordination, monitoring, evaluation of the social partnership are objectives but also urgent tasks due to the aggravation of the work situation on the European labor market. Economic integration cannot be dissociated from the social one. Thus, the problematic package workers-labor market-freedom of movement workforce generates the necessity of a common social policy, coherent and comprehensive.

Something has been done, but enough remains to be done!!!

The "continental" model of the welfare, (as is formulated by theory in this field of study) present doubts and suspicions regarding the harmonization of social policies. For a more efficient process of harmonization two steps must be undertaken: the first concerns the understanding and correct perception of the differences between the national social welfare systems. The second step, finding those common grounds, useful for the removal of the approximately character of social protection harmonization, within the Member states' framework. Currently, for the case of migrant workers is the exception from the efforts of harmonization of the social systems.

The national cultural tradition is rooted in the national welfare systems. Thus, unity through diversity remains the key to success on a social European level.

The tax system, geographical location, work productivity level, the labor relation climate are factors that worsen (to what extent?) the competitiveness at the European level. The current standardization of the European fiscal system has positive consequences but also negative effects, seen in terms of workforce. Different taxation of the revenues (at the European level in relation to the national one)creates discrepancies but also the interest for finding and employment abroad. These situations can imbalance the labor force, obstruction competition.

The fear that social dumping will become a common practice at a European level, cause the European social policy makers to be more attentive in terms of the origin of the workers, particularly for the southeastern Europe.

The welfare of the state becomes a theoretically exclusivist slogan while the national welfare systems continue to produce measure which, fewer in number, converge towards welfare.

The catalytic effectiveness of the European commission activity for social affairs consists of the efforts for common approach of the social policies. As an institutionalized instrument of coordination within the EU database regarding the essence and the dimensions of the European social policy, the commission aims for the substantiation of a "European society".

Can we talk about the Pareto Optimum at the formulation level of the social policies at the European level?

The equal opportunities for all idea- is about all Europe's citizens, without discrimination-represents a principle and elevates to the level of fundamental European value. Equal

opportunities for all represent a goal and one of the base components of democracy everywhere, together with liberty and the respect for human fundamental rights.

An inconsistent state is emerging in terms of the abusive restrictions towards the Romanian and Bulgarian workers. While Italy and Czech republic have informed the European commission that they will lift the restrictions on the labor market for the Romanian and Bulgarian workers, starting with 1st January, other nine member states have notified the EU executive that they will maintain the restrictions until the end of 2013.

These countries are: UK, Ireland, Germany, Belgium, France, Luxembourg, Malta, Netherlands, and Austria²⁰. The concerned countries have argued their position using explanation regarding the evaluation of serious disturbances on the labor market²¹.

Although the European commission should not authorize the member states to continue applying these restrictions, the European Commission Commissioner for Employment, Social Affairs and Inclusion, László Andor, intends to present his own point of view regarding the notification received for the concerned member states and their explanations in a meeting of the EPSCO Council (work, social affairs, health and consumer protection). The treaty of accession of Romania and Bulgaria to the EU, allows the EU countries -25 (the founding countries and those that joined the EU before 1st January 2007) to restrict temporarily the free access of workers from Romania and Bulgaria to their workforce markets, in order to prepare the full freedom of movement within the EU.

The general transition period of seven years is divided into 3 stages (2 plus 3 plus 2 years). During this period, a safeguard clause allows a member state to reintroduce the restrictions, if there are serious disturbances on the workforce market or the threat thereof²². The transitory measures will end irrevocably at 31st December 2013. The current economic crisis represents a challenge for the manner in which each government comprehends to manage and resolve the national emergencies.

A global economic climate, elastic and fluid, will be ensured by the flexible conduct of the population who migrate towards a job that will bring a growth in the income. What should be emphasized is the existing differences between the migration phenomenon of the XVIII-XIX centuries and the workforce migration today. Of course, globalization-regionalization-integration as defining features of the present give a distinctive note to the workforce migration. Substantiation of some policies for combating poverty go hand in hand with the efforts of the countries (not only at an European level) to improve their economic status.

Therefore, a review of the reality with which the labor market faces currently, and the economic and social problems aroused after the wave of emigration-immigration, is a necessity in order to explain the connecting process of the economic performances to the economic and social communication effectiveness.

The professional education- means for approaching the European values

The labor market issue has a large openness towards the economic and social: it is not limited only to dealing with the supply and demand of the labor market in terms of quantity.

Addressing the qualitative side of the labor force requires an interpretative analysis of several components regarding: the qualification level, the creative potential available to the individual, the productivity level that he needs to demonstrate, the skills but also other qualities which he must prove, currently, the bearer of workforce.

²⁰ If such notifications would not have been sent until de early new year, 2012, the Romanian and Bulgarian workers would have had the chance of a place to work within the 9 countries.

²¹ The same way acted Spain on 22nd July 2011.

²² The current economic reality is marked by the globalization that generates new relations of economic forces at a global level: the European countries don't have the economic power to deal individually with the great competitors like USA, Japan or China and India, states which, currently, are in full economic boom.

The confrontation between the workers from east with those from west, professionally trained differently, as a result of some different political, social and educational systems, reveals qualities and weaknesses, mentalities and behavior attitudes opposite if not contradictory, in which competition manifest between employees, for the workplace they applied for.

Shifting to other jobs ability, the labor flexibility dependent on the priorities and sustainable development strategies, concerns in equal measures the labor market at the community and national level.

As regards to the European problematic, it is emerging by maintaining the same aspects but under a different context: increased competition due to pressures from outside the community area²³, alarming aging of the population, the issue on energy in terms of source of origin, prices and the security of production, distribution and use, the ecosystem under ecologic danger etc.

The ambition for exiting the present recession stumbles upon the labor market status, which rises not only the issue regarding the employment but also the issue on education, professional training and qualification.

Reducing unemployment rate from 9% in 2004 to 1% in 2007 involves creating 6 million jobs at the community level, a staggering figure if we consider the possibility of employing these jobs in relation to the professional qualification. The issue regarding higher education diplomas recognition and also of other qualification certificates, within the EU represents another key point in the finalization process of the law on free movement of workforce.

A “regulated profession” involves the recognition of the professional activity in accordance with the laws, the regulations or with other administrative provisions, on the basis of a diploma.

October 20th, 2007 is the deadline for transposing and enforcing the Directive on diplomas recognition, which will operate by incorporating its provisions within the national law.

It shall be added that the Directive for the recognition of qualification 2005/36 of 7th September 2005, contains different provisions for those situations where the profession which will be carried out is not regulated in its home country. In this case, the worker must prove 2 years of professional experience and to conclude professional liability insurance; on top of that, the state where the activity will be carried out can reserve the right to verify periodically the professional skills of the worker.

The recognition of qualifications represents an essential step towards the liberalization in de facto of workforce movement²⁴.

The directive on the recognition of the qualifications within the EU is based on several criteria – duration, frequency, periodicity and continuity of carrying out an activity within the community area.

The provisions relate to 3 different regimes:

- the general recognition of professional qualification*, which provides in the event of mismatch of professional training of the worker, attending a traineeship or an aptitude test;
- the automatic recognitions system of the qualifications acquired through professional experience*, in this category being included a range of industrial, craftsman and commercial activities where professional experience can sometimes be automatically recognized.
- the automatic recognition system of qualification for certain specific professions* such as doctor, nurse, dentist, veterinarian, midwife, pharmacist and architect.

As in other cases, France is the country that has reservations on the opening of the labor market; the recognition processes of qualifications are facing the same obstacles as the freedom of movement of workforce²⁵.

²³ The objective of this Directive is to facilitate the deployment of services and establish the qualifications obtained in an EU state which allows the deployment of activities in another member state. It should be considered the distinction between the applicable regime for carrying out cross-border services and the regime applicable for the settling of the worker in a particular country.

²⁴ The French national assembly approved in 2006, the new legislation regarding immigration, specifying that the provisions were tightened. France will accept only high qualification carriers and for those from outside the European area it insists on specifying the mandatory responsibility of learning French and respecting the French democratic principles.

Qualification means professional training and it manifests as a result of the educational process. The education represents, now more than ever, the safest means of getting closer to the European values.

Felxicurity of the workforce

The new concept, with equal economic and social coverage, is addressing and it's formulated in the interest of workers which are laid off. This socio-economic safeguard measure aims to provide a minimum social security throughout the workforce migration process.

As shown the concept seeks to answer the challenges within the labor market on the flexibility of the workforce, emphasizing the liabilities and responsibilities their employers or the labor market institutions have, in terms of guaranteeing a workplace.

Introducing such concept is due to the German concept and follows the model embraced by this Germany –“the social market economy”.

On the occasion of the summit, in 2007, Angela Merkel argued strongly for the creation of a European system adapted to the human being not only to the business world²⁶. It should be noted that at this summit the *social affairs, the workforce and the equal opportunities* were the three forces that expressed their concern and interest for the fundamental objective: the creation of new jobs in order to modernize the economies.

The arguments and assessments towards this direction are supported by the fact that the EU borders are defined rather by *systems of value than geographical criteria*.

Or, in this view, the differences between the level of performance and the workforce competencies cannot be sensed than in the situation when the worker is put to work. But for this, he must be granted the opportunity and the right to demonstrate what he's capable of.

The reluctance in terms of potential, skills and qualification of the eastern area worker, are nothing but signals of segregationist behavior, totally inappropriate and contrary to the values so assiduously invoked and preached by the EU.

It is not an exaggeration to say that the tensions between the east-west political regimes before '89 take currently the form of some social tensions. However, under these social tensions the whiff of some political confrontation and mismatches of mentality can be sensed. It is an exaggeration to think that the differences in mentalities between the former communist countries and the Western European countries will disappear as if by magic after their integration into EU.

In terms of employment of workforce policy, the European Council recommends that the member states make efforts to change the mentality regarding the work life cycle. This requires an education to accept the transition from one work place to the other or from a position to another within the same company, but also formulating measures through national policies to help the low paid or low skilled employees, the marginalized individuals from the labor market, in order for them to find a decent job in accordance with the living standards.

From all this provisions and recommendations the need for flexibility of the labor force becomes obvious. Perhaps the most pertinent aspect of the new configuration of the labor market is its capacity to face the challenges triggered by research and development.

The labor market manifests a variable geometry which currently, in order to meet the challenges and the objectives of economic growth and sustainable development, must prove mobility. The labor market cannot be flexible if the workforce doesn't prove flexibility and this is under the influence of the individual, of the manner in which they are perceived, understood and accepted the new requirements of the society progress.

²⁵ EU Bulletin, Euractiv 29 march 2007.

²⁶ Hartmuth Kaelble - The study “lived” Europe and “conceived” Europe in the XX century: The social particularities of Europe,pg.45,in his book *Consciousness and European identity in the XX century*. René Girault (coordinator), Curtea veche publishing house, Bucharest 2004.

Although the active workforce is the one that focuses the interest on job offer, however, the reality of the labor market reveals other aspects contributing to the tensions manifested lately.

The population ageing is a phenomenon that in addition to the positive effects of life extension implies also the formulation of some strategies for maintaining the elderly on the labor market. If biology has been successful in geriatrics, they must find resonance on the socio-economic policies of using this segment of labor force.

The gender mainstreaming requires the implementation of the strategies for promoting women within the labor market. The female workforce constitutes an essential factor which must be taken into account when shaping the new culture of the flexible activities. The feminization of the labor force in certain industries and fields of activity represent another step towards the modernization of the labor market. The majority of work places newly created within the EU are held by female graduates of different forms of education.

Although they are helping in achieving the economic targets, they encounter barriers regarding the manifestation of their total potential. In this sense, solving these situations created by employment discrimination fall in the capacity and tasks of the EU Commissioner for employment, social affairs and equal opportunities, job created precisely to prevent and mitigate the frustrating conflicting states endured by the female population.

Is the equality goal achieved?

If the state through its policies opposes to the entry of foreign capital, then, it will be forced to undertake also the protection of those dismissed due to the closure of unprofitable companies. The entry of foreign capital is considered, in this case, as a means for capitalization of the uncompetitive economic agents (or insufficiently competitive on the foreign market).

The state's intervention may be interpreted in this situation as an example of undermining the social responsibilities of the economic agents forced to pay the compensations after layoffs. It is clear that the entry of foreign capital and the mergers between the economic agents are assessed, equally, as a favorable means for economic capitalization and as a globalization factor.

There is, in this direction, a point of view already formulated according to which if "the economic patriotism" exceeds a certain level (we are wondering which level?) it becomes a impediment towards the capitalization of the economic agents. By the government intervention the market is influenced, the European competition can no longer manifest freely and openly. We consider that here, it can be sensed the influence of the political factor, even if this influence is made with the help of another government (third party).

"The economic patriotism" is a formula designed to sensitize the European citizen, with the purpose of blocking the globalization, which disadvantages also the market and the citizen itself.

Another example on the opinion polls' effects at the European level is the feedback on the union effectiveness for the EU countries.

The appreciations relating to the European employees claims for the wage growth were made by the president of the European Central Bank, Jean Claude Trichet, in a very categorical manner: Europe cannot afford higher wages if it desires to provide for all its citizens a place to work. If employment is desired (including creating new jobs for immigrants A/N) the claims for wage growth shall be abandoned.

The origin of this contraposition can be found in the interpretation of the correlation between employment and wage increases demanded by the European citizens. It is recognized and appreciated that a moderate increase in labor cost constituted a key factor in the policy for reducing the unemployment at the European level. The opportunity cost of such measure forces to choose between two objectives.

On the same tune, there was formulated a different conclusion: by 2020 EU should establish minimum social standards (without granting compulsory welfare) because this provision is the task and the attribute of each member state.

The intensification of exchanges between the European companies is a means for social and economic integration at the same time. Therefore, the multilingualism appears as a characteristic element of the equality and fairness European culture. The dialogue within the EU constitutes one of the key moments of the community development and progress.

“This vision on social and cultural diversity within the EU is often used as a concept opposed to the political power concentration at Brussels, and economic standardization of the European community. The social and also the cultural are considered to be shelters. The representation of the national or regional social particularities gains more strength”²⁷.

The pragmatism and globalization, phenomena which currently mark our existence, and modify our mentality, attitude and behavior, determined, often, passing the interpersonal communication, in the background. In a world where personal interest dictates where alienation becomes more and more extended due to the online networks, the communication remains the only gateway towards understanding the unity in diversity. Let’s not lose sight that the super-connection is a risk, which doesn’t necessarily means super-communication.

The main tool used for insuring the objectives of the social Europe is the European social fund (ESF). Defined as one of the main financing instruments of the investment in humans, the ESF of over 10 billion € annual expenditure, is oriented towards supporting the workforce and on increasing the professional skills, levers of labor flexibility. Its aim is to reduce the differences between the living standards and the professional skills of the individual, at a European level.

The key words that ensure the effective use of the EFS are the convergence and regional competitiveness and employment.

<i>Time span</i>	<i>Goals and objectives</i>
<i>1957</i>	Joint financing for the programs regarding the increase in of job skills and the development of labor capacity of the workers.
<i>1984</i>	Financing of individual projects of professional training and promoting the workforce.
<i>1989</i>	Financing the strategies for boosting employment and job creation.
<i>1993</i>	Funding integrated programs in the less developed regions with GDP/capita below 75%
<i>2000</i>	Supports the Lisbon Strategy and European strategy on employment according to the objectives on the workforce employment and on the reduction of unemployment.
<i>2007-2013</i>	The allocation of about 75billion € for the regions and EU member states for the objective on professional competitiveness growth with employment purposes.

The operating mechanism of the European Social Fund provides five strategy directions:

- supporting and efficient enabling of the specific labor market policies on:
 - a) fighting and preventing long term unemployment
 - b) supporting professional integration of the young and of the unemployed,
 - c) assisting the individuals with high risk level of becoming unemployed.
- Promoting equal opportunities for everyone, especially for the individuals under social exclusion risk.
- Promoting measures for the improvement of training, education and counseling regarding the learning process throughout life
- Promoting through innovation, free initiative and specialization of the qualified in line with the requirements of technical progress labor force

²⁷ www.europarl.europa.eu- the Report on Employment and social issues in the Annual Growth analysis for 2012.

- Promoting measures for improving the attraction and participation of female labor force, by avoiding gender discrimination.
- As regards to the future project of the EU, the Social European Fund's priorities for 2020 are creating jobs as a result of exiting the crisis, continuous education for the future and social inclusion. The report on employment and the social aspects in the Annual growth analysis for 2012²⁸ includes measures that seek to ensure coherence and the increase in its level in order to ensure the achievement of the Europe Strategy 2020 objectives.

The status of citizen of the European space strengthens, thus, the concept of "European citizenship".

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²⁸ Phd Student of University of Oradea, Faculty of Economical Science, with the thesis: *Business ethics and competitiveness in Romania*, prof. coordinator: prof.univ. dr. Petru Prunea,

DIMENSIONS OF HUMAN CAPITAL – SPECIFIC HEALTH APPROACH OF NATIONS CAPITAL

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The paper proposes synthesizing the most important correlations between the dimensions of human capital, in order to provide a better theoretical basis for assessing realistic valence motivated human resources sustainable development of society.

In terms of conceptual work based on the fundamental role of health capital and the neglect that often has its problems, especially in developing countries. Based on the review abstract theory of human capital, research establishes correlations between dimensions. It shows the importance of ethical component in professionalism and existence of moral capital rooted in medical ethics. Specific breakdowns of health capital, referring to the health of the population and medical services.

The research findings highlight the profound connection between morality and productivity seemingly nonexistent (customized to the case of medical services), about joint economic approaches ignored. It also means that the moral, professional and medical staff working in social capital formation influence the health of a nation.

Keywords: Human capital, health capital, medical services, productivity

JEL Codes: A14, J24

1. Introduction

Since the 1960s, the concept of human capital developed through the valuable contributions of Gary S. Becker, Theodore Schultz, which showed the importance of creating a stock of human capital and investment in human capital for long-term development of the nation. Hence replacing the term labor with human resource. Human resource (human resources) is a broad term that implies investment, suggesting the need to avoid that if no investment in this resource, its potential is limited and/or lost (as if exhausted material resources) (1). The potential results(1) – the power of creation and production of income.

Investments in human capital are investment with long-term effect. Developed countries allocate a large share of GDP expenditure for investments in research, education, health, just the desire to maintain and develop intellectual progress thus technical progress and innovation. Unfortunately, because of poverty and perceived effort in terms of expenses related exclusively short term, most developing countries do not invest large amounts in human capital, materials prioritizing investments. Conceptual mistake is to ignore the effects of long-term needs of these investment expenses – as well as negative effects of scarcity or decrease of investments of this nature immaterial -, this equates to a misunderstanding of the nature of these investments (with the slow effect, „fruits” are collected over time, over generations) and the importance of investment in human resorces (the effect is lasting, distributed and complex: effect on future income at all levels, but also the entire society functioning, quality of life and the social and human civilization).

2. Basic dimensions of human capital

Human capital consists of several interrelated factors (dimensions) operating at the same time and together form the stock of knowledge, abilities, skills, health, innovations in the nation, plus stock (baggage and wealth), cultural, spiritual and of humanism.

Innovation is the starting point and guarantee success but is „maintained” the costs (which are really sustainable investments) in research, education and health.

Human capital consists of health capital, educational capital and capital humanitarian. Links between the three dimensions is direct and continuous since we can not talk about health without investments in education, training providers and training level (education) a minimal level of beneficiaries (businesses and people in general), hygiene, healthy life, perception etc. indicated treatments, and also can not speak without humanitarian investments in the economy of poor countries. These effects are possible by creating the effect of flattening (Friedman, 2007) globally: if a country it affected the prospects of development and preservation of human capital, certainly these effects will be felt globally more or less powerful.

Health capital can be identified in terms of capital stock „required” in a country. The question is: why mandatory? Because the health of the population is influenced by investments in education (the development of education, skills and knowledge of future doctors, nurses) and technical and material investments in the health system of a country (technology innovation). Healing technologies and innovative treatments and disease are not possible without qualified medical personnel to use these resources.

Health capital can be „built” on the humanitarian capital. For example, if poor countries is beneficial to intervene to protect the health capital of each individual (Labourdette, 1988: 19), because in case of epidemics, not only poor countries are affected but also affected the world (attention must focus on prevention, not only treatment). Another example would be the protection of health capital through membership humanitarian, philanthropic, countries affected by natural disasters, „fragile” in the face of epidemics. And these guidelines (openings) are grown, educates, promotes (not necessarily only for themselves). Each state should consider and this component (which may free market rather ignore), including allocating a portions of expenses for humanitarian capital formation, i.e. investment in philanthropy, with global benefits.

Educational capital is closely related to health, because by investing in the education system provides health training and stock conservation.

It is capital to learn and to train future generations. The education system must ensure investment for all levels and specialities and appropriate national development needs, in close vision and (especially) future. Technical creation and technological in all areas of engineering and intellecty-intensive needs of qualified staff, especially specific research on all other intellectuals (doctors, teachers etc.) to bring ideas, innovations and improvements to create more advanced forms appropriate to different areas of social life and to also provide appropriate use of technical, professional and effective as to help preserve the stock of health capital, intellectual, humanitarian, from the country, and each individual.

„Education and training are most important investments in human capital.” (Becker, 1997: 17)

„Education, practical course in computers, medical care and training figures on the virtues of punctuality and honesty is [...] capital, in that they improve health, increase profits or increase a person’s appreciation of literature than in her lifetime. Therefore, total concordance with the concept of capital as it has traditionally been defined, to say that the figures on education, schooling, medical care etc. are equity investments. However, they produce human capital and not physical or financial one, because you can not separate a person’s knowledge, skills, health or values, as is possible to move financial and psysical capital while their owner is not personally involved.” (Becker, 1997: 15-16)

All through the existence of an educated population in a country maybe impacted capital formation among the humanitarian community and the desire to action social and environmental line against polarization and exclusion, to lift poor countries, areas and people with disabilities special (including materials), through various charities (formation of a philanthropic culture, humanitarian).

Educational capital means we are able to form a „stock” of knowledge and skills in the country. Importance of an effective education in a country leads to moral, ethical formation of a culture, but then to be translated into productivity in any field.

Education begins at home: the family is the „core of society”, without family, society could not exist in the forms of civilization accumulated so far. To create a society „healthy” must in its composition to assert the existence of families and children with potential for further development. The role of parents in educating children is very important because education received in childhood affect mental, physical and moral future adults.

We believe that in the education system, quality school and university training must include, in addition meanings various specializations and specific applications, spiritual formation and overall cultural and intellectual background including religion classes (awareness of ethical values in the each generation), the artistic disciplines and art history, involving participation in extracurricular activities (theatre, opera, concert, excursions, camps, environmental protection activities etc. – necessary to form an ethical culture and collaborative and integration into society and elevated values of humanity and achieved the highest traditions of humanity), in context, should not underestimate the importance of sport classes and various sports events for the formation of discipline and team work spirit; all sides of an educational culture have started training since kindergarten, because the effects will be felt long term and sustainable. Future generations depend on the future of nations, the human component should be treated with priority investment projects in each state.

An intellectual skills and knowledge acquired in two main ways, namely through: (i) educational system – including faculty expert, any specific programs (2) and (ii) lifelong learning through self-study and participation in various scientific meetings, forums, debates and conferences on topical issues specialist. A framework of higher education to be efficient, productive, valued and known as a specialist should be informed by knowledge lifelong all news from the field (or specialization); performance and competitiveness, there is a degree sufficient but there has to be part of lifelong learning.

Another aspect of educational capital is the fact that the more a country has a population of less educated, the more health its capital will be better protected, each member of the community will want to preserve health, you know how to avoid factors harmful to their health (formation of a culture of keeping health).

Humanitarian capital consist of humanitarian philanthropy undertaken by various nations to help his fellow men by supporting health and educational capital formation of poor nations and regions.

We believe that philanthropy in Europe are conducted on three levels, namely: i) the European Union by providing humanitarian aid to poor countries (for example: combating poverty, combating HIV in Africa etc.); ii) the government of each Member State (for example: helping poorer regions of Europe) and in local communities (for example: helping disadvantaged rural areas, through the actions of prefectures and municipalities).

The importance of humanitarian aid can be understood only if each Member State there is a culture made in this regard.

We can say that individual ethics, and thus the effective within the society, has its foundation in family upbringing as honor the spirit of giving, proper execution of tasks, self-control, respect for justice, assuming responsanility facts, values high human and concern for good and beautiful are initiated through valuable education and perpetuated by family friendly environments. These

elements are reinforced through education and through education system, the models promoted by society and all social culture (the way the company encourages or restricts certain events and values).

3. Specific approach with regard to health capital

Health capital formation need arises, beyond individual concerns of individuals in each state. Arguably the health capital is beyond the genetic heritage, the highest degree of efficiency effects of a country's health system and education system. And general health of a nation – inherited and present – is a reality that is „built” the safeguard and preserve in the time, the deep and proper concern, the people responsible state, concerns permanent, general and specific (and in any case the closure and merging of hospitals, but by preserving fiercely, despite any adverse circumstances, existing capacity by building more and more units of treatment and care of people by improving their endowment, by forming health professionals more and more high level), by effort, by all means, to improve care and all services provided nation, national and local programs specific term, raising quality standards achieved, maintaining and medical raising performance levels previously gained.

If efficiency and effectiveness exists in health care, also exist health capital there. Efficiencies with respect to the existence of quality medical service at low cost, and efficiency refers to reduce the number of patients, days of hospitalization, the recovery period (productivity in health services).

Health capital refers to: (i) health of the population and (ii) state health care services (availability, organization and quality, performance).

The existence of quality health services is ensured by highly qualified medical personnel (educational capital investment) to purchase materials related medical technical quality (technical capital investment).

We can say that improving the health of the population, reducing sick leave duration, days of hospitalization and medical system effectiveness and efficiency drive the health of a nation's capital.

Consider it necessary to add some specific elements moral capital (much needed in the medical field). We say that morality has an indirect influence on health capital, namely morality influences productivity in health services. Moral values are learned from childhood, in the family; in the childhood also forms human personality, sense of responsibility and duty, faith, i.e. in the case of doctors, faith in the Hippocratic oath, an oath of honor, synthesizing honesty and responsibility to the professional and human commitments in relation to higher values (3): criteria value acquired in the family since childhood is critical to all these (above).

Giving that involves a doctor treating a case has a direct impact on productivity, expressed in specific types of benefits/services that the quality of results achieved under cover those needs, and mainly no priority in saving their own efforts, and productivity is possible to express production activities related material because such savings can mean insufficient cover need, i.e. unmet customer, failure of social function (as it happens, unfortunately, if medical staff reduction).

A future doctor is „modeled” in the family because his personality is formed since childhood, he acquiring moral values, sense of duty and responsibility, by the various tasks entrusted by parents to their children. These elements vital to the development of adults are influenced by environmental and transmitted through the educational process, that can be modeled by parents, teachers, professors and employers, especially parents and teachers can decisively influence a child's personality.

Moral values acquired through education preparing future family doctor to form their own beliefs, feelings, attitudes and moral conscience. The values learned in the family influences belief in the Hippocratic oath. If there is faith in the oath is formed conscience to do everything

possible for any patient to be treated appropriately. This process forms the moral responsibility. „The moral responsibility to understand the human ability to engage consciously in accordance with its possibilities as a moral issue, to assume certain duties, to meet them properly and to take upon himself the consequences of performance, of failure or the failure to correct the tasks. Responsibility is not just a feature of consciousness, but an attitude, manifested in conduct comprehensive.” (Grigoraş, 1982: 198) This brings to the notion of medical ethics that refers to rules and moral qualities of medical staff in relation to patients.

A doctor is more valuable as time education in the family is strong, consisting of moral, cultural and professional inclination, the more responsible, irreproachable conduct adopted in the patients, is characterized by a spirit of dedication to solving medical cases, which may contribute to recognition of its value in a professional, increase awareness, the number of patients. These are the ways and criteria of birth competition between physicians most beneficial to society.

Education through the educational system complete family upbringing, must keep a good balance in education, without underestimating either of these two components, plus the social – close (friends, colleagues etc.) and generally, including means of communication table, the internet and cyberspace in general, trends of opinion etc. In addition to the values obtained in the family, state intervention and investment in educational capital of the country. Besides these, an important role is the current social and professional (practicing).

The professional and skills acquired during life by medical staff (including participation in medical conferences and seminars) contribute substantially to increasing awareness, performance and competitiveness of medical services. The office, near the doctor, also exerts a decisive influence on his personality, by creating favorable environment for leisure and avoid overexertion (overwork leads to very serious medical errors).

All influence to some extent health capital formation, both at each individual and the nation.

By highlighting these general issues concerning the moral, professional and social, we can say that a balance in both personal life and professional life, is vital, especially in health and education systems where there is direct contact with human resources of society.

4. Conclusions

The foregoing conclusion, that every nation has the potential development of their human capital potential can be transformed into investment in human resources. Thus, developed countries regulate, through various regulations, research, innovation, education and health systems development, environment protection, however, developing countries or underdeveloped does not pay attention to these segments of economic, social and cultural. Often, in an economic recession, developing country government stake excessive Crisis neglecting the human component as part of the economy and instead to invest long term in human potential, prefer short-term investments, without giving proper importance to human capital.

Short-term effects seen, at the level of individuals, but also seen long term effects, at the national level, in general health of population, education etc., in general valences and future population concerned. And this general condition is clear and visible effects in the economy: they are direct, especially with the average productivity of individuals (to the extent that they are better or less of medically assisted), and indirect, such as, for example, report the effect of sustained population (including pensioners, the sick people etc.) and supporting population (active, productive) by the effects on crime rates, unemployment etc. This types of effects (short and long term) are added the effects (less discussed, not only between governments, but even in traditional economic theory, neoliberalism) very long term(4) the nation state, their place and role globally in humanity.

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Note

(1) The character of potential services is highlighted in the literature; for example, in Jivan, Alexandru. *Economia sectorului terțiar*, Timișoara: Editura Sedona, 1998. This character is better seen if we invoke in this definition even in Dobrotă, Niță, coord. *Dicționar de economie*. Ediția a doua. București: Editura Economică, 2001 [“The human capital is the stock of professional knowledge, skills, abilities and health that can lead a person to enhance its creative capabilities, and thus expected to achieve revenues in the future.”].

(2) For example, the residency for doctors..

(3) Life, health – and the word given – are higher values any conjunctural interests, economic or otherwise.

(4) Jivan, Alexandru. *Completions to Marshallian Out-Look, Consistent with Knowledge Based Economy*, *Timișoara Journal of Economics (TJE)*, Vol. 4 Issue (nr.) 1(13), 2011 [31 mai 2011].

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ECONOMICAL ANALYSIS OF DISABLED EMPLOYERS AND THEIR EMPLOYEES IN HUNGARY

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ABSTRACT

Nowadays employment is an evergreen topic in Hungary. Many kinds of supplies are provided by the state (on the basis of the 8/1983. EüM-PM Hungarian Law), for example for the group 'people living with disabilities'. It is very difficult to provide job for these people after their rehabilitation. My main goal is to analyze the 'rehabilitation' of disabled people and to study the related firms and the connection between the employers and employees. My intentions were also to create a strategy for these people to be employed again and for the firms to be motivated to employ them. Statistical figures show, that the highest ratio of 'people living with disabilities' can be found in the North Great Plain Region of Hungary (30 per cent of the total number of 'people living with disabilities'). The employment of these people means extra costs for enterprises. At the same time the complete accessibility of workplaces is still not realized in many cases in Hungary yet. Currently only a few enterprises are specialized to employ people living with disabilities. Unfortunately, most of the enterprises don't intend to employ disabled persons. Questionnaires were created in order to study the relationship between people living with disabilities and their possibilities to get employed on the labour market again. My study had two phases. In the first phase we focused on individual persons providing anonymity of the questionnaires. The research focused on special rehabilitation firms and their employees too (they are specialised to employ disabled employers). Two questionnaires for the above mentioned firms and their employees were created in order to gather information on their activities as well as relationship between the firms and its employees. It can be stated that this paper shows the relationship between the employers and employees. I will analyze the importance of factors in working among employers and among the employees. According to the latest trends I analyse the attitude to the rehabilitation of these people and how they will be able to work again not only in 'rehabilitation firms'. My implication is that new workplaces for these people should be created by the utilisation of the European Union and the available national sources in order to integrate them into the labour market again in a long run. In the current stage of my research evaluation of the data collection is ongoing now. After summarizing all claims of participants I can make an impression in this area. I think my research is very special because of the geographical research area of data collection and the topic.

Key words

Disabled persons, recruitment, rehabilitation, labour market, Hungary

Jel Codes

E24 - Employment; Unemployment; Wages; Intergenerational Income Distribution; Aggregate Human Capital

J14 - Economics of the Elderly; Economics of the Handicapped; Non-Labor Market Discrimination

I. Introduction

Nowadays the growing rate of economically inactive population is a very big problem in Hungary. Rural development has become more and more important issue in Hungary since rural areas also contribute to the efficiency of the national economy (Kárpáti, Csapó and Árváné 2010, 71). There were radical changes in the economy as well as in the labour market in the 1990's. The rate of employment and activity was the lowest in 1996 – 1997, after that in consequence of

the economically boom it had been growing for 2000. Between 2000 and 2007 it showed stagnation, except some short temporary growing periods. There are two big groups in the sector pensioners. 'People living with disabilities' group can also be found in this sector on the basis of the 8/1983. Eüm/PM Hungarian Law. The aim of the Law is to give the possibility of adequate job based on qualification and state of health after their rehabilitation.

Generally speaking it would be better for the Hungarian economy to employ these people because the number of inactive population could be lower and the state wouldn't have to provide them supplies. According to the Hungarian Law, if there is not possible to give job for these people, they receive supply from the state.

Business financing has a very important role in the private sector (Kárpáti 2006: 9). The employer has an obligation in all sectors of the national economy to pay rehabilitation contribution the state, if the statistical number of employed persons is more than 20, and if the number of disabled persons less than 5 per cent of the total number of employed persons. Rehabilitation fee could be replaced through employing 'people living with disabilities' according to the Hungarian law.

The highest activity rate of population can be found in the capital city and surroundings area. The reason for that is that most of the logistics centres as well as headquarters of multi - companies are located in this region. Relatively high activity rate can be found also in the western part of Hungary, especially in counties located at the Austrian boarder. The lowest activity rate can be found in the South – West and North – East counties of the country. Unfortunately in these counties we can find the highest unemployment rate too. In most cases it is even double higher than the national average.

These companies are partially different to the ones in the employees' sample. This sample can also be considered adequate as almost 30 per cent of the companies were questioned out of the sampling population. On the other hand, the employers sample is representative regarding the certificate of accreditation. The two-thirds of the employers possesses only a basic certificate of accreditation while the rest one-third has rehabilitational or enhanced certification

The frequency distribution of the types of the questioned companies are the following: the ratios of the non profit organizations and LLC's are relatively high (around 40%) and almost equal so as the ratios of the individual entrepreneurs and deposit companies (around 10%). The proportion of the corporations was the lowest (around 5%). Regarding the sampling population, LLC's and non profit organizations are overrepresented while deposit companies are represented excessively. The thirty percent of the non profit organization is an association. The 61,5% of the companies with enhanced certificate of accreditation is a protected workplace.

II. Literature analysis

The respondents - "people living with disabilities" - can be arranged in two groups considering that the incapacity is a congenital malformation – this means an infiltration into the labour market with disability – or an impaired health status caused by a medical emergency or an accident – this means the person had worked in the labour market without disability and later he had to cope with the changed situation according to his impaired health.

People living with disabilities have a very special situation at the labour market. Their participation in labour market is very limited. In Hungary – according to the international trends – vocational rehabilitation and workmen's compensation are provided by the state (Kálmán and Könzei 2002:209-210). The disability includes only some activities and not the whole person (Münnich 2007: 323-327). The holistic, ecological approach become more and more popular (Pordán 2007: 58-60) emphasizing that circumstances and the abilities of people living with disabilities have to be harmonized (Münnich 2006: 60-62). The main problem is that these people don't have the right to make decisions in their job (Bass 2008: 172-175) although they are very reliable, precise and capable of hard work (Holló 2007: 64).

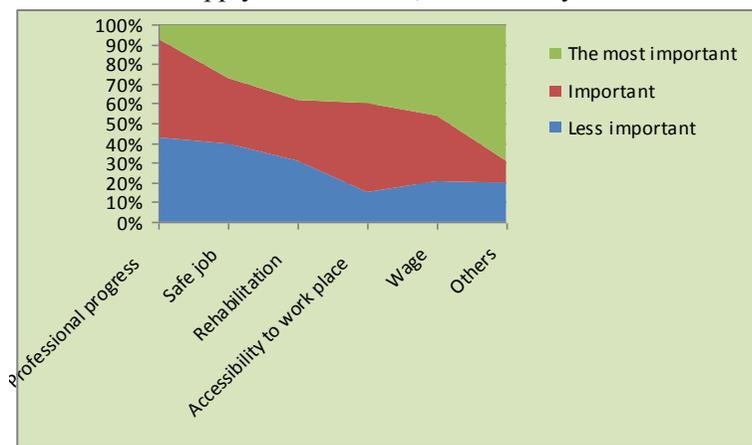
The number of unemployed and inactive persons has been increased continuously between 2000 and 2008. Unfortunately this negative trend didn't stop yet. There are some special groups in the Hungarian population, like 'people living with disabilities' whose labour market position even more complicated. Currently different kind of supplies are available for this group, but their position could be effectively improved trough their integration into the labour market. Better utilisation of available EU funds to create new jobs and change the thinking of the society could be the way integrating them back into the active employed population.

International trends in the labour market, according to the disabled people shows that this is a typical problem not just in Hungary but in the other European countries too. In the middle of the 1990's the average per cent of the disabled pensioners was in Hungary 5,8; in Finland 9,1; in Austria 3,6; in Germany 2,3; in Luxemburg 7,1; in the Netherlands 8,1; in Norway 7,3; in Poland 10,1; in Sweden 6,6; in Switzerland 2,4; and in the United Kingdom 4,1 per cent (Fultz and Ruch 2002: 77). The European countries but the other countries in the world (Australia, USA, Canada, etc.) have similar problem in this area and they try to solve the situation in different ways.

III. Research methodology

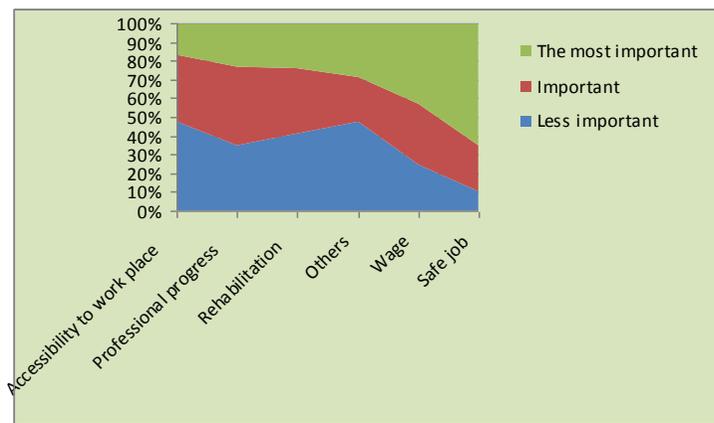
The sample size was 1030 questionnaires and the sample was obtained by using a simple random sampling (Sajtos and Mitev 2007: 31-33) from accredited companies (Somodi 2006: 51). The employees sample can be considered adequate as 109 companies were questioned out of the sampling population of 390 companies (according to the employees). The total number of the persons working at these companies with disability is around three thousand, and the sample consists of 1030 persons (the sampling rate is around 30 percent). In the second phase I questioned the employers themselves. These companies are partially different to the ones in the employees' sample. This sample can also be considered adequate as almost 30% of the companies were questioned out of the sampling population. On the other hand, the employers sample is representative regarding the certificate of accreditation. Data processing was performed by SPSS for Windows 15.0.

Figure 1 shows that amongst employers the other factors, wage and the accessibility to work place were the most important factors. Safe job and professional progress were the less important factors as there is an excess of supply over demand, and it's easy to find new employees.



(Figure 1): The importance of factors in working among employers

Source: own research, 2012



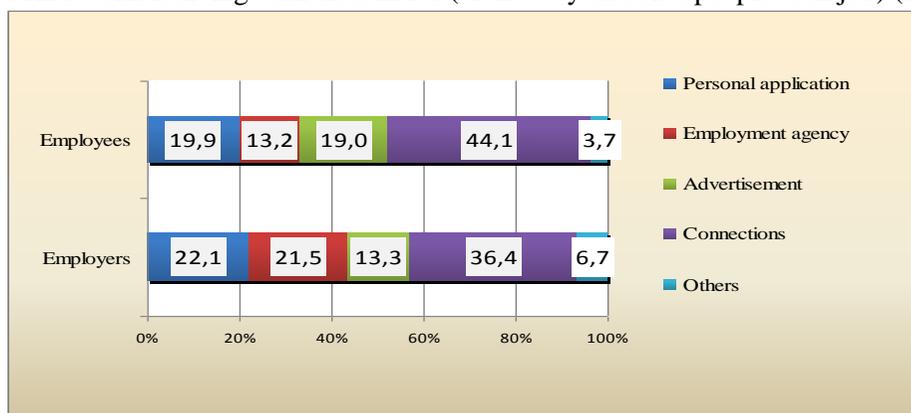
(Figure 2): The importance of factors in working among employees

Source: own research, 2012

Figure 2 shows that amongst employees the safe job was not only the most frequent but the most important factor too. The second-leading factor is the wage followed by other factors.

IV. The results of the research

We compared the answers of the two questionnaires (employees and employers) considering job search or recruitment. In the following section I present our results of comparison. The first aspect was the type of recruitment (or job search in the case of employees) namely the way the companies find workers living with disabilities (or the way disabled people seek job) (Figure 3).



(Figure 3): Distribution of the types of job search (recruitment) among the employees (employees)

Source: own research, 2012

The comparison of the distributions of the job search (recruitment types) was performed by Chi-square test. It can be stated that this test proved the differences between the distributions of job search (recruitment types) with $p=0,001$ significance level.

Figure 3 shows that employers apply for the Employment Agency with a relatively higher ratio (21,5%) in contradiction to the employees (13,2%). An other relevant difference appeared while taking the connections into consideration. The 44,1 percent of the employees pulls their strings for getting a job while connections were mentioned 36,4 percent of the cases among the employers.

Overall, wage is the most determining factor at both side of the labour market. There is no significant difference in the distribution of the importance between the two groups by Chi-square statistics ($p=0,582$). Employees have taken the opposite standpoint to the employers according to

the importance of safe job, rehabilitation and accessibility to workplace. Rehabilitation and accessibility to workplace is less important while safe job is more important for the employees because of their existence. The firms have already assumed the idea of rehabilitation but unusually the employees did not accept this concept.

V. Conclusions

I studied the labour market position of ‘people living with disabilities’ in the Hungarian North – Great – Plain Region. I compared the answers of the employees and employers considering satisfaction with the employee/employer, job search or recruitment and the possibility of obtaining further qualifications. According to recruitment or job search we found that employers apply for the Employment Agency with a relatively higher ratio in contradiction to the employees. Employees prefer to pull strings for getting a job with a relatively higher ratio than employers. Regarding further qualifications we can claim that 70% of the employees would obtain further qualifications but the majority (74 %) of the employers would not facilitate this activity. There were no significant difference between the job satisfaction of employees and employers. On the other hand, employees rather tend to choose extrem values than employers. Employees and employers had to rank some factors according to their importance in working. Employees mentioned safe job, accessibility to work place, wage as the most relevant factors while employers considered other factors, wage and accessibility to work place as the most three important factors. Overall, wage is the most determining factor at both side of the labour market. Employees have taken the opposite standpoint to the employers according to the importance of safe job, rehabilitation and accessibility to workplace. Rehabilitation and accessibility to workplace is less important while safe job is more important for the employees. There are some unusual results comparing with the newest ‘rehabilitation trends’ according to the 10/2006 Hungarian law (Garai 2008: 15). It is worth mentioning that the employers and the employees sample is continuously growing, so further researches will be published.

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LABOUR PRODUCTIVITY AND HUMAN CAPITAL IN THE EU COUNTRIES: AN EMPIRICAL ANALYSIS

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The role of the human capital in the economy is highlighted in several studies of human capital, endogenous growth and macroeconomic literature. A special part of this literature is dedicated to the mechanism and the various channels through which human capital influences economic growth. As an expression of the macroeconomic performance, the labour productivity depends on the accumulation of human capital in the economy. To analyze and discuss this dependency is essential for appropriate human capital policies aiming to stimulate the human capital accumulation in the economy and the enhancement of the labour productivity.

The paper explores the link between labour productivity and the estimates of the human capital stock in the EU countries.

Human capital theory explains the labour productivity level by the workers' level of educational attainment level. Four different effects of human capital on labour productivity can be found in economic literature: worker, allocative, diffusion and research. Other researchers used a production function to estimate the productivity impact of changes in educational attainment.

Research on the impact of human capital on productivity at the country level encountered many difficulties over the years. The main methodological issue is how to measure skills and human capital investment and to model possible channels of skills of influence the economic performance. The UNESCO attainment levels and enrollment series and other data sets, constructed by researchers, have been used in a large number of empirical studies of the link between education and productivity.

What is innovative in the present study is the estimation of human capital stock based on educational costs by level (primary, secondary, tertiary) weighted by the proportion of labour force with corresponding educational attainment and the testing of linear regression model for the dependency of labour productivity on human capital stock.

The assumption of the study is that the labour productivity is strongly and positively correlated with the human capital stock in the European economies. In order to confirm this, the following steps were completed: First, the appropriate method to estimate the human capital stock in the economy was identified and then, the estimations were calculated for the EU's countries, based on EUROSTAT data. Second, the correlations between statistical indicators of labour productivity and estimates of human capital stock, for each European country were identified and discussed. Third, a regression linear model was tested for each of 22 European countries included in the study.

A strong correlation between labour productivity and human capital stock, statistically tested through regression equations with data from EUROSTAT, was found. The variation of labour productivity can be explained in proportion of 85-95% by the variation of human capital stock, considering all other factors as constant.

The added value of the paper consists of: (i) the estimation of human capital stock using the educational costs method for the European countries; (ii) the use of these estimates to show the correlation with the labour productivity levels and (iii) testing econometrical models of the dependency between labour productivity and human capital stock in 22 European countries.

An interesting and useful task for future research is to explore the details of the institutional and incentive structure that best allocates a fixed amount of educational expenditures.

Key words human capital stock, labour productivity

JEL Codes J 24, J 21

Introduction

The topic of the present paper belongs to the research area dealing with the role of the human capital in the economy, and specifically, the association of the human capital stock with the level and growth of the labour productivity. To know the facets of this association could orient the human capital policies able to stimulate human capital accumulation and enhancement of the labour productivity, as expression of the macroeconomic performance.

The aim of the paper is to explore and analyze the link between labour productivity and human capital stock in the European countries. The assumption of the study is that the labour productivity is strongly and positively correlated with the human capital stock in the European economies. In order to confirm this, the following steps were completed: First, the appropriate method to estimate the human capital stock in the economy was identified and then, the estimations were calculated for the EU's countries, based on EUROSTAT data. Second, the correlations between statistical indicators of labour productivity and estimates of human capital stock, for each European country were identified and discussed. Third, econometrical models are tested for each of 22 European countries included in the study.

The paper is organized as follows: the section 1 presents a short literature review on the link between labour productivity and human capital, in the section 2 is described the methodology of the study, the section 3 exposes the main findings and the final section is dedicated to conclusions.

1. Human capital and labour productivity: a short literature review

Human capital theory explains the labour productivity level by the workers' level of educational attainment level (Mincer, 1974; Becker, 1997). Four different effects of human capital on labour productivity can be found in economic literature: worker, allocative, diffusion and research. These effects are based on the studies of Nelson and Phelps (1966) Welch (1970), Ram (1980), Pencavel (1991).

Jenkins (1995) examined the role of education in the labour productivity in UK using a production function to estimate directly the productivity impact of changes in educational attainment.

Research on the impact of human capital on productivity at the country level encountered many difficulties over the years. The main methodological issue is how to measure skills and human capital investment and to model possible channels of skills of influence the economic performance.

For example, the UNESCO attainment levels and enrollment series have been used in a large number of empirical studies of the link between education and productivity. Enrollment rates can be considered an acceptable, imperfect, proxy for the flow of educational investment but they are not necessarily a good indicator of the existing stock of human capital since average educational attainment (which is often the more interesting variable from a theoretical point of view) responds to investment flows only gradually and with a very considerable lag. In an attempt to remedy these shortcomings, a number of researchers have constructed data sets that attempt to measure directly the educational stock embodied in the population or labour force of large samples of countries during a period of several decades. These data sets have generally been constructed by combining the available data on attainment levels with the UNESCO enrollment figures to obtain series of average years of schooling and of the composition of the population or labor force by educational level. The best known early attempts in this line are the work of Kyriacou (1991), the versions of the Barro and Lee data set (1993, 1996, 2000, 2010) and the series constructed by World Bank researchers (Lau, Jamison and Louat (1991), Lau, Bhalla and Louat (1991) and Nehru, Swanson and Dubey (NSD, 1995).

In 2006, dela Fuente and Domenech developed estimates of educational attainment for 21 OECD countries and in 2011 revised them, in order to demonstrate that the contribution of investment in human capital to productivity growth is positive and quite sizeable.

Razak and Timmins(2007) found that university qualification and its product with R&D have a positive effect on the average economy productivity. Jones and Chiripanhura (2010) set out an experimental approach to measuring human capital stock, relevant to explanation of productivity performance, that estimates the economic value to individuals of their highest level of attainment gained in the formal education system.

Masson, O'Leary and Vecchi(2012) found evidence of positive human capital effect on growth in average productivity, particularly when using composite human capital measure and multifactor productivity growth is related to the use of high-skilled labour.

The general model of human capital and growth is a production function of Cobb-Douglas type.

What is innovative in the present study is the estimation of human capital stock based on educational costs by level(primary, secondary, tertiary) weighted by the proportion of labour force with corresponding educational attainment and the testing of linear regression model for the dependency of labour productivity on human capital stock.

2.The methodological approach of the study

Exploring the link between labour productivity and human capital stock poses the problem of measurement of the two variables. While, the labour productivity is measured through statistical indicators available from general statistical sources, adequately measuring of human capital stock is controversial in the human capital literature. For labour productivity, there are several recognized statistical indicators that can be used: output per capita, output per worker, output per hour worked. Regarding the measurement of the human capital stock, the things are more complicated. Three general approaches to measuring the human capital stock can be identified in the relevant literature: measures based on educational attainment, measures based on the value of the inputs that enter the production of human capital (input or cost-based approach) and output (typically measured by labour market income) that stems from human capital (output or income based approach).For the purpose of this paper, the second method is be used.

In this method, the value of the human capital stock is calculated as being the depreciated value of the monetary amount spent on investment in human capital. Kendrick (1976) and Eisner (1985) provide seminal examples of this approach.

According to Judson (2002), the average human capital per worker, h , is:

$$h = \sum_i d_i \cdot a_i \quad (1)$$

where:

d_i is educational expenditures for the i level of education, as share of GDP;

a_i is the educational attainment of the labour force

Extending the work of Judson, the human capital stock in the economy can be estimated using the formula (2):

$$H = \sum_i ED_i \cdot EP_i \quad (2)$$

where:

H - human capital stock per capita

ED_i -educational expenditures per student for i -educational level(primary, secondary, tertiary) in PPS based on full-time equivalent ;

EP_i - employment population population with i -educational level.

In order to test the dependency between labour productivity and human capital stock, a linear regression model will be used:

$$Y = \alpha + \beta \cdot x + \varepsilon \quad (3)$$

where:

Y - labour productivity, expressed in Eur/hour

α -constant

β -regression coefficient

x - human capital stock, expressed in thousand Euro

ε -error

The study was carried out in three stages. In the first stage the estimates of human capital, according to the formula (2) was calculated for each of 22 european countries included in the study. The decision of inclusion was based on the availability of data for the period 1996-2010 from EUROSTAT.

In the second stage, the correlation coefficients were calculated (Table 1).

In the third step, the regression equation (3) was used for each country, to test the link between labour productivity and the human capital stock in the economy and the statistical validity of the econometric models was checked.

3.Main findings

3.1. Labour productivity, human capital stock and gross domestic product

Table 1 Partial correlation coefficients, EU countries, 1996-2010

Country	Correlation coefficient between labour productivity and human capital stock	Correlation coefficient between human capital stock and gross domestic product	Correlation coefficient between gross domestic product and labour productivity
Belgium	0,81	0,96	0,85
Bulgaria	0,96	0,98	0,94
Czech Republic	0,99	0,97	0,98
Denmark	0,88	0,95	0,9
Germany	0,94	0,97	0,98
Estonia	0,92	0,98	0,96
Ireland	0,98	0,98	0,89
Greece	0,90	0,99	0,95
Spain	0,96	0,99	0,82
France	0,96	0,98	0,96
Italy	0,52	0,81	0,83
Cyprus	0,99	0,99	0,98
Latvia	0,92	0,99	0,92
Lithuania	0,96	0,99	0,96
Malta	0,32	0,94	0,37
Netherlands	0,97	0,99	0,98
Austria	0,98	0,98	0,99
Poland	-0,09	0,95	0,39
Portugal	0,95	0,97	0,97
Slovenia	0,95	0,93	0,95
Slovakia	0,98	0,98	0,96
Finland	0,97	0,97	0,98
Sweden	0,89	0,97	0,95
United Kingdom	0,95	0,89	0,90

Source: author's own calculations based on EUROSTAT data

Note: Luxembourg, Hungary, Romania were excluded due to unavailable data for all years.

As we can see in the Table 1, in all European countries there are very strong correlations between labour productivity and human capital stock, gross domestic product and human capital stock, gross domestic product and labour productivity. There are two exceptions, in Malta and in Poland. In Malta, labour productivity is weakly correlated with the human capital stock(0,32), but the gross domestic product is strongly and positively associated with the human capital stock. In the case of Poland, there is an inverse correlation between the labour productivity and human capital stock and, as in Malta and other European countries, human capital stock is positively and strongly correlated with the gross domestic product.

3.2. The link between labour productivity and human capital stock in the European countries

Taking into consideration the association of labour productivity with the human capital stock, the European countries can be divided in three groups. The first group includes Germany, United Kingdom, France, Italy, Spain and Italy, where the labour productivity and human capital stock are above the average of European Union. The economic output and the labour productivity (25-50 Eur/hour) in these countries are at the highest level of European Union. There are strong economies where the stock of human capital is better valorised on employment than the EU's average.

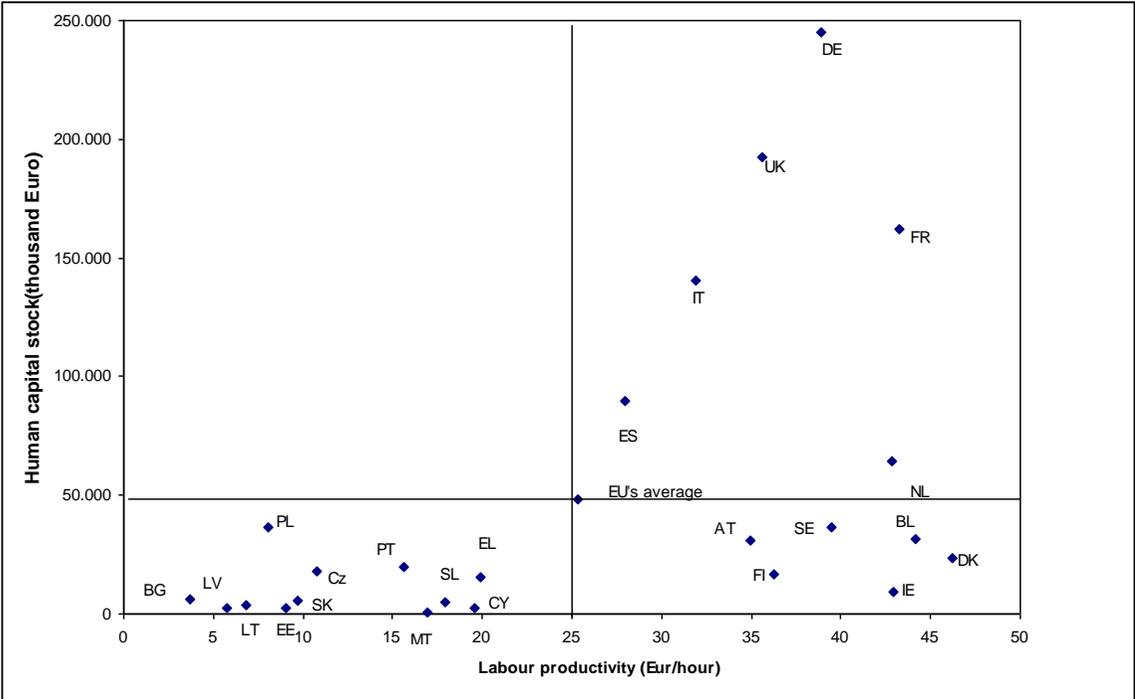


Fig.1 The relation between labour productivity and human capital stock, in European countries, average values for 1996-2008

Source: author's calculations based on EUROSTAT data

In the second group, countries as Austria, Sweden, Belgium, Finland, Ireland and Denmark have the level of the labour productivity above of the EU's average and the level of their human capital stock is under the EU's average. In the case of these countries, the human capital stock has a lower impact on the national labour productivity as the EU's average.

The third group consists of countries with labour productivity and human capital stock under the EU's average (Bulgaria, Poland, Portugal, Greece, Czech Republic, Slovenia, Slovakia, Latvia, Lithuania, Malta and Cyprus). In these countries, the value of human capital stock is under 50.000 thousand Euro and the labour productivity is under 25 Euro/hour.

In order to further analyze the association of labour productivity with human capital stock, the econometric model presented in section 2 was tested for 22 European countries with 1996-2008 data. 5 of the 27 Member States were excluded due to unavailable data for all years (1996-2008). In 20 of 22 countries, the linear regression model was statistically validated. The values of the multiple correlation coefficients between labour productivity and human capital stock indicate a strong positive correlation between these variables. The variation of labour productivity can be explained in proportion of 85-95% by the variation of human capital stock, considering all other factors as constant (see Appendix).

Conclusions

The paper is based on estimation of human capital stock in European countries using the costs method developed by Judson (2002). Empirical analysis of the estimation of human capital based on educational costs weighted by the educational attainment of the labour force are quite rare.

Accordingly, the added value of the paper consists of: (i) the estimation of human capital stock using the educational costs method for the European countries; (ii) the use of these estimates to show the correlation with the labour productivity levels and (iii) testing econometrical models of the dependency between labour productivity and human capital stock in 22 European countries.

The findings of the study show that there is a strong linkage between labour productivity and human capital, expressed as a stock, and differences in labour productivity across the European countries can be explained, in proportion of 85-95% by the differences in the level of human capital stock. The proposed linear regression model is validated in 20 of 22 countries.

Measuring the association of human capital with the labour productivity is important for policy makers, especially in decisions about education spending based on empirical evidence. Due to the fact that policy on education can have many ends other than raising productivity, an interesting and useful task for future research is to explore the details of the institutional and incentive structure that best allocates a fixed amount of educational expenditures.

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Appendix

Regression equations for the european countries

Country	Equation	Statistically validated /not validated
Belgium	$y = 36,95 + 2,49E - 05 \cdot x + 0,93$	validated
Bulgaria	$y = 2,78 + 1,84E - 07 \cdot x + 0,1$	validated
Czech Republic	$y = 4,37 + 3,62E - 07 \cdot x + 0,25$	validated
Denmark	$y = 33,07 + 5,74E - 07 \cdot x + 0,79$	validated
Germany	$y = 23,2 + 6,61E - 07 \cdot x + 0,70$	validated
Estonia	n.a.	
Ireland	$y = 33,8 + 0,0008 \cdot x + 1,16$	validated
Greece	n.a.	validated
Spain	$y = 26,54 + 1,23E - 05 \cdot x + 0,14$	validated
France	$y = 30,93 + 7,59E - 05 \cdot x + 0,73$	validated
Italy	$y = 5,06 + 0,0002 \cdot x + 2,38$	validated
Cyprus	$y = 17,08 + 0,001 \cdot x + 0,14$	validated
Latvia	$y = 3,08 + 0,0008 \cdot x + 0,39$	validated
Lithuania	$y = 4,18 + 0,0008 \cdot x + 0,29$	validated
Malta	$y = 16,51 + 0,0005 \cdot x + 0,81$	<i>not validated</i>
Netherlands	$y = 31,7 + 0,0001 \cdot x + 0,65$	validated
Austria	$y = 19,9 + 0,0004 \cdot x + 0,57$	validated
Poland	$y = 9,1 - 1,5E - 05 \cdot x + 1,86$	<i>not validated</i>
Portugal	$y = 12,36 + 0,0001 \cdot x + 0,13$	validated
Slovenia	$y = 7,94 + 0,002 \cdot x + 0,59$	validated
Slovakia	$y = 4,85 + 0,0009 \cdot x + 0,29$	validated
Finland	$y = 19,26 + 0,001 \cdot x + 0,78$	validated
Sweden	$y = 19,12 + 0,0005 \cdot x + 1,39$	validated
United Kingdom	$y = 28,27 + 4,39E - 05 \cdot x + 0,76$	validated

EVALUATION OF THE STRUCTURAL FUNDS ABSORPTION RATE BY MEANS OF THE HERMIN MODEL

Opritescu Elena Madalina

The main objective of this article is to highlight the main method that could quantify the impact of the structural funds on the Gross Domestic Product. I also presented the regional disparities situation and the European funds absorption rate. The HERMIN model has been designed considering the evolution of macro-variables throughout transition and pre-accession process, as well as out of the need to analyze the gradual alignment of Romania's economic policies to those of EU. The fact that, initially, the HERMIN model was designed for the European Union's less developed economies represented the cornerstone in choosing it, as it was the case for Romania, too. However, the quantitative evaluation must always be accompanied by a qualitative evaluation, in order to comprise factors which cannot be measured by the econometrical modeling. For this purpose, when the results of econometrical model based evaluation are used, it is important to be aware of the fact that models simplify reality, no matter the impressive mathematical calculations they employ.

Also, we must not omit the fact that Romania's major development needs and the current economic context imperatively demand a high as possible level of structural funds absorption, as well as their efficient use, meant to generate a significant impact at a national, regional and local level.

One of the main instruments employed to sustain economic growth, while also reducing disparities between regions is represented by the structural funds. These funds, consisting in financial contributions of the member states, according to their level of development, are redistributed in compliance with an extremely complex regulating and procedural frame, to those EU states of regions which are fallen behind from a social and economical development perspective

Nevertheless, when absorption capacity of a member state is evaluated, the used percentage from the allocated funds is not the only monitored indicator, but also the effects they have generated in that state's economy. This analysis is imperative because at this moment, Romania is facing one of the lowest absorption rate.

Keywords: Hermin model, Structural Funds, Absorption rate, Regional disparities, Regional development

O: Economic Development, Technological Change, and Growth; M: Business Administration and Business Economics; Marketing; Accounting

1. Introduction

At present, Europe is faced with a difficult mission, to exit a deep crisis and to decrease the unemployment and poverty, while performing, in the same time, the transition to a dynamic and competitive economy. In order to achieve this ambitious goal, rapid actions on multiple fronts are required, reason for which The European Council has adopted the Europe 2020 Strategy.

Its key objective is intelligent, inclusive and sustainable growth. Even more than its predecessor – The Lisbon Strategy – Europe 2020 aims to achieve this objective by emphasizing the need for innovation, employment and social inclusion, as well as a vigorous reaction to the set objectives concerning the environment and climatic changes.

The European Union's economic and social cohesion policy must be regarded as an integral part of the Lisbon Strategy (adopted by the European Council from Lisbon in March 2000 for a 10

year period) which aimed to transform Europe by the year 2010, “the most dynamic and competitive knowledge based economy”.

The cohesion policy is also playing a decisive role in this difficult period, by significantly contributing to growth and prosperity throughout the entire Union, while also reducing over time the economic, social and territorial disparities. The objectives of the cohesion policy, also included in the Europe 2020 Strategy refer to the support offered to underdeveloped EU regions in order to reduce the development gap between them and the other EU regions, to counteracting low productivity and economic growth stagnation throughout the European Union by formulating political initiatives meant to be taken over by the member states, to the coordination of EU policies, to the approach of social aspects such as population ageing and environment issues.

One of the main instruments employed to sustain economic growth, while also reducing disparities between regions is represented by the structural funds. These funds, consisting in financial contributions of the member states, according to their level of development, are redistributed in compliance with an extremely complex regulating and procedural frame, to those EU states of regions which are fallen behind from a social and economical development perspective.

2. Regional Disparities

There has been much debate, often justified, regarding the low rate of the European structural funds absorption, having direct influence on the regions’ uneven development. The most recent Eurostat report regarding the development regions’ evolution reveals that in Top 10 regions whose inhabitants have the highest purchasing power, 8 are regions of European capitals. Thus, the first place is held by the Inner London inhabitants, with a purchasing power of 343% (85 800 EURO) compared to the European average (25 100 EURO). They are followed, in order, by The Great Duchy of Luxembourg – 279% (70 029 EURO), Bruxelles – Belgium – 216% (54 216 EURO), Groningen – The Netherlands – 198% (49 698 EURO), Hamburg – Germany – 188% (47 188 EURO) and Prague – The Czech Republic – 172% (43 172 EURO). Among the 40 regions that present a purchasing power of over 125% compared to the European Union average, 10 were from Germany, 5 from the Netherlands, 4 from Austria and The United Kingdom respectively, 3 from Spain and Italy respectively, 2 from Belgium and Finland respectively and one from Denmark, Ireland, France, Slovakia, Sweden and Luxembourg. The eight poorest regions in Europe are all from Bulgaria and Romania. Thus, the poorest region is Severozapaden from Bulgaria with 28% (7 028 EURO) compared with the European average, followed by the North-East Region from Romania with 29% (7 279 EURO), Severen tsentralen and Yuzhen tsentralen, both from Bulgaria, with 30% 97 530 EURO).

In Romania, the regions’ top presents itself as follows:

Region	GDP per capita, EURO	UE27 average %
North East	7 200	29%
South-West Oltenia	9 100	36%
South-East	9 700	39%
South – Muntenia	9 800	39%
North-West	10 400	41%
Center	11 200	45%
West	12 700	51%
Bucharest – Ilfov	28 300	113%

Source: Eurostat

Six regions from Romania are in the “top” 20 poorest regions in the European Union (EU), according to the level of GDP per capita (as calculated according to the purchasing power parity); the “record” belongs to the North-East Region (Suceava, Botosani, Iasi, Neamt, Bacau, Vaslui counties) with a level of only 29% compared to the European average. As one could easily predict, the exact opposite position is held by the capital, the Bucharest-Ilfov Region which presents a GDP per capita level of 113%. Nevertheless, the value the national level reaches doesn't even represent half of the European average. These disparities are not something of a novelty and are proof that there is neither a balanced development policy in the regions, nor a coherent strategy so far as the authorities as concerned. In order to balance the income at a region level, the funding of the programs implemented by means of European funds, as well as Government money should be exclusively concentrated on those parts of Romania that are regarded as underdeveloped.

According to the 2007 - 2013 Financial Perspective, the entire territory of Romania was subject to the “Convergence” Objective, as the GDP per capita in the development regions was below 75% compared to the European average. Also, Romania was eligible to the Cohesion Fund (mainly focused on infrastructure and environment), as the GDP was below 90% compared to the European Union average.

Starting from the aforementioned aspects we aim to highlight the European funds absorption rate and the main method through which the effects of structural funds on Romania's economic evolution could be quantified and through which the main factors that negatively influence the absorption rate could be identified.

3. Structural Funds Absorption Rate

The absorption of the structural and cohesion funds represents one of top priorities for the public administration, companies, farmers and non-governmental organizations. The absorption rate represents the rate at which a country is capable to effectively and efficiently spend the financial resources allocated from the European Funds.

The substantial allocation of funds from the European Union for the period 2007 – 2013, mounting at approximately 20 billion EURO must be optimally used, as it represents a key source for the short, medium and long term development of the Romanian economy and society. Moreover, considering the current economic environment, in which developing countries find difficulties in gaining access to financing on international markets, but also the non-reimbursable aspect of these structural funds, they represent a central element of the budget sustainability, in terms of investment strategy. Romania cannot afford to waste this great opportunity to modernize.

Achieving the objective of at least 90% of the allocation available for Romania is virtually unattainable. At the end of 2008, the status of the Operational Programs' implementation was dramatic, especially in some of the most suggestive chapters: closing of financing contracts with the beneficiaries and the amount of payments towards beneficiaries. For this reason, a set of measures was adopted, concerning the following aspects: improvement and simplification of applicant guides, more flexibility for the financing access criteria, reduction of requirements concerning the documentation demanded for the financing file submission, increase as to double the maximum pre-financing threshold, improvement of legislation regarding public acquisition etc. These conditions led to a visibly accelerated level of absorption throughout the year 2009.

At the end of 2010, in spite of a positive evolution of some progress indicators such as the number of submitted projects, approved projects and signed financing contracts, an extremely low level of structural instruments was being recorded (as calculated based on the reimbursements received from the European Commission), more precisely, 1.9% of the EU allocation for 2007 – 2013. This situation notably contrasted with the absorption level of the EU allocation for 2007 – 2013 (approximately 42.7% on 31 December 2010) and with the internal

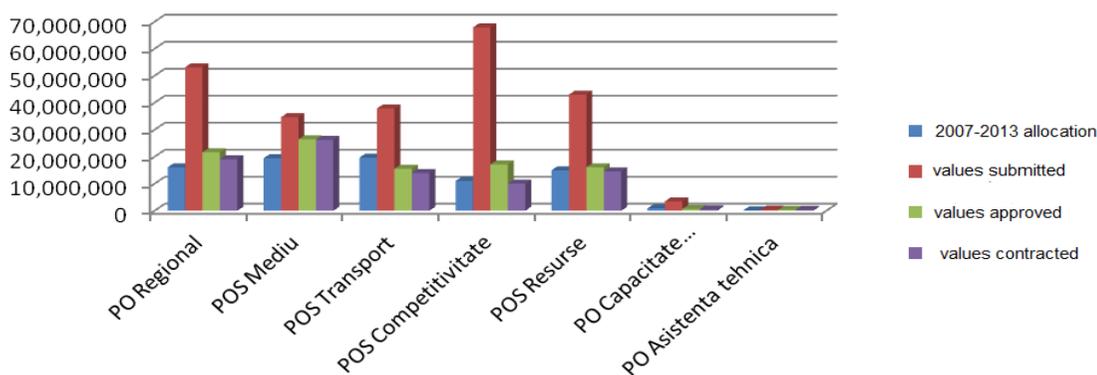
payments towards beneficiaries (pre-financings and reimbursements) amounting to 1.73 billion EURO (approximately 19% of the EU allocation for 2007 – 2013).

Considering the unsatisfactory status of the structural and cohesion funds absorption and aiming to accelerate the implementation of the Operational Programs, the Ministry for European Affairs (MAEur) elaborated and subjected to Government approval “The Priority Measures Plan for consolidating the Structural and Cohesion Funds Absorption Capacity” (PMP). This document aims to provide solutions to the problems and deficiencies that have the greatest impact in affecting the implementation of structural and cohesion funds and comprises measures which are structured in 7 main guidelines: the project cycle management, realized by the organisms responsible with implementing the operational programs; financial regulations regarding the management of Operational Programs (PO) and projects; public acquisition procedures and acquisition contracts; approach of the audit and control activities; the influence of institutions and of procedures outside the scope of the structural instruments management on the projects’ evaluation, closing and implementation process; to provide the structures responsible with PO implementation with an adequate administrative capabilities.

On a medium term, the PMP implementation must lead to avoiding the phase out of substantial funds on the date of 31 December 2013 (when there is the highest phase out risk), and, on the long term, to creating the necessary conditions to achieve the target commonly agreed upon through the National Strategic Reference Framework 2007 – 2013, more precisely absorption of at least 90% of the structural and cohesion funds allocated to Romania.

On the date of 30 November 2011, as presented in Chart no. 1, the total number of projects submitted for financing within the 7 Operational Programs was over 31 172, amounting to a total of 240,5 billion Lei (approximately 56 billion EURO). Of the total number of projects submitted to approval, only a number of 9 823, amounting to a total of 97.9 billion Lei had their financing approved (approximately 22.7 billion EURO, of which 14.1 billion EURO EU contribution, resulting in an approximately 74% of the EU allocation for 2007 – 2013). There has also been a considerable progress in implementation, regarding the number of contracts/ financing decisions concluded with the beneficiaries. Until 30 November 2011, of the 9 823 submitted projects, there were 7 255 signed contracts, with an eligible value of approximately 66.1 billion Lei (15.3 billion EURO, of which the EU contribution amounts to approximately 12.2 billion EURO), representing around 63% of the EU allocation for 2007 – 2013. However, the total payments towards beneficiaries, representing pre-financings and reimbursements (except for VAT refund), mounted to only 13 billion Lei (3 billion EURO). The internal payments of EU funds represent 14.72% of the EU allocation for 2007 – 2013.

Chart no. 1 EU allocation for 2007 – 2013 vs. the value of the submitted/ approved/ contracted projects until 30 November 2011



Source: www.fonduri-structurale.ro – personal interpretation

At the beginning of 2012, an advanced stage has been reached, considering that approximately 67% of the funds allocated to Romania through all Operational Programs (PO) have been contracted. Although priorities at a national level aimed at obtaining an as high as possible level of the projects' submission, approval and contract closing, favoring efficiency to the detriment of the eligibility and the submitted projects' quality, the absorption rate (internal payments), also calculated for all the Operational Programs, is of only 15.60%.

Nevertheless, the new strategy forced an emphasis on absorption and implementation. For this purpose, the responsible authorities declared that, by the end of 2012, they intended to reach an external/ actual absorption rate (payments from EU) of 20% - 25% (considering that, at the end of February 2012 it had reached 6.3% compared to 5.5% at the end of December 2011) and a contracting rate of 90% minimum. The main objective is to avoid phase out by absorption of 8.6 billion EURO by the end of 2013.

4. Evaluation by means of the Hermin model

The HERMIN model is used in several EU member states in order to estimate the impact of the structural and cohesion funds on the national economies, but also to analyze the comparative evolution of the financial transfers necessary to the development of the Euro-regions. The HERMIN model had been adapted in Romania since 1998 and its more recent variant, developed by the European Center for Economic Modeling is entitled HEROM.

The European Structural Funds, as had been proved by the experience of the member states which joined EU in the '80s (cohesion states, Spain, Portugal, Greece and Ireland), have had a powerful impact on the European Union's economies which they had been transferred to. Moreover, the way they were absorbed and their different distribution, according to their destination, for infrastructure or human capital development or directly for economic actions, had a distinct impact in each of the recipient member states.

The Hermin model is estimated to reflect the impact of the cohesion policy, namely the effect of the structural funds on the GDP and employment rate, but also their contribution to the regional development and disparities reduction. The Hermin model is an annual multi-sector model and it includes the processing industry (goods tradable on external markets), market services (goods non-tradable on external markets), agriculture and the government services (non-market).

The structure of the model can best be regarded as consisting in three main blocks: one for the offer, which is distinctly detailed for each of the four sectors, one for the absorption and one for the income distribution. Consequently, the HERMIN model is designed as a multi-sector macroeconomic representation of the national economy, it is a medium scaled empirical model, entirely written in a structural form, it is a dynamic model, based on Keynesian principles.

The economy is influenced by the cohesion policy thorough a combination of offer and demand channels. The effects of short term demand occur as a consequence of political decisions to increase the income and expenses related to the initiatives of the cohesion policy. These effects will propagate in all the internal consumption components (e.g. total investments, private consumption, imports etc.) and in the internal output and national income components. Still, we must limit ourselves to the analysis of short term effects, but rather turn our attention to the long term influences of the cohesion policy, of stimulating the potential offer. Thus, on long term, it is important to consider a quantitative estimation of Community Aid Framework's (CSC) macro economical impact in 2007 – 2013.

The advantage of using this type of model resides in the possibility to quantify the CSC effects on the economy, not only by simply adding the effects. This model is a structural one, constructed on micro economical bases: the side related to the offer includes incorporating the main mechanisms through which the Structural and Cohesion funds influence the productive

potential (direct externalities on the output). Some indirect externalities of the production factors (capital and workforce) are also included.

As the labor market plays an important role in transmitting the policy's mechanisms, a special attention was paid to modeling this sector, by considering the wage policies and labor market regulations (financial aspects etc.) which influence the result of wage negotiations and indicators such as employment rate and workforce participation rate. Special attention is paid to the impact of the cohesion policy on the level of qualification in different sectors and on the human capital's level of education and development. The results of the Hermin model for the year 2010 reveal that the effect on the rate of employment, compared to a no cohesion policy scenario is of +750 000 people (Regional Policy Evaluation, 2010).

The injection of structural funds will lead, at the end of the time frame for the current budgetary exercise in 2013, to a 15% higher GDP, which is the equivalent of a superior annual growth rate of 2%, in case of a total structural funds absorption. As a result, in 2020, the investments will be approximately 20% larger due to the impact of the structural funds, corresponding to an annual growth differential of 0.95%.

As a consequence, a re-estimation of the model so that it considers an absorption rate close to the one in Romania is a necessity, and the results thus obtained must represent a starting point in creating a coherent strategy to attract structural funds.

5. Conclusions

Within this article, we have tried to highlight, starting from the regional disparities situation and the European funds absorption rate, the main model through which the impact of the structural funds on the Gross Domestic Product could be quantified.

The HERMIN model has been designed considering the evolution of macro-variables throughout transition and pre-accession process, as well as out of the need to analyze the gradual alignment of Romania's economic policies to those of EU. The fact that, initially, the HERMIN model was designed for the European Union's less developed economies represented the cornerstone in choosing it, as it was the case for Romania, too. However, the quantitative evaluation must always be accompanied by a qualitative evaluation, in order to comprise factors which cannot be measured by the econometrical modeling. For this purpose, when the results of econometrical model based evaluation are used, it is important to be aware of the fact that models simplify reality, no matter the impressive mathematical calculations they employ.

Also, we must not omit the fact that Romania's major development needs and the current economic context imperatively demand a high as possible level of structural funds absorption, as well as their efficient use, meant to generate a significant impact at a national, regional and local level. Nevertheless, when absorption capacity of a member state is evaluated, the used percentage from the allocated funds is not the only monitored indicator, but also the effects they have generated in that state's economy.

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INFLUENCE OF STRUCTURAL AND COHESION FUNDS UPON REGIONAL DEVELOPMENT

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Regional development and the difference cutback between the development regions of Romania represent the objectives required once Romania joined the European Union. Removing the differences of economic development between the regions among the European Union embodies one of the strategic objectives of the policy of European economic cohesion. In the view of achieving an intra and inter-regional cohesion, we consider that a great significance corresponds to the programmes of non-refundable financing, operationalized by means of structural Instruments of regional development. Highlighting the effects of non-refundable financing upon the economic development of the regions implies the identification of its determinant factors, the dynamic of the absorption level of available funds and a comparative ex-ante analysis during the implementation of the project and another one, ex-post. This is why there will be made a study upon the two Romanian regions with different level of economic development: the West Region (area with a high level of economic development) and the Nord-East Region (area with a low level of economic development). In order to measure the economic differences between the two regions and to highlight the level of economic development influenced by the non-refundable finances allocated by the European Union, we will take into consideration synthetic indicators, relevant for the analysis and comparable in terms of space. Therefore, the specific indicators relevant to the objective of our study are: the GDP - indicator for measuring the level of development, the Unemployment Rate - indicator for characterising the local labour market, and the Average Monthly Income due to its influence upon the standard of living. The research methodology entails a quantitative analysis which will test the validity of the statement according to which the programmes of non-refundable financing influence directly the level of development of a region on its two main components: economic development and social development.

Keywords: Regional Development, Cohesion Funds, Grant Funding Absorption

JEL Codes: R11, R58

Regional development is a priority of the European Union according to the Lisbon Strategy and the Intra and Inter-Regional Cohesion Policy. Currently the EU is structured in development areas called NUTS. Romania is part of the NUTS II development area. Therefore, an equal development of the EU regions is a challenge and an EU objective in order to create a strong and stable economy. Consecutively the European Union member countries are divided into development regions based on the county's proximity criterion of territorial equality of the regions.

EU principles and objectives regarding regional development and reducing regional development disparities between regions of Romania was adopted in national and local strategies, and included in the CNDR framework in 1999 are:

- reduce existing regional imbalances, stimulating balanced development, revitalization of disadvantaged areas;
- preventing the emergence of new imbalances;
- correlation of regional development policies with regional governmental development policies; stimulate interregional and international cooperation that contributes to economic development.

Currently in Romania there are 8 development regions, made up of 4-7 counties, the exception is the region consisting of Bucharest and Ilfov. The territorial organization in Romania took place in 1998 through Law 151/1998, in 2004 a new law being designed in what concerns the regional development Law 315/2004.

Developing regions of our country have been classified by levels of economic development. Each region was assessed based on key indicators such as GDP, income per capita, unemployment rate and SMEs, thus generating a classification of these regions. Regions with higher growth potential are represented by Bucharest - Ilfov, West and North-West, and with low development potential as the North-East Region. In order to achieve homogenous economic development and alignment of economic development, it was necessary to customize development programs specific to each area of development in hand.

Classification of regional development areas in terms of economic development is mainly given by the regional disparity index, through which a classification of regions is achieved. To follow the evolution of the two regions analyzed, in what follows there will be presented the regional disparities index for the period:

	2003	2004	2006	2009
North-East Region	0,723	0,692	0,675	0,676
Western Region	1,129	1,147	1,149	1,140

Table 1 : Regional Disparity Index - Sources: Convergence Programme 2006 - 2009, Government of Romania

According to a Eurostat (2) study, regional disparities (3) in the current new Member States were much higher compared to EU 15 since 1999. From this moment on (1999), except for Poland, disparities have increased in all these states, Romania recorded the strongest growth in this respect - from a report from 2.1 to 2.7 in 2004, between the developed (Bucharest - Ilfov) and the least developed regions (North East) European Union using its programs of pre-accession and post-accession funding supports Member States in the unification of territorial development.

Thus, Romania during accession benefited from grants allocated by region depending on the development of the region and its specificity, such as PHARE, ISPA and SAPARD. PHARE pre-accession funding program was structured in two parts Phare CES and Phare CBC. Non-refundable funds allocated through the Phare CES were implemented by 2010, according to data provided by the Ministry of Regional Development in respect to the contracted projects and payments made.

After accession, Romania due to the GDP of less than 75% of the Community's average all regions are eligible for structural funding financing through Objective Convergence.

So far the regional level is allocated through the Regional Development Fund of the European Union, a funding program allocated according to the development of each region of Romania. This program has allocated different amounts to the development regions according to the regional needs identified. Although each region can benefit from all operational programs established nationwide, the regional operational program (ROP) is allocated to regions offering the possibility to standardize regional economic development in our country.

According to the National Development Plan 2007-2013 Romania's development directions were established by analysis of the situation in Romania on EU priorities, based on which financing directions were established for each operational program.

Due to development disparities between regions in the distribution amounts ROP is different by region. Since the two development areas analyzed, the North-East and West Region disparities identified because financial allocation through ROP differs between the two regions, North

Eastern Region has been allocated an amount of 724.09 million Euros and West Region 458.77 million Euros.

Therefore in analyzing the influence of non-refundable funding on regional development it is absolutely necessary to be analyzed both programs of pre-accession and post-accession funding, thus having a much clearer view on regional development based on the financial support allocated by the European Union.

Due to current economic situation nationwide and the economic crisis we tackle, the only real solution for regional development and the unification of the 8 Romanian regions is the EU support offered through Structural and Cohesion Funds in 2007 -2013, but especially through ROP.

Regional economic development is conditioned by several factors acting directly and indirectly on the regions. These influences can be on social, cultural, economic and political levels but also on geographical factors. For the present study although between all factors there is inter-conditionality and direct connection, the economic factors are the ones analyzed.

In the article published by *CE Cambridge Econometrics European cities and regional development* in terms of identifying factors of influence on regional development, there is specified that they are difficult to identify due to unavailability of data from developing regions, making it difficult to develop effective economic development policies.

The most relevant drivers of regional development in the European Union and the regions in Romania, according to Ronald L. Martin - *A Study on the Factors of Regional Competitiveness* and the *Second Report on Economic and Social Cohesion* (2001) regional competitiveness factors are the following ones :

- Employment levels and the productivity levels of those in employment;
- Employment concentrations in sectors (productivity is highest in business and financial services; in agriculture, productivity is only half the average of other sectors);
- Demographic trends such as outward migration and an aging population have a negative effect on a region's competitiveness (and the inverse is also true);
- Investment as measured by gross fixed capital formation over time (the accumulated stock of capital);
- Investment in knowledge economy assets (R&D, education and ICT, telecoms, internet access are relatively more important than investment in fixed investments, especially in advanced regions);
- Infrastructure endowment (although the report notes that "Every region has its own specific needs in terms of both overall scale of transport networks and particular modes of transport. A minimum level of transport infrastructure is necessary for regional competitiveness, but this is not necessarily the same level in all regions");

- Level and nature of education (for instance share of population with degrees and with IT proficiencies);
- Innovation and RTD (for instance RTD expenditure and patent applications)

According to studies and research conducted on the subject of regional development, it shows that regional development is on a high level of GDP (by region), through high growth rates, with a high purchasing power of citizens (high average income per capita) and by low rates of unemployment. The above mentioned is determined by several factors such as:

- A.Existence of a regional "economic effervescent" displayed by high levels of local entrepreneurship.
- B.Specialization of regions in highly productive and profitable fields productive.
- C.Capacity for innovation and knowledge production. Various comparative studies have shown that the most developed ones (in terms of economic criteria) are those that have a high capacity for innovation and knowledge generation.
- D.Capacity of human resources – it refers to the existence of high education capital. Developed regions enjoy a well-developed labor market and have the ability to attract and keep highly qualified human resources, especially in highly productive areas.
- E.Infrastructure and accessibility - developed regions have high levels of economic growth because, by the quality and density of communication and transport infrastructure, they can "reduce distances" reducing the transaction costs between persons and companies.

According to European Competitiveness Index the indicators used to measure regional competitiveness in terms of economic performance are:

- Regional GDP / capita
- Labour productivity
- Unemployment rate
- Employment rate on long-term (indefinite contracts)
- Monthly gross income
- Activism rate (active pop in total population)

In order to observe the influence of non-refundable funding on regional development we will analyze two development regions of Romania, the North-East region (one of the least developed regions) and the Western Region (region ranked on the second position in terms of economic development). The analysis of the two regions is based on the absorption of non-refundable funding and on the economic development indicators: total regional GDP and per capita, unemployment rate, employment rate and monthly average net nominal earning - data collected from the National Statistics Institute.

Grant funding absorption

According to reports at regional level offered by Regional Development Agencies regarding the Regional Operational Program, the following situation arises:

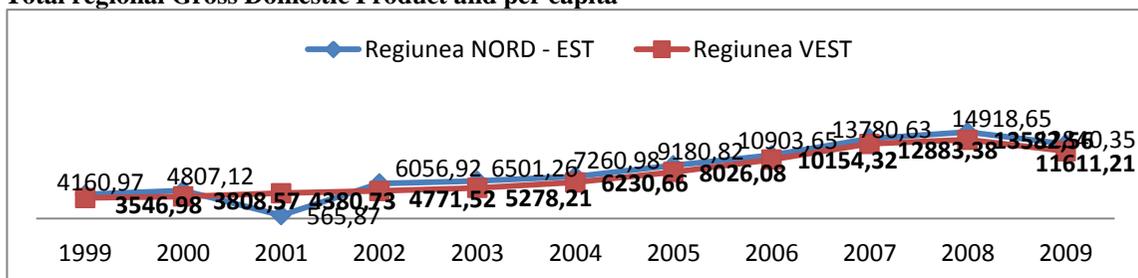
- West Region - currently contracted projects worth 390.35 million Euro grant value representing 92.73% of total amount allocated.
- North East Region - currently contracted projects worth 601.29 million Euro grant value representing 91.28% of total amount allocated.

Hence we can notice that in the development between the two regions there is a difference in terms of percentage value grants, but the amount of different contracts, with a contracted value of the grant is greater in the North-East Region due to the difference of the amount initially allocated between the two development regions.

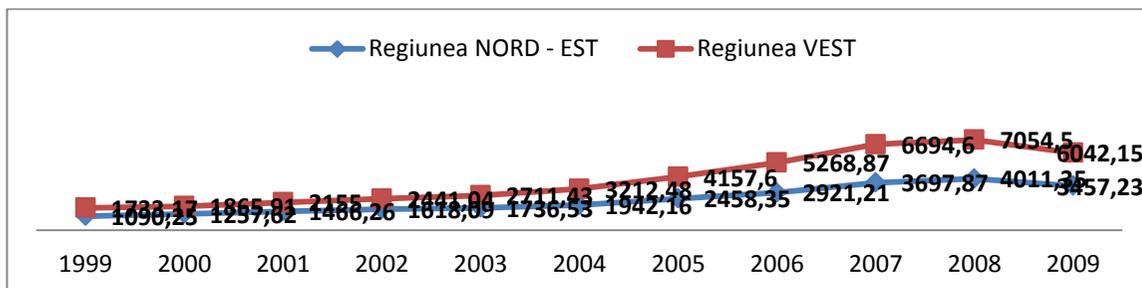
According to studies and reports in this field, the North-East Region is considered to be the winner in absorption grants such as PHARE, SAPARD and ISPA, which proves the ability of economic recovery as evidenced by the article "Moldova wants to leave the area position of the poorest in the EU" published on *Stiri financiare in timp real (Financial news in real time)* in 2008.

Absorption index of PHARE on regional level in the West region was of 84, 7% according to *Analizei de Impact a Finantarilor Nerambursabile Alocate regiunii de Vest si Gestionate de ADR VEST in perioada 2000 – 2008* developed by West ADR in 2009. As indicated earlier, we can conclude that in terms of grant funding absorption, the North-East Region is more interested in attracting grant funding although initially it was classified at the end of the ranking in terms of regional development. This may be due to the inability to identify other sources of sustainability and economic development in the region due to the current situation of economic crisis. Although the West is more developed economically we can observe a real interest in attracting grant funding, identified as a way of developing the regional economy. In order to study grant funding involvement on the regional economy it is necessary to follow the main indicators of regional development in the period 1999 - 2010 compared between the two areas.

Total regional Gross Domestic Product and per capita



Graphic 1 Total Regional Gross Domestic Product- euro million



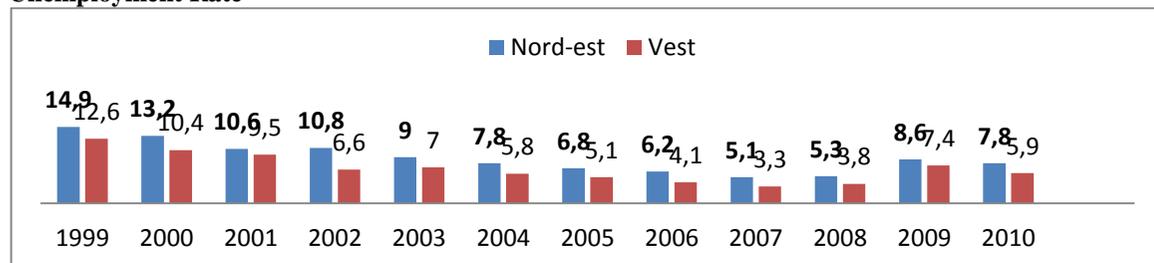
Graphic 2 Regional Gross Domestic Product per capita – euro milion

According to data collected from the National Statistics Institute of Romania in terms of regional Gross Domestic Product and per capita gross regional domestic product and their processing in the two regions of development we can observe the different and chaotic evolution compared between the two regions.

Regional gross domestic product in North-East has higher values than in the Western Region, but the trend of growth and decay evolves similarities between the two regions but with a much smaller decrease in the Western region than in North- East ,especially starting with 2008 with the advent of economic crisis, lifting out the economic stability of the Western Region compared to the North-East.

In terms of gross regional domestic product per capita, it differs from the evolution of its gross domestic product. This contradicts the total regional GDP according to data, regional GDP per capita is higher in value than in the Western Region than in North-East and its trend during 1999 - 2009 is much more significant in the West than in the North East although in the evolution of this area regional GDP / capita is growing. A significant mark on the indicator was added by the economic crisis in Romania since 1999 which caused a decrease of the indicator, but higher in the Western Region than in North-East contradicting the total regional GDP.

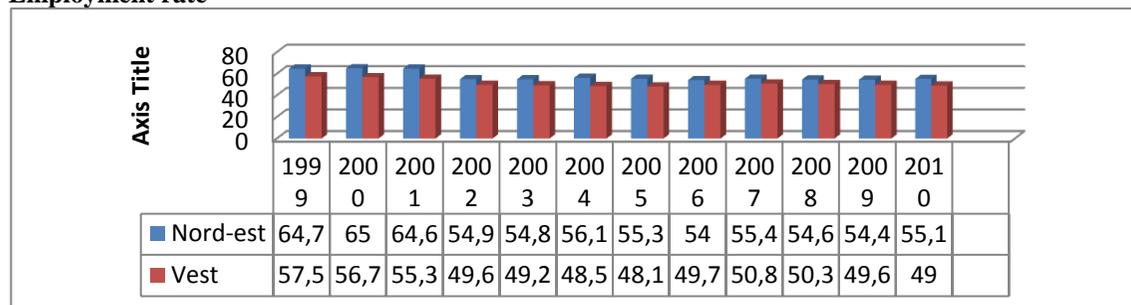
Unemployment Rate



Graphic 3 Unemployment Rate

Evolution of unemployment rate in the two regions analyzed presented in the previous chart highlights a higher unemployment rate decreased in the North East than in the Western Region. The percentage of the unemployment rate fell in the North East region in the analyzed period total of 7.1 demonstrating concern this area to reduce disparities in economic development of regions and to maintain jobs and even by creating new jobs. Although the Western region has economic growth and a high economic potential greater than the North East region, in the analyzed period, the unemployment rate fell to 6.7 percentages only, which may result in the case in which this development in the future maintains to a uniform indicator of the economic development impact, on the equalization of the two regions.

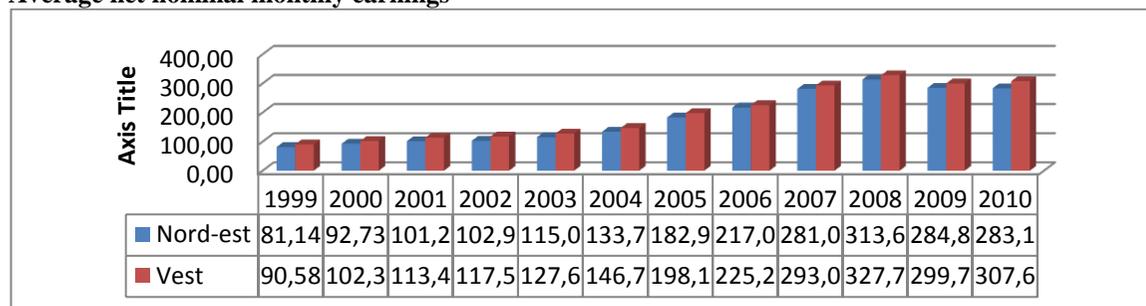
Employment rate



Graphic 4 Employment rate

Regarding the employment rate of population in the two regions its fluctuation is greater in the North-East rather than in the Western Region, however the employment rate is much higher in the North-East, which shows the existence of several jobs and a greater number of people employed. A significant difference between the two regions of development started in 2008, together with the economic crisis, as in the North-East the employment rate has decreased initially insignificantly in 2009 and in 2012 has a nearly percent, while in the Western Region the employment rate since 2008 continues to decrease by up to 0.7% annual rate.

Average net nominal monthly earnings



Graphic 5 Average net nominal monthly earnings - euro

The average monthly earning is higher in the Western Region than in the North-Eastern Region, and the tendencies of growth or decrease between 1999-2010 have the same trend. Given the development of both areas this trend is normal and real.

Conclusions

Using data presented and trends of the indicators but also the absorption rate of grant funding we can conclude that their effect is much stronger in the North-East than in the West, with a greater impact on population and economic development in the two regions analyzed. All in all the employment rate is an indicator that illustrates that during the crisis in the North-East it grew, the main driver of this growth being the grant projects that created jobs, leading to lower unemployment and employment increase of the population.

Another indicator the evolution of which is much better in the North-East, is the unemployment rate and the gross domestic product that also can be influenced in part by grants through regional economic recovery. The greatest contradiction which highlights the profile of regional economic development is the per capita gross domestic product whose value is much higher in the Western Region than in the North-Eastern Region, which proves the economic potential of regional development of the Western Region.

Another important aspect observed is the awareness of the North-East that the grant is the main source of economic development especially during the economic crisis that Romania is still facing. As discussed we conclude that regions with lower economic potential are more interested in attracting grant funding and the rate of absorption and the amounts raised are higher than in areas with high economic development potential.

The major challenge is still represented by having homogenous regions with or without economic development grants allocated to the economic development regions.

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THE FAILURE OF INDUSTRIALISM IN COMMUNIST ROMANIA

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This work aims to present the exact thinking and action of the Romanian Communist leaders that had as declared purpose the Romanian society's prosperity company. This falls into the line drawn by the Communists, but in the case of Romania the ambitions were far above the country's potential.

In order to understand the situation of the national economy in the past two decades we must take into account the manner in which they have carried out economic policies in the Communist leadership. This marched on exacerbated development of manufacturing industry by capital goods to the detriment of the goods consumer industry, which generated a series of social tensions.

The economic objectives of Communist Romania were limited for the exacerbated development of the industrial sector. Its presence of economic policy measures implemented in our country shows that the authorities had in mind a self-sufficient industrialization by providing greater care than conventional industries, with high energy consumption. This unprecedented enhancement for national economy was made possible by the contracting of foreign credits And this began to give increasing and more frequent misfires when the world was hit by the resources of the crisis. The falling of the national economy has been Romania unable to repay loans on time. The obsessive decision of the authorities was to fully pay off foreign debt in order to allow new investment in construction of some megalomaniac industrial sights, that could hardly be effective. Thus, there was no link between the overall targets of national economic policies and the needs of the company. In this work are chronologically and factually shown all the decisions adopted in the industrial policy in Romania. Certainly that at the beginning of massive industrialization results seemed to be at least some optimistic, but after the population had passed through various serious situations (floods, earthquake) to what degree very hard decisions devoid of rationality regarding the impulse energofag industry. Inevitably the complaints gathered, the economic system implemented by the Romanian communist authorities collapsed. Eventually, the economic system imposed by Ceaușescu collapsed because of his desire to increase in the country's industrialization. Basically he shown the limits.

This paper seeks to show how faithfully the faulty module was designed during the development of the country's Communist leadership.

Keywords: industrialization, communism, Romania, national economy, energofag industry

JEL Code: E 61, L 52, N 14, O 25, O 52, P 21

Introduction

The industrialism can be defined as an orientation in the economic thinking which envisages the development of industry and its raising to the level of the economy main branch or an economic theory which grants the preponderance of industry in economic activity. Therefore, it is a system that considers economy as main objective of industry's development.

The socialist system was established on the basis of the historical experiences gained in the first half of the 20th century and had as its main objective to establish an industrialized society in countries that were usually in a precarious level of development. During the establishment of the Communist political regimes, the classic system of socialism outlined during Stalin and implemented as a model in most countries of the European Socialist was repressive and ineffective, i.e. it obtained results in economic development with the price of a high consumption

of resources (Murgescu 2010: 403). This happened because the Socialist property determined a net split between ownership and management. The high consumption of resources was possible because the system pursued only macroeconomic efficiency that could hide the inefficiency at firms level to which it was added the falsification of reported data that became a phenomenon. The national economy analysis and of the unbalanced relations between the different economic branches shows that are the result of a relationships mix between the production factors that were simultaneously Socialist (by removing the private property over the means of production), capitalist (by keeping economic coercion of labour selling and the impossibility of controlling the use of the added value by the producers) and pre-capitalist one (by non-negotiability of working conditions and coercive organisation of labour) (Murgescu 2010: 404)

Forced Industrialisation

In 1955, at a Conference in Geneva, has raised the question of withdrawal of the Soviet army from Romania, but was completed in 1958. It is interesting that afterward plan of finalization of collectivization was resumed.

It was switched to an independent attitude towards the Soviet Union, so it was switched from a internationalist onset to a national one. In the beginning the nationalism risen from economic sources (During the Council for Mutual Economic Assistance— CMEA, Romania was assigned a minor role in the vision of past Romanian leaders by the fact that it was wanted to become an agro alimentary main source, as opposed to the German Democratic Republic or the Czech Republic that were to follow the path of a strong industrialization). The position of economic independence towards the USSR decisions within CMEA is the decision to build in Galați the largest the steel works in the South-Eastern Europe.

During the quinquennial of 1965-1970 the medium pace of economic growth was 7.7%, and the one of the industrial production was 11.8%, although there are opinions (1) that this data was inflated. In the early '70 of last century, Romania recorded the second rate of economic growth in the world, after Japan (Jivan, Pațac 2004: 112). Thus, Romania had a growth of national gross product of 9.4% and 8.4% of the gross domestic product per inhabitant (Iancu 2003: 48). However, the year of 1970 represented the last year of the quinquennial, and planned growth was 12% (2). In May 1970 were very large flooding, and the agricultural output decreased by 5% towards 1969 (the overall plan of agricultural production has been achieved to 80%, the biggest problems were for the potatoes 47%, vegetables 56% and cereals, 70%).

The problems in agriculture have tried to be dimmed by the rise in the industry, but it has not reached the quinquennial plan. In the 1970s the social problems were sharpened. The investment plan has been exceeded, but the salary was increased only with 8% and it was spoken that they ought to have decrease (Burakowski 2011: 147). This is a sample for the inefficiency of investments made. a lot about increase labour productivity was taken into discussion, but now it is proven to be an unattainable wish. Moreover, after the spring floods, Romania called for international help, but all that she got was channeled towards the development of the industrial sector, the disaster victims receiving few benefits being obliged to register on the waiting lists and lose many hours on queue in order to receive construction materials to rebuild the affected endowment.

In 1971 the problems have continued to widen, thus it has established control over the economy and high labour productivity and attempted to gain credits. It appears that instead to deal with the causes elimination of the Romanian authorities crisis it had considered stepping up industrialization. It was planned to increase industrial production annually by 11%-12.2, and accumulation of national income to be annually at around 16 %, in previous quinquennial, to 34%.

In 1973 the Romanian situation worsened, amid the onset of the crisis. Before the outbreak of the crisis was adopted a plan to tackle energy shortages (finding new deposits of hydrocarbons and

even Atomic Central construction), but realised energy surplus and that was supposed to be exported has been used to avoid losses and further stated investments.

In 1974, the issues were far from being exceeded, the production (including agriculture) and investment has not been fulfilled, which has led to a worsening of the food shortages of the population. However, in November 1974 at the 11th Congress of the Romanian communist party's the economic condition was considered a positive one. The officials arguments were that, towards 1971, the industrial production annually grew on average by 13.2 %, agricultural output by 7.4%, national product with 11.6% and 10.6% per capita income growth, but the population was only 7.1%. Was insisted on the fact that all these results have been obtained in spite of the unfavorable global context, but also of the natural disasters effects (the floods).

In 1974 began a period of stagnation of the Communist system, resulting in a deterioration of the national economy state. Until 1977 the officials didn't give it too much importance. The economy resisted on account of a permanent financial assistance that was assured until the late of the 1970s. In 1975 remained below the rate of increase in the industrial production of about 12%, but food shortages were sharpened, particularly in small towns and villages, but soon they started and the cities most important because people tried to do provizi and for the Nations from the villages. In July 1975, the country had strayed very large floods. The consequences have been over estimated by the officials in order to justify internally the satisfactory shortage.

The process of industrialization continued in order to increase the accumulation rate from 30-32% to 33.5% in 1980. The Romanians were based on technologies and their technic thinking also on the imports reduction, [simultaneous](#) with exports stimulation. This led to a poor supply of the internal market and, consequently, the standard of living and the mood of the people was degraded.

The Communist authorities have said that also in 1976 the macroeconomic results were positive. Industrial production increased by 11% as a result of a substantial increase in labour productivity. Rise of agricultural production was 17.2%, on the basis of the record harvest of sugar beet, potatoes, grapes, as well as cereals and other agricultural products (Burakowski 2011: 202).

If the trends of the 1960s-'70s would be maintained, Romania improved the position against the US, from 11.7% - 14% in 1970 to about 50% in 2000 (Iancu 2003: 51). Therefrom reveals the enormous gap that the Romanian economy had to recover.

The economic decline

The earthquake from the 4th of March 1977 is considered by many the symbolic start of the communism end in Romania. The earthquake has had very serious consequences: 1570 people lost their lives (nearly 1400 only in Bucharest), over 11,000 people were injured of whom approximately 7500 in the capital. Around 35,000 of people were left without housing and over 750 of the economy was affected, the material damages were estimated to 10 billion lei. Under these circumstances, Ceaușescu (in those days was away with his wife on a visit to Africa and returned immediately) was forced to institute the state of necessity in the country until March 10, while in Bucharest until March 15.

In 1977 the investment rates were risen associated with the quinquennial 1976-1980, the social problems have been accordingly stuffed into account. Ceaușescu appreciated that the essence of the crisis boils down to lack of balance between allocations for investment and living standards of the people.

Ceaușescu considered that the exaggerated social expectations represented the root cause of the complaints. The inability of the economy became apparent to the public, but also for leaders (tacking into account the miners strike in the Jiu Valley, to which was attended by more than 30.000 miners).

All these events, as well as the economic collapse that followed have splintered a lot the Romanian's prestige. However, it was more appreciated at international level until 1981 when it

became evident that the Romanian economy was totally exceeded. This position was reached because the policy of massive ineffective investment, badly designed and applied with some intermittently failed to produce the expected effects of the Romanian Communists. Romanian products were poorly competitive on export, the intensive paranoid decisions of the industrialization lead to increased imports of machinery, equipment and Western technologies, and thus trade balance was poor, with all Romanians' constant efforts. Moreover, Western analysts lacked confidence in the forecasts of the Ceaușescu regime (Burakowski 2011: 265).

The very heavy economic situation determined Romania that at the end of 1981 to ask its creditors to defer payment (this was recommended by the International Monetary Fund in early 1982) were at 11.4 billion dollars (Harrington 2000: Courtney, 454-455). As if this were not enough, a number of multinational companies have withdrawn from Romania, from 62 in March 1982 have left only 22 representation of some transnational companies (Burakowski 2011: 272)

Romania have pressing needs of resources, raw materials, but this claim (especially of energy resources) was raised throughout the Soviet bloc. For the national economy the disastrous decision has been unwavering in its determination of the payment in full of the foreign debt.

This decision shows the determination but also the desperation of the Romanian leader to escape from the foreign influences. The trend of total autarky continued, and in this context, the standard of living of drastically diminished.

On 11 March, 1985 in Kremlin the power was taken over by Mihail Gorbaciov. It may be considered the key moment or the start of the collapse of the Communist system in Romania. This is because between the frozen concepts of Ceaușescu's and those of Gorbaciov, more open and viewing has been formed a growing gap as the time passed. Romania was increasingly isolated, which was reflected upon the country's economy. In 1985 the economic exchanges with other countries decreased by 5.5%.

In the last decade of leading authoritative, the Romanian economic system stepped into a crisis, a systemic crisis, with many facets. The Romanian economy's crisis falls within the coordinates of the socialist system, State monopolist with peculiarities determined by the its dogmatic (Dobrescu, Postolache 1990: 32).

The forcing rate of investment in the 8th decade was the expression of the foolish wishes of Nicolae Ceaușescu that this is the only viable alternative for economic success and the Romanian society. In absolute terms, the annual volume of investments increased from 6.3 billion lei in current prices in 1950 to 27.6 billion lei in 1960, nearly 80 billion lei in 1970, 210 billion lei in 1980 and a maximum of 249 billion lei in 1986, and then until 1989, when it was of 236 billion lei (***) - Anuarul 1990: 526-527).

Table no. 1- GDP dynamics/inhabitant in the European socialist States, 1980-1989 (1980 = 100)

Country \ Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Albania	100	100,6	101,1	101,7	102,3	102,8	103,5	104,1	104,8	105,5
Bulgaria	100	102,3	105,4	103,2	106,4	103,0	105,6	105,6	104,8	102,8
Czechoslovakia	100	99,1	100,8	102,1	104,2	104,8	106,6	106,9	109,1	109,8
Jugoslavia	100	101,2	101,4	101,8	103,9	104,3	108,2	106,6	104,8	103,0
Poland	100	93,8	92,1	95,8	98,4	98,6	101,0	99,0	100,9	99,0
Romania	100	98,8	98,5	97,4	101,0	100,6	101,9	99,4	98,8	95,3
Hungary	100	100,7	104,4	103,5	106,4	104,0	106,2	108,1	111,5	109,5
Union of Soviet Socialist Republics	100	100,1	101,7	104,0	104,3	104,3	107,6	108,0	109,4	110,5

Source: Madisson Angus – *the World Economy: Historical Statistics*, Paris, Development Centre of OECD, 2003, p. 101 (Murgescu B. – *România și Europa. Acumularea decalajelor economice (1500 – 2010)*, Editura Polirom, Iași, 2010, p.396)

The energy policy of the authorities took a leading role in the failure of haynie in the 1980s. The dynamics of the national economy in the context of the European Communist bloc is presented in table no. 1. It is characterized by poor economic growth in the Communist bloc. The whole block is observed that only Poland and Romania have had a declining economy. Starting from this situation Silviu Brucan appreciated that the industrialization policy of Romania (of those years) was an "underdevelopment" policy (Brucan 1990: 47) sending country to the third world. (Brucan 1990:38).

The failure of industrialization policies of outliers is given by the over consumption of production goods obviously accompanied by a substantial increase in spending on maintenance and repair (from 21.7 billion lei in 1975 to 80 billion lei in 1985), which inevitably leads to a very reduced productivity (Hitchins, 1996: 420). The volume of unused industrial production capacity increased from 358,4 billion lei in 1985 to over 400 billion lei in 1989 (Ionete 1993: 76).

Meaningful is the comparison of normate service term of production equipments in Romania and in other countries. In developed countries this term was under ten years (in the United States of America was 6 years in Japan was 5-6 years), while socialist countries was less than ten years (in the Soviet Union was 12,5 years, in the German Democratic Republic for 16 years, while in Romania it was 20-30 years) (1993; 90 Ionete).

The industrialization conceit, the megalomania and the anomaly thinking of the Romanian leaders stands out by the organization of the educational system. The first step led to this situation was taken in 1974 by the provision that the unambiguous party "in schools of all grades, in the process of education will organize the effective participation of teachers and students in productive activity", so it has been used as a cheaper work labor (students who were entitled to 20% of the value of work done) (Murgescu 2010: 388).

In 1977 the network of highschoools has been restructured, being dismantled high real-humanities and replaced with narrower profiles (mathematics-physics, philology-history, science of nature, etc.), but redistribution of seats in favour of industrial profiles (table no 2).

Table no. 2- The weighting of the various types of highschoools by the number of students enrolled(%)

Period	1968/1969	1978/1979	1988/1989
Type of high school			
Math-Physics	80,1	11,4	3,1
Science of nature		1,3	0,6
Philology-history		4,4	0,6
Pedagogy	3,5	1,0	0,4
Sanitary	0,1	1,2	1,0
Art	0,7	0,4	0,1
Economics	5,3	4,1	3,8
Industriale	4,4	67,7	71,1
Agricultural and silvan	4,7	8,5	19,1

Source: Constantinescu N.N. (coord.) – *Istoria economică a României, vol. 2, 1939 – 1989*, Editura Economică, București, 2000, p. 336

Another unmatched anomaly in any country (Sadlak 1990: 60) happened in the last Communist decade when the students of the weight in the engineering field consistently exceeded 50%: 56,1% in the academic year 1978/1979 and 68.8% in 1988/1989 (Constantinescu et al. 2000: 336).

Conclusions

The industrialism introduces an order which is removed from the knowhow and alienate us from where we were born. He applied the same methods and technologies in any country. Thus, the industrial economy is inherently aggressive. Causes a wreckage in order to enrich the above measure to another location.

Introspection development of national economy in the Socialist period indicates that this was a "forced", specifies all the Soviet bloc economies (Kornai, 1992: 197). In Romania the Communist leadership ambitions led to a linking of decisions which have not achieved the ultimate goal, the improvement of social life. The Romanian economy was a demand-driven economy, particularly the offer of prodfactori at the expense of consumer goods production, and much less a demand-driven economy, which would have its connection to national consumption requirements.

The Communist regime relies on a long book as evidenced by losing: chaotic accumulation intensively (common plan of dictatorial regime) and also autarhic of the capital. It was pursued classical industrialization rejecting purposely the development of the capitalist countries. And when this fact was obvious, Romania has not actually changed the siding. This shows that the authorities were frozen and lacking in vision. Normally would have had to act on the directions in which the gap was not so high and the chance of recovering the gap was larger.

The foreign debt payment ought to mean economy and social life ungridle, but it was not like that. Despite its ambitious programmes, of the efforts made by the Romanian society as a whole and of religious sacrifice imposed on the population, the Communist regime has failed to solve the problem of relative undevelopment of Romania in the European context.

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Notes:

- (1) It is about the analysts of Polish Embassy in Bucharest
- (2) According to Burakowski Adam, who had access to notes and of the Polish Embassy in Bucharest of that time, in 1970 only 7.7% was obtained.

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THE ANALYSIS OF POPULATION MORBIDITY RATE DUE TO INCREASED ENERGY DEMAND

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Sustainable development as general acceptance is that form of ensuring the bio-socio-economic needs of the present generation without affecting the existence and development opportunities for the generations to come. Secondary, the concept refers to the protection of the environment that is at present greatly affected by externalities of the socio-economic activity of previous and present generations. As it is shown in this paper the negative effects of the environmental pollution records higher and higher values in a short period of time of which we analyze their impact on population health, focusing on the situation of Romania.

I started the analysis from the assumptions that the health of an organism is a normal physical and physiological state, being the opposite of the concept disease. The most common diseases are: hereditary, infectious, internal, infantile, autoimmune, allergic, socio-professional, tumorous, degenerative diseases etc. Of these infant, allergic, tumorous and autoimmune diseases are mainly generated by environmental pollution. Extremely special, regarding the incidence of harmful environmental factors, are the socio-professional diseases or of civilization that are represented by those diseases that are more common in industrialized countries than in the so called third world. In respect to air pollution-generated illnesses with products resulting from burning fossil fuels are highlighted respiratory diseases, immunological diseases, benign and malignant neoplasm of the airways and also dermatitis.

Most activities follow sooner or later to increase welfare. Economic growth, environmental protection as well as fulfilling social needs of individuals are only a few elements that lead to the increase of population welfare. If we accept the above mentioned things, then it means that promoting the realisation of sustainable development based on clean and renewable resources and the rationally using the conventional ones is an objective to be supported and of course achieved.

Key words: sustainable development, population morbidity, fossil fuels, energy,

JEL codes: P48, Q56, Q32

The environment has also suffered a lot of change mainly due to increasing production. In a report realised by Millennium Ecosystem Assessment, conducted by a group of 130 experts from 95 countries, it was demonstrated that 60% of the ecosystem is essential to maintain life on Earth. This ecosystem is in constant decay. Specialists have been trying to quantify the exact figures, from economic point of view of the impact pollution has on the environment, but this objective is almost impossible to achieve. For example, the extinction of some plants and animals that man has not consumed for food and used for some purpose has no direct implication on humanity but none the less represents a loss to the ecosystem. And considering all these World Bank annually estimates that environmental degradation costs ranging between 6 and 10% of the annual GDP. (Millennium Ecosystem Assessment, Climate and air pollution)

Table no.1 Review of air pollutants resulting from burning fossil fuels

Produced pollutants	Responsible fossil fuel
Global climate change and oceans' acidification Carbon dioxide (CO ₂)	Burning coal produces more CO ₂ than oil and more oil than natural gases
Methane	Methane that arises from the use of fossil fuels derives from retrieving coal and oil and gas pipe leaks.
Acid deposition Sulphuric acid and sulphate Nitric acid and nitrates	The sulphuric acid and sulphate are formed in the atmosphere from SO ₂ . Nitric acid and nitrates are formed in the atmosphere from NO _x .
Ambient air Sulphur dioxide (SO ₂)	SO ₂ is emitted in large quantities by coal burning plants and in smaller quantities from burning oil and natural gases
Nitrogen oxide (NO _x)	NO _x forms - not from fuel but from a reaction between nitrogen and oxygen during combustion at high temperature. From motor vehicles predominantly in urban areas and also power stations.
Carbon monoxide (CO)	CO is a product of incomplete combustion. In urban areas up to 90% is from burning diesel oil.
Ozone (O ₃)	O ₃ isn't a primary pollutant but is formed from precursors. Motor vehicles are the main source of NO _x and VOC _s that lead to O ₃ .
Particles	Particles are emitted from burning coal and to a lesser extent from burning oils. Metal particles are emitted as particles except elementary mercury.
VOC _s	Hydrocarbons are most of them VOC _s emitted from burning diesel by motor vehicles.

Source: Millennium Ecosystem Assessment, Climate and air quality, available online at: <http://www.maweb.org/documents/document.282.aspx.pdf>, accessed on 14.12.2011

The toxic effects on the developing embryo or foetus during development are of deep concern. Beyond the obvious congenital malformations, scientists express their concern for mother's exposure during pregnancy to certain toxic substances in the atmosphere that can have a negative impact on the health of the child. Then, infants and young children, often but not always present a higher sensitivity to toxic substances in the atmosphere than adults, this being due to the fact that their immune system is incompletely developed thus being less protected against these harmful substances.

Table no. 2. The number of patients discharged from hospital suffering from congenital malformations, deformities and chromosomal abnormalities

Year 1994	Year 1995	Year 1996	Year 1997	Year 1998	Year 1999	Year 2000	Year 2001	Year 2002	Year 2003	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009
<i>UM: Thousands of persons</i>															
Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons
20	21	21	22	23	24	26	29	29	29	33	32	45	38	32	32

Source: National Institute of Statistics, available online at: <https://statistici.insse.ro/shop/> , accessed on 26.10.2011

Another explanation of this phenomenon is given by the fact that underage individuals, breathe faster than adults. So, if the air is polluted, they inhale a larger amount of emissions. For example, a child in an industrial city inhales on average of 110 ng benzopyrene, an amount equivalent to smoking three cigarettes a day. Thus, statistical data strongly highlight the evidence that pollution is a significant cause in increasing asthma and allergies rates especially among children in urban areas of the developed countries. (Hill K. Maquita, 2010:80)

In order to demonstrate those stated above in the following we will analyse the evolution of health situation in Romania, respectively we will see how the evolution of main diseases caused by air pollution is.

Table no. 3. Number of patients discharged from hospital suffering from tumours

	Year 1994	Year 1995	Year 1996	Year 1997	Year 1998	Year 1999	Year 2000	Year 2001	Year 2002	Year 2003	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009
	UM: Thousands of persons															
	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons
Tumours	194	201	215	225	237	245	316	343	332	321	327	276	323	325	397	405

Source: National Institute of Statistics, available online at: <https://statistici.insse.ro/shop/> , accessed on 26.10.2011

It can be noticed that the number of these has increased almost constantly since April 1994 until 2009. Specifically by 2001 the number of patients affected by tumours has increased constantly. An explanation can be the fact that Romania was an industrialized country until 1989, but unfortunately these were also highly polluting industries mainly due to existing technology of the time. Then, after 1989, step by step some of them were closed because they were considered unprofitable, thing that can be seen in the evolution of the number of patients that were recorded, evolution which registered a downward trend during 2001-2006. When Romania's situation began to recover, specifically to record significant economic growth the number of patients began to grow.

Table no.4. The number of patients discharged from hospital with nervous system diseases found in the public sector

	Year 1994	Year 1995	Year 1996	Year 1997	Year 1998	Year 1999	Year 2000	Year 2001	Year 2002	Year 2003	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009
	UM: Thousands of persons															
	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons
Nervous system diseases	201	194	201	207	214	215	248	264	253	252	253	217	249	238	256	257

Source: National Institute of Statistics, available online at: <https://statistici.insse.ro/shop/> , accessed on 26.10.2011

The same phenomenon can be encountered in the case of the individuals with nervous system disorders. Even in this situation can be observed the same trend in respect to evolution of the number of patients.

Tabel no.5. The number of patients discharged from hospital with respiratory system diseases found in the public sector

	Year 1994	Year 1995	Year 1996	Year 1997	Year 1998	Year 1999	Year 2000	Year 2001	Year 2002	Year 2003	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
	UM: Thousands of persons																
	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons	Thousands of persons

	ns																
Respiratory system diseases	595	639	597	656	655	621	676	692	747	723	691	683	603	649	616	634	639

Source: National Institute of Statistics, available online at: <https://statistici.insse.ro/shop/> , accessed on 26.10.2011

Table no.6. The number of patients discharged from hospital with circulatory system diseases found in the public sector

	Year 1994	Year 1995	Year 1996	Year 1997	Year 1998	Year 1999	Year 2000	Year 2001	Year 2002	Year 2003	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009
	UM: Thousands people															
	Thous and	Thous and	Thous and	Thous and	Thous and	Thous and	Thous and	Thous and	Thous and	Thous and	Thous and	Thous and	Thous and	Thous and	Thous and	Thous and
Circulatory system diseases	445	459	471	486	492	507	614	646	628	608	625	560	682	609	657	682

Source: National Institute of Statistics, available online at: <https://statistici.insse.ro/shop/> , accessed on 26.10.2011

Most frequently encountered theories in the specialised literature are those that argue that economic progress is the one that increases life expectancy. But what they don't support is that this life expectancy does not coincide with the increase of life quality, welfare because reality shows (we talk about the situation of Romania) the number of people suffering from various diseases mainly caused by pollution is continuously growing and furthermore this increase ranges between 50% and 300%.

Asthma is one of the most widely spread diseases and is considered to be a barometer of the level of pollution in the world. It represents a chronic disease of the lungs that manifests by heavy breathing due to airways inflammation. When they present irritations, the muscles of the airways' walls narrow causing a respiratory failure. During an asthma attack, airway cells secrete more mucus than normal, thus causing their blockage; they inflame causing the airways to swell and the muscles around them to tighten. People with asthma suffer the most exacerbations during the night and not only, this way limiting certain activities or causing them some deviations from the family routine.

It is known that asthma is an incurable disease, but there are some drugs meant to control the disease, drugs such as inhalers or steroids tablets that help prevent or improve attacks.

The number of days of hospitalization due to asthma in France per year is of an average of 840000, which represents an expense that ranges between 180 to 210 million Euros. This figure does not take into account the expenses for drugs and those for sojourns in climatic and thermal cures, neither the induced costs (loss of a work day, absenteeism, etc.). The overall cost claimed for asthma is assessed each year in France to one billion Euros. (Grimfeld Alain, Dusser Daniel, Eveillard Anne, 2007:12)

In Great Britain an extent study was done on this disease, which showed that at present far more children die because of asthma than ten years ago, although the overall infant mortality declined by almost one quarter. In Great Britain, there are over 3 million asthmatic children. More than a half of the children hospitalised suffer from asthma and their hospitalization costs the British health service around £ 107 million annually. Hospitalizations for severe cases of asthma have tripled, but in the case of children these have increased five times. (Ridgway Roy, 2009:8)

Asthma is one of the most common diseases that affect people of all ages and it is also the most common chronic diseases (long term). In Great Britain, in 2005, there were over 5 million people (about 8% of the population) who were treated for asthma, and 8 million (about 12% of the population) were diagnosed with asthma at some point in their lifetime. It is a disease that

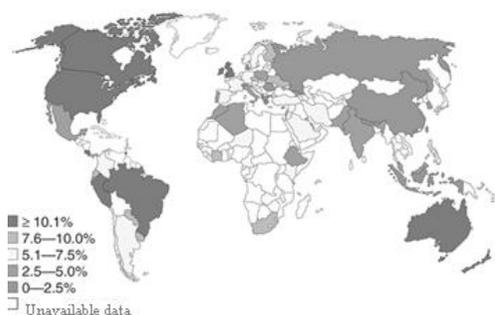
expands constantly and increasingly more people become asthmatic, and patients with asthma have more and more crises. Nowadays, the incidence of asthma is four times higher in adults and six times higher in children than it was 25 years ago. Only in Great Britain over 1500 people die of asthma each year.

In England and Wales (country with large oil reserves), of all cases presenting to the doctor, almost 70% are children under the age of 5. For comparison, for the population between the ages of 45 and 65 this figure is only 22% (to mention is that this figure may slightly be exaggerated when one considers that parents take their children to the doctor more frequently than older patients go to the doctor). (Youngson Robert, 2005:12)

The toxic effects on the developing embryo or foetus during development are of profound concern. Beyond the obvious congenital malformations, scientists express their preoccupation for mother's exposure during pregnancy to certain toxic substances in the atmosphere that can have a negative impact on the health of the child. Then, infants and young children, often but not always present a higher sensitivity to toxic substances in the atmosphere than adults, this being due to the fact that their immune system is incompletely developed thus being less protected against these harmful substances. Another explanation of this phenomenon is given by the fact that underage individuals, breathe faster than adults. So, if the air is polluted, they inhale a larger amount of emissions. For example, a child in an industrial city inhales on average of 110 ng benzopyrene, an amount equivalent to smoking three cigarettes a day. So, statistical data strongly highlight the evidence that pollution is a significant cause in increasing asthma and allergies rates especially among children in urban areas of the developed countries. (Hill K. Maquita, 2010:80)

Another example is the Tower Hamlets district in East London. Children in this area are exposed to high levels of air pollution and the hospitalization rate for asthma in the local hospital was 80% higher than the national average. Pollution comes mainly from motor vehicles and the industrial area nearby. The reason for which these pollutants affect asthma prevalence is becoming increasingly clear, many of these substances released into the atmosphere, together with ozone under the action of sunlight destroys the cilia on the surface of the air tubes. (Youngson Robert, 2005:12)

Figure no. 1. Asthma morbidity degree at national level



Source: The Global Burden of Asthma, available online at: http://chestjournal.chestpubs.org/content/130/1_suppl/4S.long, accessed on 30.10.2011

In United States, the situation is similar. According to US National Heart, Lung and Blood Institute, asthma affected in 2009, 12.4 million of Americans, a number that was almost the double that was registered in the 1980s, when 6.8 million persons were registered. (Ridgway Roy, 2009:8)

In conclusion we can say that the economy has developed and specialized in various domains of activity and great economists were able to observe the pollutant effects of human activity. The damaging influences of environmental pollution in the recent decades are reflected on both

biodiversity and the human individual; harmful influences on the human individual can be seen in the biological conditions (diseases with an increasingly rapid evolution and death), in the disruption of the psychosocial framework and last but not least all the major economic implications due to the extremely high costs needed to cover health expenses, the costs of maintaining a balanced social structure and of an individual psycho-activity as close to mental health. For Romania, I noticed that the negative effects of pollution on the population register an upward trend, which is a heavy burden not only for the Romanian economy but also for each individual.

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ENVIRONMENTAL IMPLICATIONS OF THE INCREASING DEMAND FOR ENERGY

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During human society's development on large geographical areas, a series of cultural systems have appeared and have determined a certain approach concerning the environment and social relations. These systems of thought persist even today and they are strongly influenced by individuals' thinking and approaches in that society, thing that requires a specific approach for the implementation of these relatively new concepts (e.g. sustainable development, pollution, ecological approaches on social life). Furthermore, the continuous growth of the demand for energy in the world is seen as an alarm. Between 1970 and 1997 world energy consumption has almost doubled and it is projected to grow by about 57% during 2004-2030 and the thing which should be mentioned is that with the increasing energy demand, pollution levels will increase too. But we must not forget that electric and thermal power represent one of the basic needs of mankind, and when the fulfilment of this need started to affect the climate and implicitly human health this problem turned into a hardly manageable one. We must not forget that the world's population is growing rapidly and the level of pollution per capita increased we might even say in direct proportion. In many cases, increased pollution has its explanation in the growing number of individuals at global level and also the increasing needs, desires, aspirations, standard of living, of these.

This paper intends to objectively analyse the interconnections that arise between the environment and the growth of the demand for energy, emphasizing the devastating effects of pollution created by burning fossil fuels in order to obtain electric and thermal power as well as the current and future possibilities for the replacement of these energy reserves with renewable energy reserves. The whole analysis will be accompanied by case studies and will follow strictly imposed goals by sustainable development.

Key words: energy, environment, pollution, sustainable development, fossil fuels.

JEL codes: Q32, Q42, Q57

"The control of nature" represents an expression full of arrogance born during the Neanderthal age when it was supposed that nature exists for human convenience. ". (John Barry, 2010:5) If those in the Neanderthal era believed that nature exists for human convenience, today it is clear that humans have for the first time the ability to destroy the planet as they wish: with a single action, or gradually, but is the first generation that can not consider nature as something given for free, which exists for its mere convenience and that will be in the same way forever. So therefore, the environment has become a topic increasingly debated in time, occupying a central place in the social theories and political practices.

Starting from the question "what is the connection between social theories and political practices", John Barry first defines environment as the place where he will age, where his children and grandchildren will be born and raised. He continues then the analysis of the medium in different stages: during his childhood, adolescence, the present and ending with an exercise of imagination on what his grandchildren and the generations to come will see.

Electric and thermal power represent one of the basic needs of mankind, and when the fulfilment of this need started to affect the climate and implicitly human health this problem turned into a hardly manageable one.

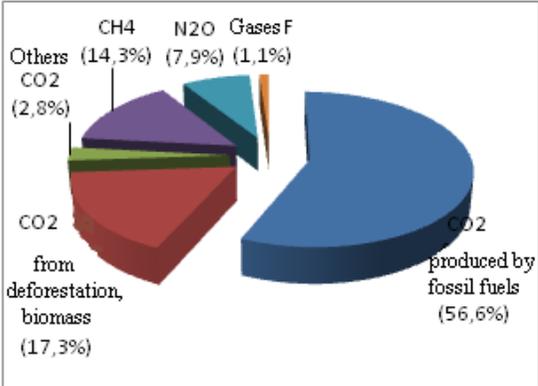
The continuous growth of the demand for energy in the world is seen as an alarm. Between 1970 and 1997 world energy consumption has almost doubled and it is projected to grow by about 57% during 2004-2030. The total worldwide energy consumption is projected to increase from 447 quadrillion Btu thermal units in 2004 to 702 quadrillion Btu in 2030. In less developed countries energy consumption is expected to grow three times, as fast as in OECD countries. Together with the increase of the consumption of energy pollution will increase too. United States for example, use approximately a quarter of the energy produced worldwide. (Hill K. Marquise, 2010:80)

An interesting thing to note is that about half of world's population does not purchase fossil fuels, or even if they do, the sums they are spending in this respect are very small, because poor people are part of "those who do not contributed to fossil fuel pollution", they use wood in the same manner as their ancestors, using it both for cooking and to provide light and heat. Even today over 60% of consumed wood in the world is used as fuel.

In China, people burn coal to ensure thermal and energetic comfort, but the quality of it is often poor and as consequence it is responsible for much of the recorded human poisonings and environmental diseases. In addition, mining and recovery operations and / or burning oil can have a disastrous impact on the local environment polluting it very much.

Coal is responsible for producing half of the required energy in the United States of America. In Europe, its large scale use began in the seventeenth century, when wood became less and less available. Coal use increased almost 500 times per year in the strongly industrialized Western economies. But the biggest problem encountered in using / burning of coal is that like most products it does not take into account the impact it has on the environment. In addition, due to the fact that coal is part of the exhaustible resources, and they will be exhausted in the not too distant future, under the action of the laws of supply and demand, its price is constantly rising. (Hill K. Marquez 2010:80)

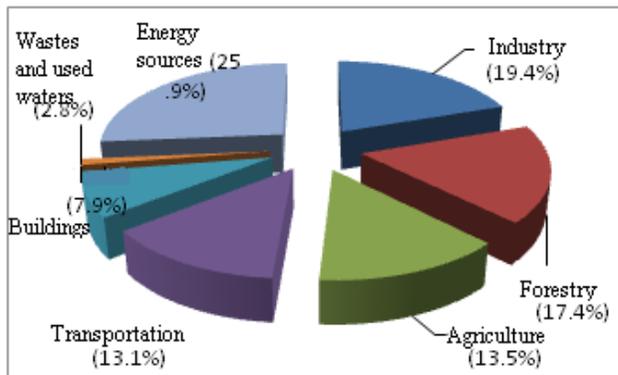
Figure no. 1 - The structure of global pollution. Pollutant substances and their weight



Source: Hill K. Marquez, *Understanding Environmental Pollution*, Third Edition, Published in the United States of America by Cambridge University Press, New York, 2010, pg 204

Increasing energy demand seems to be endless. For the first time in decades, energy demand has fallen, but as expected not by much, due to the recession of world economy. After the industrial revolution began, cities without precise limits started to emerge, cities with developed industrial areas in the suburbs and with a continuously growing population. Cities always adapt in order to cope with supply problems of the population (in those places self-consumption is fairly low) and industry, waste and industrial disposal, transportation, insuring of both electrical and thermal energy and thus start to appear more severe pollution problems.

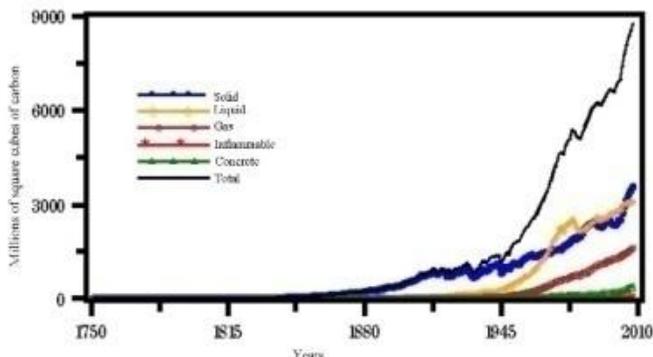
Figure no. 2. - The percentage of global emissions in various domains



Source: Hill K. Marquez, *Understanding the Environment Pollution, Third Edition*, Published in the United States of America by Cambridge University Press, New York, 2010, pg 205

The registration in the WHO Charter of such a goal is not a casual matter. Elementary logic leads anyone to conclude that between the economic development and environmental conditions on one hand, and human health, on the other hand, there is a strong interdependence relationship. An important aspect for our theme is for the economic development to be social and to positively influence the environment, and in this way, to provide support to human health. (Pohoata Ion, 2008:45)

Figure no. 3. - Carbon emission trends between 1750 and 2010



Source: *Carbon Dioxide Information Analyses Center*, available online at: <http://cdiac.ornl.gov/trends/emis/glo.html> accessed on 29.10.2011

As it can be observed from the presented graphic, the level of pollution rose constantly from 1880 to 2010. And during 1750-1880 pollution levels have had an upward trend but a smaller one than that corresponding to the last 50 years.

Even if world population is increasing continuously, we might even say that the level of pollution per capita increased in direct proportion with it. In many cases, increased pollution has its explanation in the growing number of individuals at global level and also the increasing needs, desires, aspirations, standard of living, of these.

Table no. 1. – The analysis of the carbon dioxide (CO₂) concentration between 1751 and 2008

Year	Total	Gas	Liquids	Solids	Production of cement	Inflammable gas	/ Capita
1751	3	0	0	3	0	0	
1771	4	0	0	4	0	0	
1870	147	0	1	146	0	0	
1886	281	2	5	275	0	0	
1928	1065	23	143	890	10	0	
1951	1767	115	479	1129	20	24	0.69
2000	6750	1288	2818	2370	226	48	1.1
2001	6916	1311	2827	2494	237	46	1.12
2004	7782	1431	3027	2971	298	55	1.21
2005	8086	1473	3071	3162	320	61	1.24
2006	8350	1519	3080	3333	355	62	1.27
2007	8543	1551	3074	3468	382	68	1.28
2008	8749	1616	3095	3578	386	73	1.3

* (All data are expressed in million metric tonnes of carbon. In order to convert them in tonnes of carbon dioxide you should be multiplied by 3.667)

Source: *Carbon Dioxide Information Analyses Center*, available online at: http://cdiac.ornl.gov/ftp/ndp030/global.1751_2008.ems accessed on 29.10.2011.

Before 1950 the calculation per capita of pollution could not be performed due to lack of information. Since 1751 approximately 347 million tonnes of carbon were released into the atmosphere from fossil fuels and cement. Half of these emissions were produced by mid 1970s and in 2008 emissions from burning fossil fuels were of about 8.749 billion metric tonnes of carbon, with 2.7% more than the amount released in 2007. (*Carbon Dioxide Information Analyses Center*)

Another effect of global warming is the increasing ocean temperatures. Described climate models indicate the fact that these will warm before the atmosphere. Previously there have been few measurements of the water temperature evolution of the oceans but the information provided by oceanographers found an increase in average temperature of the water in the Pacific, Atlantic and Indian Ocean both to north and south in the period 1955-1995 by 0.6 °C between the surface of the ocean and the depth of 1.86 miles (3000 meters). This difference seems to be small, but given the fact that the oceans play an important role in capturing sunlight, we can deduce that an increase in ocean water temperature would lead to a less solar radiation capture. (Marquise K. Hill, 2010:188)

In the American state of Alaska, the average temperature increased by 3 °C over the past 30 years, this increase being four times higher than the global average. This fact led to the melting of icebergs in the area much faster than was anticipated in previous years. The research team consisting of experts, professors and researchers from the University of Alaska conducted a series of measurements. Their conclusion was that the melting of the icebergs is faster than ever in that area in comparison to anyplace else, and thus contributing with at least 9% to the increase of Bering Sea level analysed in the twentieth century. (Marquise K. Hill, 2010:196)

The rapid increase of the temperature in Antarctica has affected human and animal life of the region. For example, the number of polar bears has dropped dramatically. That is the reason why

in May 2008, United States of America have taken the decision to protect polar bears under the "Endangered Species Act".

Measurements in respect to icebergs' melting began 30 years ago achieved by satellite. Since then, the arctic region has lost more than 20% of the ice. The loss rate began to accelerate in 2002 to the extent that, in the summer of 2007, the Canadian Northwest Passage became fully navigable. In the situation in which the annual growth rate of icebergs' melting continues to increase, studies show that the Antarctic by the summer of 2030 will be completely free of ice.

But not only the icebergs in Antarctica began to melt but those on mountain peaks too. For example, Kalis Peru Quori glacier in Peru decreased 33 times faster between 1998 and 2000 than it did between 1963 and 1978. In Nepal and Bhutan many lakes around glaciers are dangerously full. If they continue to rise they will flood nearby valleys causing much destruction especially among people living nearby.

Another worrying phenomenon is the rising sea levels. This accelerated growth rate caused the raising of the level of these by 20 inches in the last 100 years. The measurements made by the satellite called "Jason" especially built for this purpose, highlighted some of the negative consequences of this phenomenon. The biggest concern is in Bangladesh where a billion people could become homeless if the sea level would rise one meter. (Marquise K. Hill, 2010:196)

In regards to Romania's situation on the generation of wastes resulted from economic activity in 2008, this is the first among EU countries in this respect. In 2008 it produced an amount equal to 17031486 tonnes of waste arising largely from agriculture and deforestation. Whether this amount would be used as biomass, Romania's indicators such as: economic growth, dependence on imported energy, deforestation, and energy intensity would certainly achieve many more favourable results.

In a similar situation but not so disastrous is Spain which in 2008 produced an amount from economic activities of 11322154 tonnes of wastes, with almost 6 million tonnes less than Romania, given that this country is part of developed ones.

Table no. 2. Emissions of air pollutants per capita, kg, 2009.png

Pollutant emissions per capita (kg)							
NH ₃		NMVOC		NO _x		SO _x	
Ireland	24.2	Estonia	27.1	Luxembourg	38.5	Bulgaria	86.5
Denmark	13.9	Latvia	26.8	Greece	38.3	Estonia	40.9
France	11.6	Finland	20.9	Finland	28.7	Greece	37.9
Luxembourg	9.0	Lithuania	20.9	Cyprus	24.4	Poland	22.6
Romania	8.7	Romania	20.1	Czech Rep.	24.0	Cyprus	21.5
Slovenia	8.7	Sweden	19.4	Denmark	23.9	Romania	21.4
Lithuania	8.5	Bulgaria	19.3	Spain	23.0	Malta	18.0
Spain	7.8	Greece	18.8	Portugal	22.5	Czech Rep.	16.6
Netherlands	7.6	Italy	18.4	Austria	22.4	Slovakia	11.8
Austria	7.6	Denmark	17.3	Slovenia	22.2	Finland	11.1
EU-27	7.6	Portugal	16.9	Bulgaria	21.7	Lithuania	10.8
Estonia	7.3	Poland	16.1	Estonia	21.6	EU-27	10.0
Latvia	7.3	Germany	15.7	Poland	21.5	Spain	9.4
Germany	7.3	EU-27	15.5	Ireland	20.3	Hungary	7.9
Poland	7.3	Slovenia	15.3	Belgium	19.8	Ireland	7.3
Czech Rep.	7.0	Spain	15.2	Malta	19.6	Portugal	7.2
Finland	6.9	Austria	14.7	Lithuania	19.4	Belgium	7.1
Hungary	6.8	Czech Rep.	14.4	EU-27	18.8	Great Britain	6.5
Bulgaria	6.7	Cyprus	13.9	Great Britain	17.6	Luxembourg	6.3
Cyprus	6.5	France	13.6	France	17.3	Slovenia	5.7
Italy	6.5	Great Britain	13.4	Netherlands	16.7	Germany	5.5
Belgium	6.2	Hungary	12.8	Germany	16.7	France	4.7
Greece	5.6	Slovakia	12.1	Hungary	16.6	Italy	3.8
Sweden	5.2	Ireland	11.7	Italy	16.3	Sweden	3.2
Great Britain	4.7	Belgium	10.1	Sweden	16.1	Denmark	2.7
Slovakia	4.6	Luxemburg	9.5	Slovakia	15.8	Austria	2.5
Portugal	4.5	Netherlands	9.3	Latvia	12.6	Netherlands	2.3

Malta	3.7	Malta	5.4	Romania	11.5	Latvia	1.8
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Source: Eurostat, available online at: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Emissions_of_air_pollutants_per_capita,_kg,_2009.png&filetimestamp=20111004100800 on 21.10.2011

The above table represents a ranking made in 2009 in respect to the emissions of air pollutants calculated per capita of EU countries and the EU27 average. We can note with displeasure that Romania, in three out of four categories is in the top of the countries that are heavily polluted. For example, in terms of air pollution with ammonia (NH₃) Romania ranks 5 among EU countries, with a value of 8.7 kg per capita compared with 7.6 as is the average EU-27 so it exceeds the average by more than 14 %. We have to mention that ammonia according to the Explanatory Dictionary of the Romanian Language is "a colourless gas with a pungent odour, stifling, obtained from combining hydrogen with nitrogen, and it is used in the manufacture of nitric acid, nitrogen fertilizers, of explosives etc." (the Explanatory Dictionary of the Romanian Language)

Current perspectives of environmental development whether it is maintained or increased the rate of current pollution are unimaginable. In order to flatten the ascending curve of the environmental destruction, currently it is resorted to a range of measures including the analysis in this paper is the reduction of fossil fuels to provide the required heat and electricity. If in the 1970s for mankind was questioned the replacement of fossil fuels for reasons related to depletion of these energy resources at present the situation is far more serious with a focus on reducing fossil fuels consumption for survival reasons. As an alternative would be to use nuclear energy but that has several disadvantages and more dangerous implications than current fuels.

From the environmental development current point of view the emphasis is put on the large scale use of renewable energy that has a low rate of pollution and restoration of large flora on the vast regions.

With all the energy resources disadvantages respectively geographical areas, season, ore, etc., there can be addressed a global vision of a world energy system (solar panels in desert areas, hydro plants on major water courses, wind fields in areas with potential, geothermal plants in areas with considerable ores and the widespread use of heat pumps in order to capture and use of geothermal energy - geothermal energy that is stored by earth's crust as a follow up of the solar energy activity on the crust).

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INNOVATION– AN INFLUENCE FACTOR OF CYCLICAL FLUCTUATIONS. STUDY CASE FOR ROMANIA, BETWEEN 1995 AND 2009

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The study of influence factors of cyclical fluctuations is of major importance for a country's economy. In the present context, of the new economy, where the emphasis is on new technologies, and information is the main product and resource of the economy, innovation is one of the most important factors among the ones which influence the economic activity fluctuations.

As part of a larger paper, this study is set to emphasize and explain the influence of innovation on the cyclical fluctuations in Romania between 1995 and 2009.

The following analysis indicators were used: the 'innovation' factor is represented by Research & Development expenses and by the number of people with internet access, whereas the economic activity fluctuations are represented by the fluctuations in the real GDP.

The research starts with the conceptual boundaries regarding innovation, with an emphasis on Joseph Schumpeter's theory, then, the influence of innovation on economic activity fluctuations is underlined through a quantitative analysis of the three indicators mentioned above and through an econometric model.

The results of the research underline Romania's economic status, the scale on which new technologies have entered the Romanian market and the way in which the fluctuations of the economic activity are closely linked to innovation.

Key words: cyclical fluctuations, innovation, Schumpeter, GDP, internet

JEL codes: E32, O31

1. Introduction

The impact of technological changes on the economy represents one of the current and representative subjects in economic research. Information and communications, including scientific and technological information have become a primordial component of the production forces.

The reduction of physical consumption is accelerated in favor of using information and knowledge, while investments in human capital are intensified, compared to investments in fixed assets. Moreover, the respective technologies have contributed to the improvement in productivity of the capital and work factors, which lead to a rise and diversification in production. Thus, they make up an important source for the creation of new products, services and jobs, first within their own sector, and then, through the expansion of production and exchanges, in other economic activities as well.

New technologies feature increasing efficiency (many products have a very high initial development cost, and then the respective products are sold at very low marginal prices; for example, the initial development of a computer program might be very expensive, but the cost of its copies is very low – in the case of the medium cost on which the software is recorded: CD, DVD, or sometimes zero – in the case of the internet), and this efficiency represents the engine of economic growth.

For all these reasons, the goal of the paper is to underline these innovations and the way in which they influenced the fluctuations in economic activity in Romania, between 1995 and 2009.

In the first part of the paper it is presented the importance of studying this influence factor and in the second part it is made a short theoretical review, with an emphasis on Schumpeter's theory of innovation, and identified the five Kondratieff cycles, with their great innovations. In the third part it is presented the work methodology and the descriptions of the data series, creating a multifactorial model that shows the influence of the studied factors on the real GDP.

2. Innovation – Conceptual Boundaries

J. Schumpeter considers that innovation is the fundamental factor that explains the evolution of economic life, it is at the basis of cyclical fluctuations, and without it the economy would work as a simple circular flow. A new idea inserted into the economy gives extra efficacy and progress and economic growth. Its curve peaks when the technical progress is mass spread, a point in which the technological mode of production based on past innovations has exhausted its capacity to create progress. This moment of tension is the descending phase of a cycle. The moment of crisis imposes the identification of new technological, economic and organizational possibilities. (Cismaş, 2000)

Innovation must be funded before the entrepreneur can benefit from its results, and funding is ensured, usually, through loans given by banks. Its effect spreads from field to field and one innovation generates another, influencing each other. Another feature is unpredictability, which means that not all the anticipated innovations will be successful and there will be a time when loans will have to be paid: if the companies will not be able to pay them, a wave of pessimism and chain bankruptcies will be created and there will be a recession which will effect a great number of sectors of the economy. (Schumpeter, 1939)

Schumpeter continues the ideas of the Russian economist Nikolai Kondratieff concerning long waves, according to which each cycle corresponds to a major innovation and thus the following cycles can be identified: (Valery, 1999)

- the first Kondratieff cycle (1785-1845) would correspond to the first industrial revolution, marked by hydraulic energy, the textile industry and the iron industry;
- the second Kondratieff cycle (1845-1900) would correspond to the innovations in the steam, railways and steel industries;
- the third Kondratieff cycle (1900-1950) would encompass the chemical industry and the internal combustion engine;
- the fourth Kondratieff cycle (1950-1990) would encompass the petrochemical and electronics industries and aviation;
- the fifth Kondratieff cycle (1990-2020) corresponds to digital networks, software applications and new means of communications.

As we can see, the Kondratieff cycles become shorter as they succeed one another. The first one lasted for 60 years, then the following ones for less and less: 55, 50, 40 and 30 years respectively. This 'acceleration' effect can be explained in three ways:

- we are experiencing a 'learning effect': companies and consumers pay attention to new innovations and adopt them immediately;
- the most recent innovations are network innovations, these have a tendency to develop exponentially, affecting all fields and causing a drop in unit costs due to scale economies;
- the nature of innovations is mostly immaterial, they spread rapidly, irrelevant of distance; in a global economy, innovation has no borders.

Innovations are accompanied by that which Schumpeter called 'creative destruction', a sort of 'economic storm' that engages the brutal disappearance of many jobs, while simultaneously creating an equal or greater number of jobs in other fields. This phenomenon is present in an economy with a high degree of flexibility. (Schumpeter, 1939)

Currently, the phenomenon of globalization, of Earth flattening under the influence of these new innovations is predominant. Thomas Friedman (Friedman, 2007) identifies ten forces which lead

to flattening: (1) the fall of the Berlin Wall, the birth of computers and the development of the Windows operating system, (2) the birth and development of the internet, through the concept of World Wide Web and the Netscape platform, (3) the development of workflow automation software, (4) the development of uploading, through blogs and open-source programs, (5) the birth of the outsourcing phenomenon, (6) off shoring, market liberalization, (7) the development of supply chains, (8) internalization, (9) getting information, through the more and more pronounced development of the internet, especially in the case of the Google, Yahoo and MSN platforms and (10) the development of the rural environment, of mobile phones, the birth of the iPad and the inclusion of new technologies into these devices.

3. Analysis on the influence of innovation on the economic activity fluctuations in Romania

In this paper, the period between 1995 and 2009 was chosen in order to ensure the compatibility of data, taking into consideration the change in the Romanian GDP calculation method, which was set to 'ESA 1995' in 1995. The data series used are taken from the websites of the National Institute of Statistics, <http://www.insse.ro> and of the World Bank, www.worldbank.org. Indicators: the gross domestic product and the research & development expenses are expressed in millions of lei and a conversion was made from current prices to constant prices (with the aid of the GDP deflator and the CPI - Consumer Price Index), and the number of internet users is expressed in millions of people.

Table nr.1. GDP and its influence factors

Year	Real GDP (mil lei)	R&D expenses (mil lei, constant prices)	Internet users (mil people)
1995	5781.5	4336.11	0.02
1996	6199.5	4215.63	0.05
1997	5456.3	3110.09	0.1
1998	4977.7	2439.08	0.5
1999	5085	2034.02	0.6
2000	5121.1	1894.82	0.8
2001	5545.3	2162.66	1.02
2002	5834.4	2217.08	1.45
2003	6571.8	2563	1.95
2004	7358.5	2869.82	3.27
2005	7885.9	3233.2	4.68
2006	8826.8	3972.07	5.35
2007	10162.5	5284.48	6.12
2008	11658.2	6761.77	7
2009	10683	5020.99	7.88

Source: drawn-up by the authors on the basis of data of the INS (www.insse.ro), and of the World Bank (www.worldbank.org)

In Table 1 we can see that the real GDP reaches its lowest level in 1998 (4977.7 million lei), after which it registers a slow increase, a recovery towards the value that it had before the drop, recorded in 1996. This happens only in 2003, after which the real GDP starts to rise, until it reaches its peak in 2008. The Romanian economy entered recession in the third quarter of 2008, along with the drop of the Gross Domestic Product and keeps registering falls in 2009.

The highest level of Research & Development expenses was recorded in 2008 (6761.77 million lei), and the lowest in 2000 (1894.82 million lei). Between 1995 and 2000 we can see a decreasing expense trend, and after 2000, an increasing one. Also it can be seen the boom of the

internet; the number of people with internet access rose exponentially since 1999, when only 20,000 inhabitants had access, to 7.88 million people in 2009.

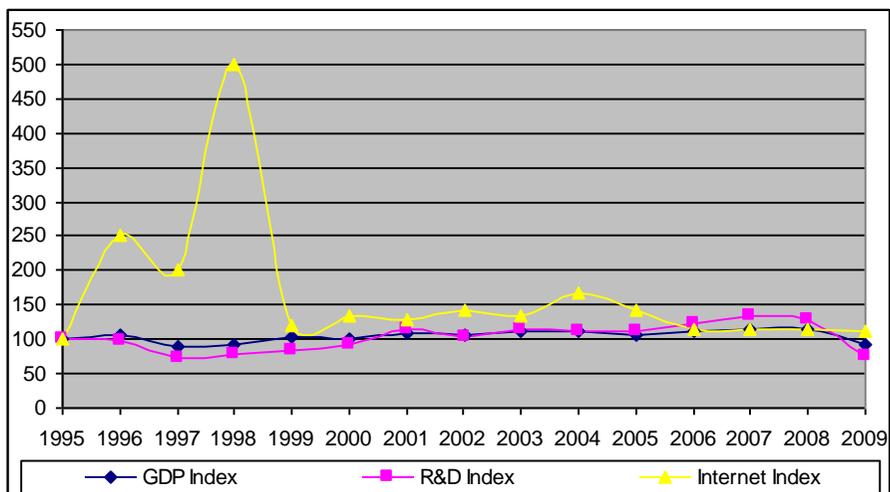
Further on, we calculated the GDP Index, in order to emphasize the change of the indicator compared to the previous year. We performed the same operation for the R&D expenses and for the number of internet users.

Table nr.2. The dynamics of the real GDP and its influence factors (previous year=100)

Year	Real GDP Index	R&D Index	Internet Index
1995	100	100	100
1996	107.23	97.22	250.00
1997	88.01	73.78	200.00
1998	91.23	78.42	500.00
1999	102.16	83.39	120.00
2000	100.71	93.16	133.33
2001	108.28	114.14	127.50
2002	105.21	102.52	142.16
2003	112.64	115.60	134.48
2004	111.97	111.97	167.69
2005	107.17	112.66	143.12
2006	111.93	122.85	114.32
2007	115.13	133.04	114.39
2008	114.72	127.96	114.38
2009	91.64	74.26	112.57

Source: according to Table nr.1

A decreasing trend in the research & development expenses can also be seen (R&D Index < 100). From 1996 to 2001, the highest drop was recorded in 1997, 16.22% compared to the previous year. Similarly, in the same year, the real GDP registers the highest drop, of 12%.



Source: according to Table 2

Fig. nr. 1. The dynamics of the real GDP and its influence factors

The internet index has an ascending trend throughout the analyzed period, which can be seen in Table nr.2 and Figure nr.1. The highest rise was recorded in 1998, 400% compared to 1997. Afterwards, the rises were not as high, but they were constant, averaging 50% each year. After each influence factor was interpreted separately, we will create a model that will show the influence of both factors on the real gross domestic product.

The way in which the economic activity fluctuations are influenced by research and development expenses and by the number of people with internet access, between 1995 and 2009 were calculated with the aid of a regression, through a multifactorial econometric model with the following form:

$$\text{GDP} = \alpha + \beta_1 * \text{R\&D Expenses} + \beta_2 * \text{Internet Users} + \varepsilon \quad (1)$$

	A	B	C	D	E	F	G	H	I
1	SUMMARY OUTPUT								
2									
3	<i>Regression Statistics</i>								
4	Multiple F	0.99526							
5	R Square	0.99055							
6	Adjusted	0.98897							
7	Standard	232.571							
8	Observati	15							
9									
10	ANOVA				2.48373				
11		<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
12	Regressio	2	6.8E+07	3.4E+07	628.708	7E-13			
13	Residual	12	649071	54089.2					
14	Total	14	6.9E+07						
15									
16		<i>Coefficient</i>	<i>Standard Er</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
17	Intercept	3638.91	174.461	20.858	8.5E-11	3258.8	4019.02	3258.79	4019.02
18	Cheltuieli	0.56453	0.06073	9.29511	7.8E-07	0.4322	0.69686	0.4322	0.69686
19	Utilizatori	567.382	31.2515	18.1554	4.3E-10	499.29	635.474	499.291	635.474
20				2.14479					

Source: made by authors

Fig. nr. 2. The Multifactorial model of the influence factors of the GDP

In the econometric model we can see that:

- Multiple R is 0.99, which shows a very strong link between the GDP and the research & development expenses and the number of people with internet access;
- R Square is 0.99, meaning that 99% of the GDP variation can be explained by the influence of research & development expenses and of the number of people with internet access;
- the resulting F value is 628.7, much higher than the critical F value (2.483), which means that the econometric model is correct;
- the estimated value of α is α is 3638.9, the estimated value of β_1 is 0.56 and of β_2 is 567.38;
- the t Stat value associated with α is 20.85, higher than the critical t value of 2.144, the t Stat associated with β_1 is 9.29 and of β_2 is 18.15; all the values are higher than the critical t value, which means that all the mentioned factors are in the model.

This model shows a strong link between the real GDP and the factors taken into consideration. Thus, the multifactorial econometric model in the case of Romania between 1995 and 2009 has the following form:

$$\text{GDP} = 3638.91 + 0.564 * \text{R\&D Expenses} + 567,382 * \text{Internet Users} + \varepsilon \quad (2)$$

4. Conclusions

The internet plays an important role in the spread of knowledge in economy (Choi, 2009) and as an indicator of innovations it has an effect on economic activity fluctuations.

This research was made for the period between 1995 and 2009, during which the Gross Domestic Product was analyzed in correlation with the innovation influence factor, represented by the following indicators: Research and Development expenses and the number of people with internet access in Romania.

The main results were: (1) identifying the economic activity fluctuations by studying the real GDP in relation to the other factors, thus two periods during which the GDP dropped were noticed: 7% and 9% in 2009 and 1998 respectively; (2) interpreting the influence factor 'innovation' through internet users, noticing that in 1998 their number recorded the highest increase, of 400% and that throughout the studied period it had a rising trend, and through Research & Development expenses, which had an decreasing trend until 2000, then started to rise and (3) the correlation of the real GDP with the two studied indicators in an econometric multifactorial model, having as a result a strong link (0.99), thus an influence of innovation on cyclical fluctuations.

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THEORETIC INCURSION IN THE IDENTIFICATION OF DETERMINANTS AND E-GOVERNMENT STRATEGY. EMPIRIC STUDY OVER THE GRADE OF IMPLEMENTATION OF E-GOVERNMENT IN BIHOR COUNTY

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Abstract

We are currently witnessing an unprecedented development of new technologies, that offers great opportunities for the modernization of the society, it changes radically the way governments, businesses and citizens have the opportunity to obtain goods and services, the way in which public services are provided that become increasingly important for citizens, the way of obtaining and transmitting information, the way in which business connections are done, the interaction between different communities, etc..

From this point of view we research the way in which public strategies of achievement and implementation of model of e-government are shaped, model which can exploit the opportunities offered by new technologies and can implement roles for the citizen and public policy makers and implicitly of local and regional development. How the public sector should support the implementation of strategies of e-government, to polarize at the highest level all communities of interest, to provide a framework for planning and action across the board, covering local administration, institutions, organizations and government agencies, to empower appropriate training for implementation of IT strategies, can lead to stimulation of generators factors of local and regional development.

We also, intend to identify, from carrying out an empirical study in Bihor county, by analysis of 30 public institutions, the degree of implementation of new technologies in public administration, human resources readiness for appropriate use of IT facilities and what level of implementation of e-government in these institutions, in order to outline the main characteristics and determinants of e-government implementation. The present paper is of interest to policy-makers, researchers, local communities through analysis how the introduction of new technology development in developing and implementing public policies, particularly by networking government and e-government, can cause local and regional development and change perceptions about the relationship and the interaction between citizens, communities and local and national authorities.

Key Words: networking government, e-government, regional and local development, public policy, new technology

JEL Codes: O38, D78, D85, R58

Theoretic incursion in e-government

E-government represents the process of transformation of the relationship that the government/administration has with the citizens and the business environment, through using the information technology for improving the efficiency, effectiveness, transparency, responsibility and the supply of public services (Kraemer and King, 2003).

The main determinants with positive impact over the assimilation and implementation of e-government are: the information technology expertize – the grade of specialisation and organisation of IT that to be able to assure constantly support and adapt to the needs of organisation; the support for top management, that sustains the implementation of some new technologies and to motivate and direct the employees behaviour to participate at the assimilation of e-government; organisation compatibility, that refers to the extent to which the IT technology is perceived as being compatible with current practices; regulations regarding the environment and competition that can exercise coercive pressures to adopt innovation and assimilate e-government (Pudjianto, B. and Hangjung, Z. 2007).

The EU strategy in the field of e-government is created in the „E-government Action Plan”, plan created to offer a support to governments / public administrations to respond to the services demand came from the citizens and from the business environment, in the direct purpose of reducing bureaucracy and increasing the transparency of information and services offered to the population. The „E-government Action Plan” is focused on five priorities as can be seen in Table nr. 1. **EU’s E-government Main Policy Strategies Strategy Description**

Table nr.1 EU’s E-government Main Policy Strategies Strategy Description

<i>1. Inclusive e-government</i>
Governments at national, regional and local levels, together with their agencies and other intermediaries (NGOs, civil societies, volunteer associations, and the third sector in general) which deliver public services, are increasingly integrating ICTs into their processes, both behind the scenes and in their interfaces with the public. Whilst e-government services should reduce the complexity of citizens’ and businesses’ dealings with government and its intermediaries, there is a danger that people without easy access to ICTs could find it even harder to deal with government.
<i>2. Efficiency and effectiveness</i>
E-government significantly contributes to high user satisfaction, transparency and accountability, a lighter administrative burden and efficiency gains. Improving efficiency and effectiveness in any kind of activity requires knowledge of the current situation and specific targets for improvement, often set by comparison with counterparts seen to be “doing better” in a particular area. In e-government, the EU is taking a leading role in developing measurement techniques and benchmarks against which organizations can judge their performances. The EU fosters the deployment of efficient and effective e-government services with a two-pronged strategy. It promotes co-operation and exchange of best practice and technical standards through the benchmarking and impact assessment of services.
<i>3. High-impact key services for citizens and businesses</i>
The Action Plan aims to make high-impact services for citizens and businesses more widely available, such as electronic procurement services for businesses, services for mobile citizens, or social security services. E-government will be critical to enable service providers to take advantage of market opportunities outside their home country.
<i>4. Key enablers</i>
The plan also seeks to put in place key enablers which provide the foundation for e-government systems to work together, and to build the connections between ICT systems in different public organisations and countries. Interoperable systems, electronic identity management, document authentication and archiving technologies are all critical for public services to co-operate and share data. Open Source Software can provide a cost-effective method to support such interoperability and co-operation.
<i>5. E-participation</i>
In order to reinforce governance in Europe, the Action Plan will help to strengthen citizen participation and democratic decision-making (e-participation) by using new technologies to develop interfaces between democratic institutions, public bodies and citizens.

Source: *E-government factsheet European Union (November 2008 Edition 1.0) <http://epractice.eu>*

Every EU member state implements the European strategy in a particular context. The studies referring to the implementation of e-government in EU, realised especially for developed countries as Austria, Great Britain, France, Sweden, Norway, Germany, Spain, Portugal, Holland and Italy, reveal the fact that the most usual services offered on-line to the citizens, monitored by the European Commission to measure the grade of growing of the offer of on-line public services are (European Commission, 2008): Income Taxes, Social Contribution for Employees; Job Search,

Social Security Benefits, Personal Documents, Car Registration, Application for Building Permission, Declaration to the Police, Public Libraries, Birth and Marriage Certificates, Enrolment in Higher Education, Announcement of Moving, Health-related Services, Corporate Tax, WATT, Registration of a New Company, Submission of Data to the Statistical Office, Custom Declaration, Environment-related Permits, Public Procurement.

The maturity level of the implementation of e-government can be quantified after the model proposed by the European Commission (European Commission, E-Commission, 2005), a model that includes four levels as follows: *the first level* – a simple site, that indicates the institution's online presence and provides some information about public policy; *the second level* - on-line government, characterized by the emergence of simple forms of interaction between citizens and institutions; *the third level* - integrated government associated with the automation of some parts of the administration and rethinking processes and administrative structure so that electronic components are embedded, not only adapted to the day to day activity; *the fourth level* - government transformed phase in which "there is no need for printed forms and administrative processes are automated from end to end".

Studies realized on the subject of the adoption of e-government have been concerned with measuring the implementation of e-government principles and the impact it has upon providing online services, both for governments and for citizens and businesses (Brown, 2007, Moon and Norris, 2005, West, 2004). The impact of new technologies in the administrative sector helped not only to improve the way of offering services to citizens, but also to increase the information transparency and reduce corruption and increase business competitiveness (West, 2004; Von Haldenwang, 2004).

Also, studies undertaken on the degree of digitization of public institutions providing online public services revealed that there is considerable heterogeneity between different EU countries (Caldas et al, 2005, Torres et al (2005), Capgemini, 2007). Also, significant differences have been identified at the level of regions within the same country. In other words, not all institutions have the same degree of implementation of e-government, even if we speak of the same country.

Empirical Study on the degree of implementation of e-government in Bihor County

The research methodology

To emphasize the role of e-government in the implementation of local and regional development strategies we considered significant as a first step in our analysis, to identify the degree of computerization of local institutions, more exactly, were analyzed a total number of 30 public institutions in Bihor County and the degree of the e-government principles implementation. In this respect has been conceived a questionnaire answered on one hand by the employees of public institutions and on the other hand by managers of the public institutions analyzed. The main issues we wanted to highlight in our study on information system were the skills of employees using IT equipment and their participation in specialized training courses, degree of novelty and diversity of software that employees of public institutions use in daily activities that are ongoing activities for which they use the IT equipment in the institutions, insofar as it uses its website to disseminate the information of public interest, which is equipped with the IT equipment available to the public institutions, which are services offered online to the citizens.

Working assumptions

To analyze these issues were established the following assumptions:

- Endowment with IT equipment (hardware and software) of municipalities is poor especially in terms of the software used;
- Reduced training of staff into the proper use of IT facilities in public institutions;
- Poor digitization of information available to citizens especially in rural areas;
- Achievement of only the second level of maturity of e-government system.

Interpretation and validity of the working hypotheses

As results of carrying out our research, the data obtained was analyzed and interpreted, the working hypotheses were validated and were verified and the conclusions were outlined.

Regarding the assumption that the *"endowment with IT equipment (hardware and software) of municipalities is poor especially in the software used"*, this hypothesis was not confirmed, especially in terms of endowment with computers. Public institutions are equipped with IT equipment from a minimum of 7 computers to a maximum of 280 computers, all with Internet access. As it regards the configuration of the software used on computers, this part of the hypothesis is confirmed, because the configuration of the computers is good, 55% are equipped with Pentium 4, Windows XP 38%, 7% have a poor configuration, while 33.62% do not give their configuration. With respect to the software that employees of public institutions use daily, the answers show that programs with the highest frequency of use are Word and Excel. In addition they also use special characteristics of each post. 30.32% of respondents use only Word, while 33.61% use both Word and Xcel, and a share of 36% use other special programs: FoxPro, Mozilla, Firefox, SOBIS (accounting, taxes, welfare , register agriculture), Saga (accounting), mapping programs, programs for calculating taxes, registration and licensing software transport, registration certificates, etc.

The assumption that *"the human resource readiness on the proper use of IT facilities in public institutions is reduced"* – was not confirmed - the managers of public institutions claim that subordinated employees that use IT equipment at a rate of 67.79% have taken specialized training course, have qualifications in the use of IT equipment, 22.03% have even ECDL certification, 3.38% attended special courses and only 6.77% have no training in the field of use of equipment and courses. Regarding current activities in public institutions employees using IT equipment, showed that almost half (49.18%) of respondents use the computer daily for writing documents, reports, record keeping, administrative, accounting for 17.21% is used for correspondence, documentation Internet, sending and receiving data, 17.21% use it for payroll, monitoring, statistics, statements, setting local taxes, record keeping, 16.39% is used in public relations, preparing reports of social services, essays, social problems.

The assumption according to which the *"digitization of information available to citizens is poor, especially in rural areas"* - is confirmed. Information available electronically to citizens is relatively low. Almost half of respondents (44%) say they recommend the institution's website to download documents, 7% do not recommend this option to access printed documents, and 4% said that the website of the institution does not provide to citizens such documents.

The hypothesis regarding the *"achievement of the second level of maturity (four levels by the European Commission) of the e-government system"* - is confirmed. Analyzing the maturity level of implementation of e-government model proposed by the European Commission, the information collected through the questionnaire applied to the 30 public institutions confirms that the maximum level of e-government achieved in Bihor County is level two. All 30 municipalities included in the sample presentation have a site of the institution and provide general information about projects and services. A number of 12 have forums or section meant for problems notification, 25 have electronic bulletin board, 13 municipalities' web pages offer the possibility of downloading document templates, 12 have links to institutions, 26 have functional mail address, and on 19 web pages can be found activity reports and the budget of the institution. Of the 30 institutions analyzed 5 offer online services. Although they exist, are relatively small in urban areas (online payments, fees, taxes, filing petitions, petitions filed verification stage, download forms, programming marriages and identity documents 10.2%, the possibility of on-line payment of taxes is found on 6.8% of the municipalities questioned, 1.7% use it for correspondence, 1.7% for information, 1.7% for their own page, 1.7% for checking the situation regarding the payment of taxes) and almost nonexistent in rural areas.

Conclusions

Using the data obtained from 30 public institutions from Bihor county, we evaluated the grade of IT endowment, the endowment with software necessary for processing and analysing the data, the grade of human resource training as well as the grade of development and implementation of e-government. In this process, we noticed that the number of public institutions that offer on-line services to citizens is small, and the services offered are generally speaking: on-line payments, taxes, contributions, petition, the checking of the stage of petition, form downloading, marriages appointments and identity cards, correspondence, etc. Our brief study over the grade of implementation of e-government in public institutions in Bihor county reveals the significant discrepancies in the endowment and utilisation of new technologies for offering citizens service, especially between public institutions from urban areas and those in rural areas, between small urban areas and the county residence.

The data obtained confirm that the development of e-government in Bihor county is at an early stage, and this gradual process can be implemented using the current IT structure and endowment within public institutions, but must be completed by the implementation of an overall strategy, led by managers with a global vision who can motivate and coordinate employees in the principles of e-government. By the other side, this process can be accelerated by the direct demand of citizens and of business environment, which ask more frequently for this type of services in this period. The higher the efforts and pressure from citizens and business environment are for the extension of online services, the greater are the required skills and investment of government in new technologic equipment. These actions will also require increasing concerns for human resource training at all levels, improving quality and accessibility of digital networks by increasing expertise, growing concerns for improving efficiency of public services and transparency of information which will determine the reduction of bureaucracy and corruption in future.

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CONSIDERATIONS REGARDING ROMANIAN HIGHER EDUCATION GRADUATES

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The paper aims at analyzing the dynamics of in Romanian higher education graduates in the 2006-2010 period, both in Romania and by the Romanian development regions.

After highlighting the importance of human capital and its education, the paper analyzes the dynamics of Romanian higher education graduates in the targeted period, at both of the above-mentioned levels.

The conclusions reveal that, during the analysed period: 2006-2010, the number of female, and, respectively, male higher education graduates, as well as the total number of higher education graduates, continuously increased in the 2006-2010 period at the whole country level and registered an increase trend, as well, by the eight development regions of Romania in the 2006-2010 period, with very few exceptions in some years of the period, in some of the the eight development regions of Romania.

Therefore, the Romanian higher education system must correlate the graduates number with the number of work places in the Romanian economy, and take into account the necessities imposed by the participation at international competition.

Key words: knowledge-based society, economic growth, human capital, education, higher education graduates

JEL Classification: I21, I23, I25, J60

1. Introduction

Throughout the modern history, all countries of the world have been focused on economic development. Contemporary world comes back to the real purpose of economics, the human being, assuring his welfare and security, both at individual and social level. Thus, it appears on the ideas level a new conceptual paradigm, that of human development, which accompanies and motivates the economic one. This new paradigm has obviously not manifested itself instantaneously, but has developed as a slow, difficult and deliberate process. The rapid rhythm of changes has convinced both the business people community, and the nations, that labour force flexibilization is necessary. Each sector of activity, including the agricultural one, needs a permanent qualification up-date, combined with the accumulation of action knowledge and competencies. This irreversible trend represents a proof of the increasing importance of some “intangible” points in the investments field – such as education – while the effects of the “intelligent revolution” are being felt. In this case, investment in education becomes a strategic investment (Popovici 2011: 193). As Jacques Delors, the president of the International Commission for Education states: “*In the 21st century, educational systems must educate in an innovating spirit, promote the capacity of evolution, adaptation to a fast changing world, that each individual should be capable of assimilating*” (Ciobanu 2003: 15).

2. The Importance of Investments in Education and Health

Human capital consists in those people’s skills, which are characteristic to them and remain the same in any social environment and can be used on the labour market, in exchange for economic resources of any type. Practically, *the human capital* is composed of:

- *the educational capital*, represented by the skills acquired by individuals during and outside the education process, and
- *the biological capital*, represented by the individuals’ physical skills, the most often synthesized by their health state.

Human capital has developed itself as a concept in economy, where it is mainly regarded as “estimation of a person’s ability to produce income by labour”.

The human capital treatment as investment has generally imposed itself; the abilities human capital is composed of could practically be used anytime, in function of the social and economic environment, in which individuals could place themselves at a certain moment. More, this investment is continuous, aiming either the development (the perfecting courses or continuous education, for instance), either the maintenance of the capital stock (periodical medical consultancies, for instance) (Cismas and Popovici 2011: 57).

The importance of education and health for the economic growth and development is due to the returns from investments in the two variables. These are two forms of human capital, the improvement of which should enhance worker’s productivity. Several studies show that better health, special early in life, is associated with higher educational attainment. Conti et al. (2010) argue that more educated individuals, in turn, have better health later in life and better market prospects. According to the authors, education has an important causal effect in explaining differences in many adult outcomes and health behaviours (Conti, Heckman and Urzua: 2010; Carlei et al. 2011: 174).

Economic growth during the transition period had a particular pattern in CEEC. Capital has provided a certain positive contribution to growth, while labour had a small or even negative contribution (IMF, 2006). In this respect, CEEC stand out among other emerging countries, where labour input has typically contributed substantially to growth. Most of the growth during the transition period was actually accounted by the increase in total factor productivity (TFP). Even though the classical source of TFP growth is technical progress and innovation, growth during transition was mostly explained by efficiency improvements in the use of capital and labour (Havrylyshyn, 2001; Jude and Pop Silaghi 2011: 72).

Starting in the late nineties, CEEC experienced a return to the classical factors determining growth, with an increase importance for innovation and technical progress. Once the transition period completed, the growth process in CEEC should be sustained by factors like capital intensity, innovation, human capital and competition (OECD, 2003; Jude and Pop Silaghi 2011: 72).

3. Romanian Higher Education Graduates in Figures in the 2006-2010 Period

Professional insertion of young people has lately become, both in Romania and in the European Union, a difficult process, which requires an increasing period of time from the moment of finalizing the last form of education, until the moment of finding a work place (Popovici 2011: 194).

Today exist in the world about a billion young people with the age ranging between 15 and 24 years old, 85% of them living in developing countries. The participation rate on the labour market among young people has decreased at a world level from 59.3% to 54.4% during 2004-2010, mainly because of the prolonging of studies among young people. In the European Union currently live about 62 million young people, which represent 12.7% from the total population. According to the data supplied by the National Institute of Statistics, there is a decreasing trend with regard to the evolution of young population until 2025. This evolution may be explained by the decrease in the birth rate, the increase of the period and level of education, the social mobility, women’s emancipation (Popovici 2011: 194).

The statistical data show that Romania, like other EU countries, faces a major problem of the labour market, i.e. young people unemployment. The unemployment rate among young people is three times higher than the average rate (20.8% as compared to 6.9% in 2009). The high level of employment among young people should be an important reason in applying some active policies that should aim at this vulnerable category. Within this group of unemployed people we usually find people who are not involved in training activities, graduates from high school, occupational schools, as well as graduates from university immediately after graduation (Herman and Dalalau 2011: 343).

Romanian Development Regions have no legal personality, being not subject to administrative law, but the result of concentration achieved at intercounty level, corresponding to NUTS II division of the European Union. By agreement of the local councils and county councils four macroeconomic development regions have resulted, in conformity with NUTS I division of the EU, each of them being composed of two regions, so there are 8 development regions across the country. The main objective for establishing these regions is to access EU funds in a unified manner and to achieve an integrated development of infrastructure projects at regional level (Avram and Pociovalisteanu 2011: 46).

Table 1. The Number of Female Graduates in Romania and by the Romanian Development Regions in the 2006-2010 Period.

Region / Year	2006	2007	2008	2009	2010
Romania	462740	520709	595369	618096	671696
North - West	64550	64878	68135	66455	68669
Center	46437	52520	61510	71187	79011
North - Est	54977	57101	58522	59492	61489
South - Est	31246	35079	40166	40853	43893
South - Muntenia	26131	26351	26726	23882	23976
Bucharest - Ilfov	164690	202755	252017	269718	303330
South -West Oltenia	26986	28897	33235	32637	34783
West	47723	53128	55058	53872	56546

Source: Eurostat

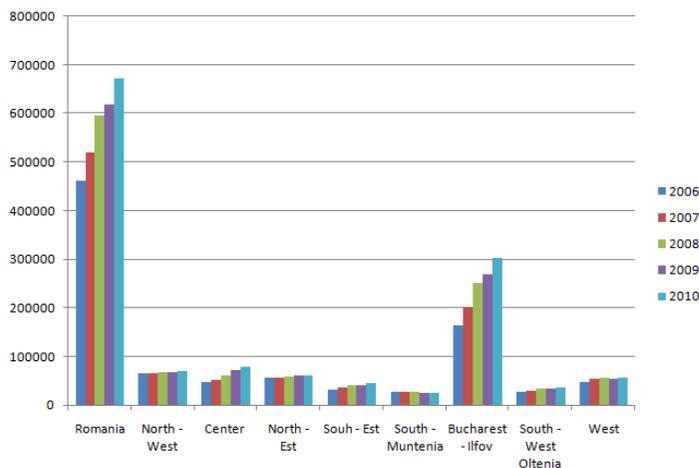


Figure 1. The Number of Female Graduates in Romania and by the Romanian Development Regions in the 2006-2010 Period.

Source: Eurostat

As Table 1 and Fig. 1 show, the number of female graduates:

- continuously increased in the 2006-2010 period at the whole country level;
- registered an increase trend, as well, by the eight development regions of Romania in the 2006-2010 period (with very few exceptions in some years of the period, in some of the the eight development regions of Romania).

Table 2. The Number of Male Graduates in Romania and by the Romanian Development Regions in the 2006-2010 Period.

Region / Year	2006	2007	2008	2009	2010
Romania	372229	407466	461253	480092	516337
North - West	51208	51199	52130	52344	53310
Center	39181	44759	48399	54690	59704
North - Est	40125	40836	43472	45005	46490
Souh - Est	25887	27570	30816	34096	36787
South - Muntenia	21852	19855	19895	19260	18990
Bucharest - Ilfov	129171	154886	194964	200382	223499
South -West Oltenia	23751	24805	27629	28271	29899
West	41054	43556	43948	46044	47656

Source: Eurostat

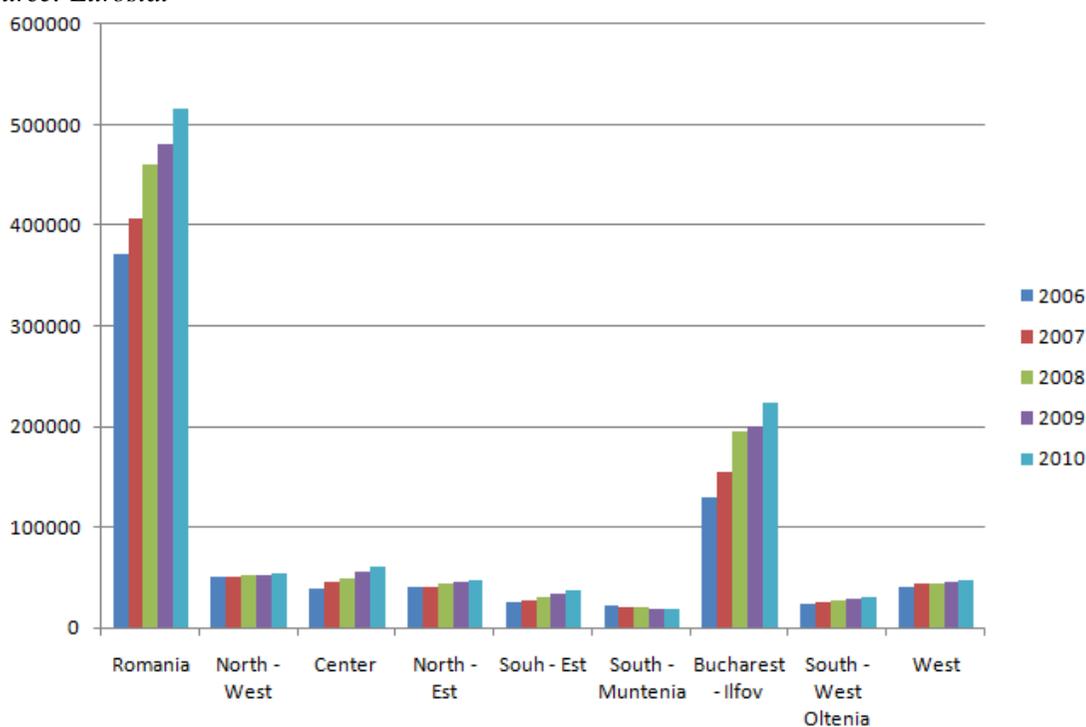


Figure 2. The Number of Male Graduates in Romania and by the Romanian Development Regions in the 2006-2010 Period.

Source: Eurostat

As revealed by Table 2 and Fig. 2, the number of male graduates:

- continuously increased in the 2006-2010 period at the whole country level;
- registered an increase trend, as well, by the eight development regions of Romania in the 2006-2010 period (with very few exceptions in some years of the period, in some of the the eight development regions of Romania).

Table 3. The Total Number of Graduates in Romania and by the Romanian Development Regions in the 2006-2010 Period in Romania.

Region / Year	2006	2007	2008	2009	2010
Romania	834969	928175	1056622	1098188	1188033
North - West	115758	116077	120265	118799	121979
Center	85618	97279	109909	125877	138714
North - Est	95102	97937	101994	104497	107979
South - Est	57133	62649	70982	74949	80680
South - Muntenia	47983	46206	46621	43142	42966
Bucharest - Ilfov	293861	357641	446981	470100	526829
South -West Oltenia	50737	53702	60864	60908	64681
West	88777	96684	99006	99916	104202

Source: Eurostat

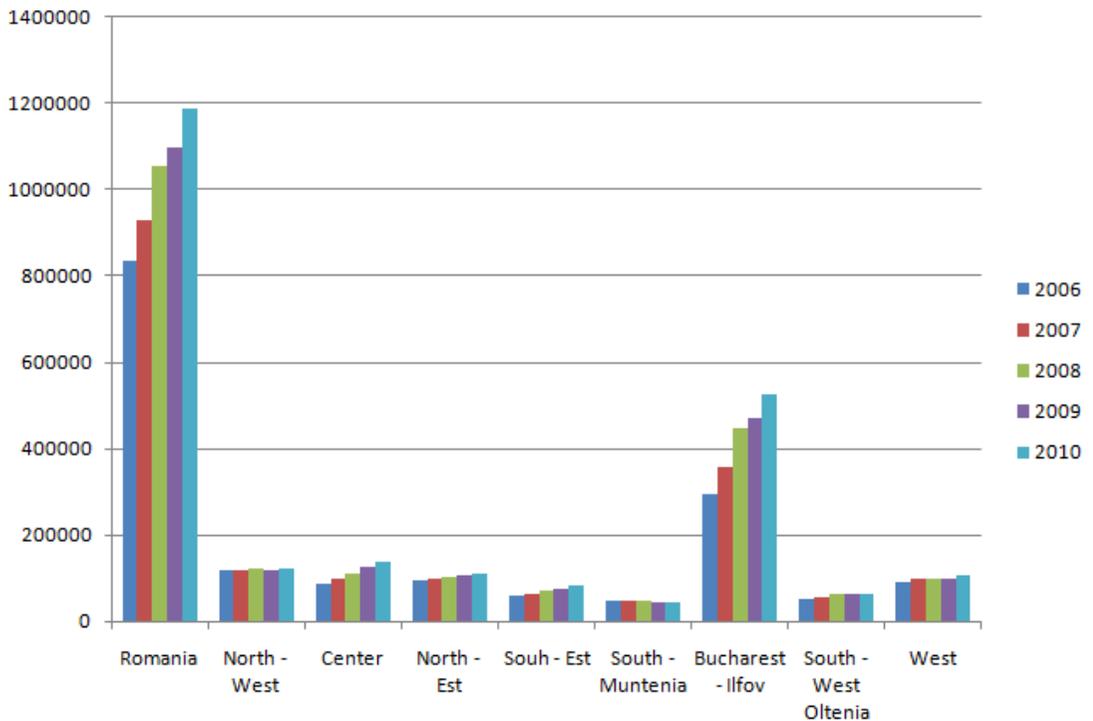


Figure 3. The Total Number of Graduates in Romania and by the Romanian Development Regions in the 2006-2010 Period in Romania.

Source: Eurostat

As Table 3 and Fig. 3 highlight, the total number of graduates:

- continuously increased in the 2006-2010 period at the whole country level;
- registered an increase trend, as well, by the eight development regions of Romania in the 2006-2010 period (with very few exceptions in some years of the period, in some of the the eight development regions of Romania).

4. Conclusions

The conclusions reveal that, during the analysed period: 2006-2010, the number of female, and, respectively, male higher education graduates, as well as the total number of higher education graduates, continuously increased in the 2006-2010 period at the whole country level and registered an increase trend, as well, by the eight development regions of Romania in the 2006-2010 period, with very few exceptions in some years of the period, in some of the the eight development regions of Romania.

Therefore, the Romanian higher education system must correlate the graduates number with the number of work places in the Romanian economy, and take into account the necessities imposed by the participation at international competition.

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LIFE AND EDUCATION - AN ECOLOGOMIC APPROACH

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Abstract: From the point of view of Hwa Yen philosophy, known as the „integrated angels” vision, live at the level of the Earth’s microcosms seems to be a system of reciprocally interdependent process penetrated by becoming and not becoming which can be expressed using the formula: „ONE IN ALL; ALL IN ONE; ONE IN ONE; ALL IN ALL”.1

Based on this old and new vision that is beginning to shape as a result of research in fields like quantum physics, systemic biology, holist medicine, transpersonal psychology and other sciences, as a beginning of knowledge paradigm through wisdom2, life is in a continuous „alive cosmic living” with a centre anywhere and the circular line nowhere, in a „created environment”, as an ability-answer to the interaction between peoples’ expectations and nature’s „graspingness” in a „consciousness environment” where, in fact, we meet our real “inner world” of common coexistence and succession.

Key words: education, global economic crisis, harmony, ecologic and social deficiencies, ecolonomics.

JEL clasification: I20, I29.

In this complexity of „whole integrated beings” life, says Leonard Shlain, there have been invented sex and death. „Without sex, there could not be diversity and without death, there could not be individuality”3.

Taking into consideration the fact that the human society is part of this complex “whole integrated beings”, man’s intervention as a social being was needed. It was patented as education, as the art of learning how to effectively govern our own life in harmony with who we are, with the whole living we are organic part of (Fig.1)

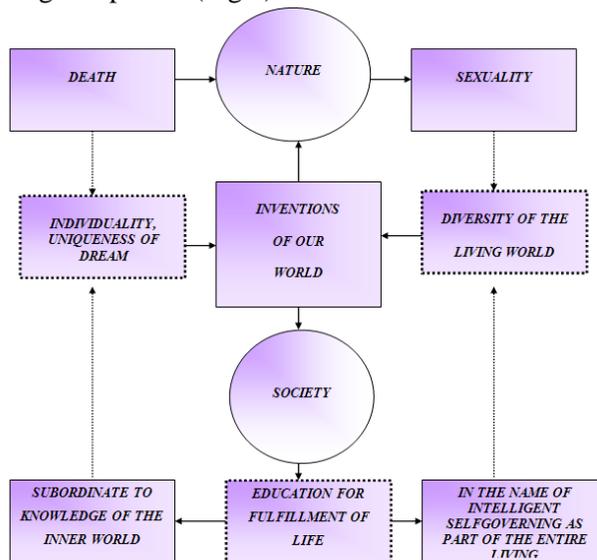


Fig. 1 Inventions of our microcosm

A true education is the **ability-answer** to the wisdom of life as a whole, in order to create a unitary social human being capable of integrating itself in what is in itself **self awakening, wisdom and love**.

While through **knowledge** the human being becomes able to master the intellectual abilities necessary for the relationship between man and nature, through **wisdom** it becomes able of understanding, through awakening, the essence of life as love in harmony and humanness.

The invention we name education is called, says Krishnamurti, to help the human individual to “freely grow up, develop through love and humanness”⁴ in order to be able to understand itself, to better himself and grow beyond itself, to live in harmony with its peers and the whole common living.

Education in love, as the art of learning and living the value of life, is the expression of wisdom according to which “without love, no human problem can be solved ... only love can help understanding the other. Where there is love, there is instant communication with the other at the same level and time”⁵.

I. EDUCATION FOR SELF TRANSFORMATION

The present global crisis, characterized by the representatives of the new science approach⁶ as a crisis of values, an intellectual, cultural and moral crisis that negatively affects the human economy and society, the living standard and quality for most of the citizens, the interactions between the human-created environment and the natural environment highlight the existence of the **worst ecologic and social deficiencies** of the known history in our evolution.

This state of things that characterizes our inner and outer world is not hazardous, it is not the result of God’s will or the evil and hard nature’s will⁷, but an expression of the most profound behavior, human and institution deficiency that we call **love deficiency**⁸. This people’s behavior the choices they make between the two unique moments of life and death are the result of an education built on the principle “win-loss” that we call **incoming lane education**⁹.

In his competition for living, man has transformed himself and has grown based on this principle, proved by the fact that certain countries today are economically developed while others are not, with **inhuman differences** between the rich’s and the poor’s’ financial wealth, the former with no relation to the human biology and decency laws, and the latter being unable to ensure survival on a planetary scale where we have a global production (a global GDP) that has highly risen by comparison to 100 years ago by more than 2/3 of this growth called “economic growth” has been made by highly polluting the environment, not to mention a series of inappropriate economic goods endanger peoples’ health! If to all these forms of the “win-loss” principle we add that part of the global GDP is represented by goods of cosmos technical arming, which endanger life as a “living whole”, we have the picture of the dramatic consequences of applying an educational model that generated human and institutional behaviors beyond the fundamental values of life harmony within the society¹⁰.

The ecologic and social deficiencies that accompany the present evolution on global scale are the result of the love deficiency that the present model of education has promoted by highlighting the formation of experts separated from life’s values of harmony and humankind, solidarity, social communion and compassion. **The man inside today’s expert is almost missing!** In fact, this means that the core is missing from peoples’ education: use science and experience in the name of wise self-governing in harmony with who we are, with the whole common living. This kind of life essence means, as Einstein used to say, living in love, aimed for the life of others. “Man’s life, says the scientist, makes sense only to an extent to which it elevates and beautifies any living being’ life. Life is sacred, in other words, it is a supreme value, to which all the other values subordinate. It is only worth living a life dedicated to others. A life mainly aimed at satisfying the personal needs only always leads, sooner or later, to a bitter disillusion. If you want to live a happy life, relate it to a purpose, not to people or objects”¹¹.

If we had been trained to love the land, we wouldn’t have polluted it! If we had been trained to love children, we wouldn’t have started so many wars where children died together with innocent people, with other living beings! If we had been trained to love life, we wouldn’t spend ten times more for arming instead of man’s formation in freedom, humankind and harmony! Here is what Mihaly Csikszentmihalyi said about what was happening in 1985 in the USA: “It is right that, although the American budget for

education has risen as the military budget for about three times, it is still 17 times lower than the military budget (17.4 billion dollars and 284.7 billion dollars in 1985)”¹².

If we had been educated to love each other as coexisting generations that follow each other, we wouldn't have promoted an economic growth whose resource consumption highly exceeds the planet's incapacity of regeneration!

If we all had believed in the certitude of hope for the better using knowledge and faith, today we wouldn't break these two sides of the human spirit and witness the danger that the gains of our minds and hands turn against our lives. We wouldn't witness “man's fall” from ethic values in using science and technique! In this spirit, Pope John Paul II said that: “Today's man seems to be threatened by what he himself produces, his trends and will... these results turn against man himself; they are aimed or can be aimed against himself...The development of technology and the advance of present civilizations, marked by technology control, require proportional development of moral and ethic lives. Unfortunately, the latter always seem to be left aside”¹³.

An expression of “man's fall” is the loss of hope, especially for the young generation.

In this way, Philip Baker cited an anonymous writer who, through his sayings, illustrated that in the second half of the last century there took place processes of gradual loss of innocence, later loss of authority and in the end, loss of hope!

Here is how wisely the anonymous writer would describe what has been going on until now with the young generation:

“In the 50s, children lost their **innocence**. What helped them tear apart from their parents were the highly paid jobs, the cars and the lyrics of new signs that gave birth to a new term – **generation gap**.

In the 60s, children lost their **authority**. It was a decade of protests –the Church, the state and the parents were contested and it was discovered that they were defective. Their authority was rejected and was not replaced by anything else.

In the 70s, children lost **love**. It was a decade focused on the own being, dominated by the collocation where the word self predominated: self image, self esteem, and self affirmation. Thus the world has become estranged. Children learned everything about sex but forgot everything about love and nobody took the initiative to tell them the difference.

In the 80s, children lost **hope**. Ripped off after losing innocence, authority and love, terrorized by the horror of nuclear threat, more and more members of their generation ceased to believe in the future”¹⁴.

These reverse lines of our common living are debating the basic principles of education and its different subsystems, the fact that there is “a total lack of accordance between the human being and the complex contemporary society. The ecologic crisis and the growth of poverty, famine and violence oblige people to urgently face a new reality. For this reason, I propose a totally new approach of the education principles... For Krishnamurti, a new mind is possible only when the religious spirit and scientific attitude are part of that movement of the conscience – a state where the scientific attitude and the religious spirit are not two parallel processes or abilities of the mind”¹⁵.

From this point of view, life as a reality lived by each of us and all of us together seems to need a **transformation of sense**, a respiritualization of its deeds which should lead to the change of the human mind and creation of a new culture, which can allow the human being become aware of its own thinking process, senses and actions, inner maturization in order to build and live within healthy relationships with the peers, nature and everything that man created. The understanding of the transformation processes that must take place in our inner world is organically conditioned by the knowledge of life meaning in its whole. When referring to this wise ideas, Kaiserling said that “anyone who desires to improve previous conditions must start by making man better on the inside.”¹⁶ **To this knowledge through understanding process we can only be led by education in love!** This and only this is the measurement of transformation of the human being which has the ability to understand **what life is**, that is who we are as living beings that live a unique and irreversible spiritual experience during the space in this cosmic world¹⁷.

In accordance with this new vision, where only education in love can wake the potential power to understand who we are in an array of diversity, defined by what it is, we wish to highlight a few **countersense's of the present educational model** which are the origin of deficiencies in human

and institutional behavior which produced the **global economic crisis** of today, where we find the spring of education beyond love crisis (Fig.2):

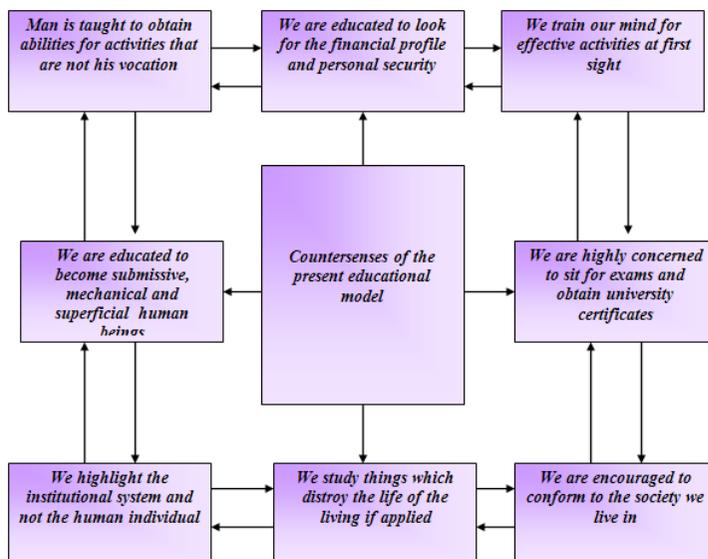


Fig. 2 Countersense of education

Among these oncoming lines of the present educational model, which have already laid the bases of our behaviors defining our “rent mind”¹⁸ with which we look for meaning in all our choices, we can highlight the following:

- We are educated to look for the **pecuniary profit and personal security**, fight for them working in professions that are not proper for us, do not make us happy in an environment based on “win-lose” competition, exploitation and fear of not complying to it, fear to lose the job etc.;
- We train our mind for **first sight efficient activities**, forgetting the **efficiency based on love**. In fact, we replace it with the efficiency of greed and ambition, where tough and destructive competition chooses on top of the competition not the best humane person, but the strongest;
- We follow **to obtain knowledge, abilities and skills** necessary in order to fulfill life through work, but most of the times our activities are not vocational, not to mention the fact that we are becoming more and more dependent on a work do we not like, forgetting to live and love. **Man works to fulfill his life and does not live only to work!**
- We are more and more preoccupied to take exams and obtain certificates and university degrees believing that in this way we become more intelligent and more attractive for the business environment, forgetting our problems and avoiding them, thus breaking off with the essence of our transition in life: live, by self wakening, by entirely understanding life, as a lived life, as work and as love, as an organic part of the entire common living;
- We are educated **to become obedient, mechanic and even superficial human beings** who, in the relation to who we are, we turn into incomplete people, stuck in an intellectual sterile project like **man against man**, without obtaining the wisdom to discover life’s long standing values as thoroughness, and in acts of deed to become people who are honest, fearless, free of any theory or thinking models that cause aggressive and ambitious conflicts, generated by the will of power and dominance¹⁹;
- We are in the model of education that **encourages us to conform to the society we live in, as “a negative face in harmony with the society”**²⁰, instead of developing our real spirit of intelligent discontent that accompanies “the sharp perception of our thoughts and feelings. Only by facing experience as it is, without looking to run away from its stirring nature, we shall

succeed to maintain intelligence as awake as possible. In this very awake intelligence there is intuition, our own real guidance in life”²¹;

– **We are preparing to learn things which applied in life will finally destroy ourselves.** In front of all kinds of wars, even if we are aware of these adversities, the human individual is not capable of opposing this system, either because **he is not educated in the spirit of courage to revolt wisely**, or because he is educated in the spirit of “courage” to be afraid;

– By giving attention to technology, actually means **to accept an education that cultivates narrow and partial efficiency without understanding life, without a healthy perception on the human exigencies in society.** If we have scientists in different fields of technology and not only, does it mean that everything they build is done from the point of view of understanding life as a whole? How simple and directly did Einstein answer to this problem: “Care for man and his faith must always represent the main purpose of all technological efforts ...so that the creations of our mind to be a blessing and not a curse for humankind. Never forget this when you are caught in the diagrams and equations in your minds”²²;

– By highlighting the institutional system and not the human individual, the present educational model cannot fulfill the fundamental change in the name of freedom in responsibility, love, humankind and harmony being necessary to have an educational system where **the human individual is more important than any political system**, be it left or right;

– **We created an education system based on accumulation of information from books**, on training generated by man’s need to exist, apart from self knowledge, apart from understanding as life as a whole creation, which generated a confusion of our aims, as Einstein called it²³, fake reports between people, between people and things, between different thinking ideas;

– We realized that **a material progress, based on highly advanced technology in our different professions, we succeeded to produce faster, more and more efficiently from a financial point of view**, but all these things led to **growth in our power to pollute the environment, to destroy each other, to be more and more dependent on a work we do not like, does not make us happy** and all these things, in a poorer world living in misery and fear, on the whole “Humankind is not a peaceful and happy species”²⁴.

Still, if all these oncoming lanes can be based on inadequate, untrue and incompatible education with the meaning of life lived in society, then we believe it is our duty to show the directions to follow in order to **respiritualize education**²⁵, in order to create an educational system, that starts from the most urgent and urging need for today’s human individual: “to wholly understand life, which would allow him to face its growing challenges”²⁶.

In conclusion: In order to respiritualize education’s functions, the real education must start from deep understanding its functions, which are in sense understanding with who we are in order to freely grow up our responsibility, develop ourselves through love and harmony, in solidarity and social communion and continually look for the truth from our inner and outer worlds.

From the point of view of understanding what it is, and not what it should be, there derives the initial function of education, by helping the human individual better understand himself in order to become who he is and not who we imagine he should be. Based on this initial function, Krishnamurti says that “ideals are not proper in education as they block understanding of the present... When you have in view an idea, a model, when you have a formula for everything that should be, don’t you lead a superficial and automatic life? We do not need idealists or mechanical-minded entities; we need whole, intelligent and free human beings”²⁷.

A long as we do not approach with our mind that we really are, we shall not really be free. Thus, education and only real education can teach us to become aware of what we are. Man, through education, can be modeled in order to freely grow up in his own becoming only by becoming aware of who he is and not following an ideal model, a certain typology or religion, which can become conditioning means from the perspective of what he must be, either as a fabricated, thus ignoring the present, or what he is in fact.

II. EDUCATION THROUGH LOVE

By helping man freely grow up through formation of his consciousness about **who he is** in the **present defined by what he is**, real education does not sacrifice present for the sake of the future as utopia, as ideal model, regardless of how attractive it can be, but uses what it is, that is the present, in order to become **integrated human beings capable of own intelligence, independent thinking and the mission to understand** that “Life is not made to conform to any system”, it cannot be locked within a framework, however noble it is”²⁸.

Based on this initial function of education there are other functions with the same roots, that are built in the name of initial wisdom and also „systemic wisdom” according to which we cannot fulfill our life but in harmony with who we are, with our peers, with the entire living we are organic part of²⁹.

Thus, **love becomes a complementary function of real education**, oriented in what we are and what it is, in sense that only living life as a whole can lead to understand the other, human solidarity and social communion, synergy with the others at the same level and at the same time³⁰.

Education through love, starting with the family and continuing with the other institutional forms considers that parents and tutors must **understand the young-man** as he is, **observe his inclinations and tendencies, his character and particularities within a long process of patience and praise**. This education through love, even if it comes from parents or tutors, becomes true from the life point of view because it does not struggle to impose on the young man a life ideal related to what we believe he should become, it does not aim at freezing young human being in a spiritual project that does not match him, forcing him to conform to, thus generating fear and permanent inner conflict between what it is and what it should become.

Experiences from all possible life categories highlight that when parents or tutors regard young-man through „the screen of an ideal”, then it can become a real spiritual, psychological barrier in order to understand who this young human being is, by putting this ideal-model in disagreement to who he is, **in fact means that the elements of the education equation love the ideal and not the child!**

A complementary function, education through love needs **dedication** from parents and tutors, **attentive study** of the acts and deeds in order to understand their cause and discover their trends and particularities, **patience**, which allows self clarification of what he is and why, **constancy** of the effort based on the free maturation of the living being which is affectionate, beautiful and ugly, changeable and easily impressionable, responsive and bearish, etc. Even where this ideal model is born, as a profound form of understanding who we are, it must result from love, because beyond love, human problems we face during our lives cannot have long-lasting and healthy solutions. Besides love, there cannot be solved any serious issue of our world!³¹

Education through love, from our parents and tutors, must result from the **harmony between their mind and heart**. Where parents and tutors do not really love their children and students, we notice that their ambitions or their life style are imposed on young people without understanding the huge harm this constraint can produce for the fulfillment of the human being, its happiness as freedom in duty (Fig.3):

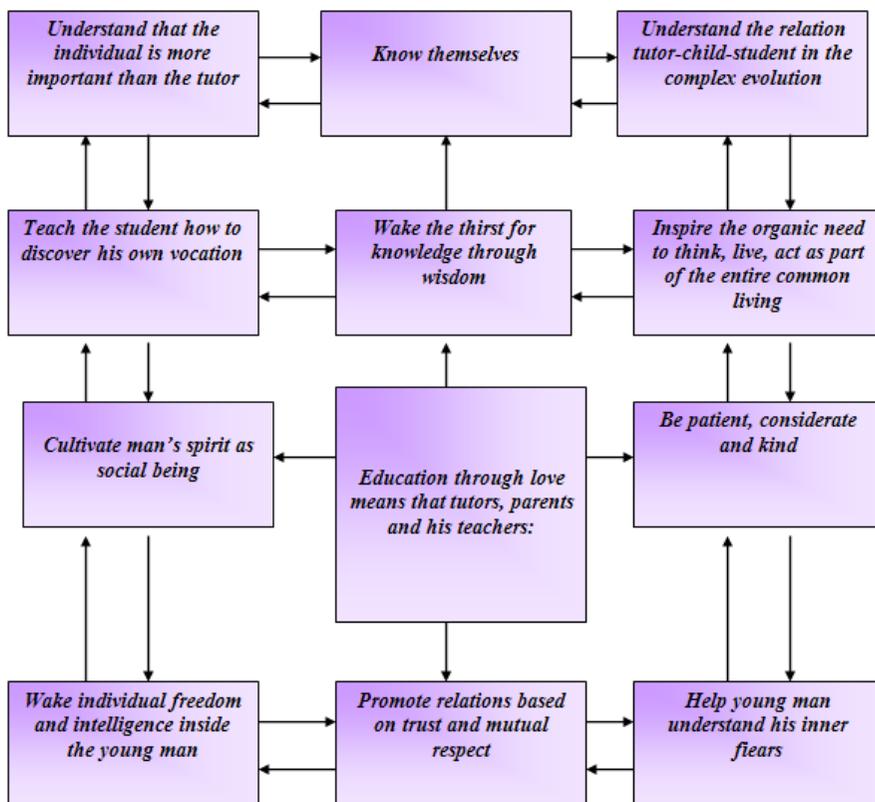


Fig. 3 Exigencies of education through love

On the grounds of self knowledge and wisdom of love as inner force capable of solving any human issue, there can be made **another function of education, that of teaching young-man to create new values**, by awakening the wisdom to freely grow up, so that the exchange of the existing values, as well as the attachment to life's longstanding values take place based on consciousness from the whole life process which is based on harmony, which only adequate and real education can embed in peoples' minds, hearts and souls.

The creation of new values within education through love we do not wish to change the human being in order to model the maturation of the human being that make it understand that our current values headed us towards wars and pollution, greed and poverty, terrorism, domination and exploration, etc. In fact, we do not need an education that helps us adapt to this kind of society, to make it better for us, but a real education that creates though itself consciousness and love, the organic need to consider the human individual as a replacement of the education system. If the values resulting from self consciousness and love lead our choices to authentic cooperation between people, long-lasting solidarity and social communion, for inner peace and later in families, communities, nations, only then can we say that this environment dominated by love and humankind, in sense evolution in total harmony with the entire common living we are organic part of, as beings that live a unique and irreversible spiritual experience.

When we do not have our own values, when we attached to the existing ones, with the desire to cut it best, as we have been raised and educated, it means that we accepted that the educational system, the general system to dominate us, it has become more important t than man. In the end, it gets to produce the worst incoming lane of evolution: „The system turns into a replacement for love and we attach to it because our hearts are empty”³². If real maturation of the human being cannot be done but in its real freedom, then only education through self knowledge and love can

give birth to change as value paradigm in the young man's mind, heart and soul. When this change took place through self consciousness and love, there is automatically born that inner force that opposes the system as love replacement, trying to dominate through discipline, ideologies and other constraints that generate conflicts and fear, punishments and compensations, cultivating freedom of duty, wisdom for self knowledge of life as thoroughness, reciprocal affection and mutual respect helping the young man understand the essential: „free yourself from the mind constraints while searching your own safety and comfort. Fear cannot be cast away as long as the mind searches safety; and the human beings are enlisted under any shape, and the mind's sharpness and intelligence are destroyed”³³.

Having in view the fact that the human being cannot fulfill itself but as a social man, who thinks and lives as part of the whole, a transformation of sense from our inside to the outside **needs a social function of education aimed at establishing wise reports** „not only between individuals, but also between the individual and the society in general... intelligence means to understand yourself, to better yourself and to go beyond yourself...”³⁴.

Within these reports, it is essential that education casts away the instinct fears from childhood; promote this intelligence to eliminate fear that „foreshadows all our conception about existence”. Only if education succeeds to make us fearless, it means that we lay the bases of education through love, through constraints freeing, the only facilitated to wake profound wisdom in order to transform us in a creative way in the name of love, solidarity, social communion and compassion.

Through education based on self knowledge and love we lay the real bases in order to eliminate fear, consideration or punishment in any human action in order to live and work in the spirit of reciprocal respect, using patience and effort as rules for voluntary exchange for cooperation for better. Where there is reciprocal respect, voluntary exchanges and trust for fulfillment, there are the systems of recommendation, promises and threats, which develop the feeling of acquiring and fear, forming a social structure based on competition, antagonism and brutality.

To the extent to which both the teacher and student are freed of fear and punishment, of „hope to obtain rewards, and free from any form of constraint ... we find ourselves as associates and in this case cooperation and reciprocal affection are possible”³⁵.

Thus, we need a **social education** to help us understand that if we want human beings to have relations of cooperation and reciprocal understanding, they must be beyond any kinds of constraints because only in case the human being is fearless, can it think „independently of any authority, including organized religions”³⁶.

Education through love cannot be separated from the **organic need to cultivate freedom to look for the truth beyond everything we know, beyond self knowledge**, where there is the mystery of understanding the outer world we are part of, and our inner world that we call consciousness. This **new function of education** lives and is fulfilled in harmony with the others!

In tight connection with these functions, organic part of real education, the **religious education** needs to help the young human being and the adult, man as integral being, to clearly think beyond ardor, be aware of himself in an intelligent manner, love and not hate in antihuman relations, discern for himself the truth from the lie, instauration order and peace in our world, always be curious and ask, adopt a behavior of curiosity etc. By encouraging the young or adult human being to always ask himself why things happen within the inner and outer world, there are laid the bases for the curious, agitated, critical and beautiful spiritual deep nature. Only through harmony in education through knowledge towards wisdom and education through faith in the certitude of hope can we build inside us a whole free living in responsibility; a discontent that generates self knowledge, which can form a type of maturity that is not related to age but to the curiosity for research and understanding³⁷.

In tight relation to these requirements, education has the function to help young people find their calling and responsibilities, grow up fearlessly, happy and honest, know their inner nature, their

own recess as an integrating reunion of the three human powers, mind, heart and soul that generate wisdom and inner transformation, the energy of vigil. „Only awareness of death, says hierarch Antonie of Suroj, will give life this vigil and depth, will make life so intense that it will totally relate to the present”.³⁸

On this magic road it is essential that education through love harmonizes technical knowledge with self observation, with the understanding of whole vision on life so that human maturation in freedom comprises both the process of self knowledge and the inter human relations, relations with the mature, connections with the world of ideas, beliefs, consciousness.

For these functions of education to help us intelligently self govern in harmony with who we are, with our peers, with the whole living, it is important that education trains experts starting from the need to form man from engineer, economist, doctor, lawyer teacher based on the values of freedom with responsibility, love, kindness, self knowledge. We can only reach this level if every parent and tutor could produce in our inner world the change we wish to take place in the outer world³⁹.

In this way, the purpose of education is to help the human being find freedom and honesty through wisdom, love, humankind and harmony in order to be able to understand the relation it is in with itself, with other people, with the nature where it lives, with the ideas and things that derive from them.

Only by understanding ourselves through knowledge and love can we transform our inner world from our consciousness through knowledge and love, reach the understanding that all we think, speak, make the real environment for harmony between our inner and outer worlds (Fig.4):

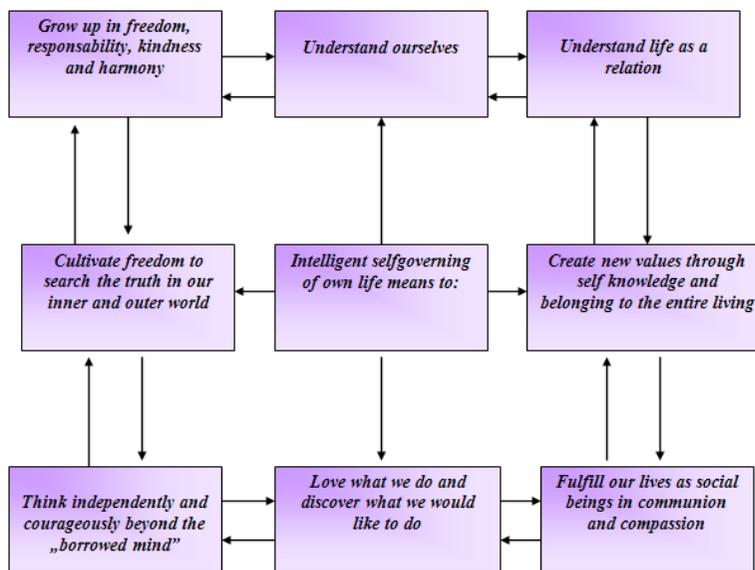


Fig. 4 Functions of education from the point of view of the „health of the entire living”

III. EDUCATION AS UNDERSTANDING LIFE THROUGH RELATIONSHIP

By considering our existence as a living whole of relations, between the two unique and irreversible moments, birth and death, the understanding of these relations means **scientific knowledge** in order to understand what is inside our inner and outer worlds. This type of knowledge where we integrate **self knowledge** is an uneven process that is the grounds of the human being in freedom.

From this point of view, **ignorant** is only the person who does not know the laws of our outer world, as they are discovered by science but also the person who does not understand the laws of our inner world that belong to our consciousness where it seems that there is the whole world of our common coexistence and succession. Education and only education was invented in order to understand the human individual transform from the inside to the outside, starting with his own nature to the array of unavoidable vertical and horizontal relations he has along life.

The result of self knowledge is the expression of wisdom and self awareness as an integrating process that generates the psychological lenses which help us understand and relate to the existing world. These lenses through which we reflect to who we are and the surrounding environment are based on **the bolt of fundamental values**, the one that filters from the inside our points of view, attitudes, behavior in our choices, acts and deeds.

As life means love in a system of relations we are part of, self knowledge, as form of real knowledge, is organically determined by love.

While knowledge springs from our mind's ability to discover what exists around us, **love** is born from the heart's energy of not being „borrowed mind”, to really be who we are.

In our mind, with its good and less good things, there are born the different explanations we give to everything that goes on around us in our world, especially our outer world.

It seems that in our inner world we do not have the necessary **distance**⁴⁰ in order to understand. Here comes the heart with its unique ability to love. From love and only there comes the real knowledge that our „borrowed” mind allows us develop in freedom, free from any imitation, authority and fear especially inner fears⁴¹.

Without the harmony between these two human powers, the power of the mind and heart, it is not possible to use knowledge in the name of freedom to be who we are. The deficit of this harmony, its lack and even the conflict between them is the expression of **education deficit, education without love and beyond love**.

From this deficit of inner harmony there is born **Imitation** „o what is considered we should be” and then comes fear which kills any creative and healthy thinking⁴².

If a natural rate of fear is necessary, as Cioran says, **fear excess**, just as **fear absence** highlight the breakages that can take place between **mind knowledge**, which is reason, **logic** and **love**. Through a type of education that addresses young men's both the mind and the heart who are on the road of their own inner freedom, we can create the precise deep and constant lucidity which capable to hold our fears within the limits of a „natural rate”. And, especially befriend them!

Either conscious or unconscious, fear is not bad in itself, but due to its consequences. One of its worst consequences, their integral sum, can be expressed by the fact that ...anything that results from fear can help us understand our problems, especially because fear can be expressed as respect or submission towards the so-called wise men⁴³.

What is the result of this interpretation? The fact that in „our desire to be right, to be safe, to live comfortably, not to be bothered by conscious conflicts”⁴⁴, there is man's need to accept authority, that is to give up to who you are and blindly obey to domination with the help of science and belief, politics or other handy instruments to human individuals, groups and even governments.

Acceptance of authority means denial of own wisdom, renunciation to development and self knowledge, denial of own identity, own transition in life.

What is interesting in this mirage of our unique path in life? There where there is a **deficit of inner harmony, mind or love**, or both, the human being tends to fill in this ”inner gap” with a certain type of constraining authority. Each human being, with higher or lower deficit of inner harmony builds its own authority, as the authority of its inner world. But this authority does not rest there, because it would be redundant. It transforms, through the relations that define our life, in the authorities of the outer world, within family, business organization, church, state etc.

Here is how Krishnamurti explains this psychological and socio-human process. „We have the unstoppable desire to have certitude, to be right, to reach success, to know, and this desire for the

authority of our own experience while safety and permanence build within ourselves the authority of our own experience, while on the outside it creates the authority of society, family, religion etc. We must be aware of the whole process of authority; we must perceive its psychological causes; we must understand and overcome the thirst for certitude; only then can a great and insightful lucidity act; this freedom is necessary ever since the beginning, it is not an end”⁴⁵.

Only if we place wisdom and love at the grounds of our education, from the point of view that **life means relations of integrated whole type**, shall we be able to accede the purpose realization of this social invention, that of **teaching young people free themselves and develop in love, humankind and harmony**. This art of education which is guided by self knowledge for self knowing as relation of the type „integrated whole”, is the only one that can help us obtain the necessary intelligence for understanding life’s course, it’s real values in order to live each experience as unique and singular.

Only knowledge based on science is not enough. When this type of knowledge starts with self knowledge, with the inner world of conscience, it can gradually turn in wisdom, opening our mind not only for over saturating it with information and knowledge but also opening it in harmony with the heart, love which do not derive from books or formulas learned by heart but from what we live and feel as an organic part of the whole common living.

This means that we pass from „knowledge means power” to „knowledge means wisdom”. Wisdom comes from that type of knowledge that helps love. This type of knowledge is not a commodity that can be sold and bought, it is not the result of fear or domination, and it is the real harmony between reason and love, between the power of the mind and the power of the heart.

While through the **intellect** we disintegrate ourselves, we separate, devise, through **intelligence** as the „integrated wholes”, we become **integral human beings** who harmonies a just thinking way with love, understanding the whole process of the consciousness as reason and sensitivity!

IV. LET US START WITH THE TUTORS’ EDUCATION

In order to fulfill the real education, which helps the human being free itself in freedom, understanding itself in a relation of the type „integrated whole” it is vital that the process of transformation does not start with the man-child but **with the parents and with the tutors**, who are in fact the **key of the equation of respiration of this social invention**. Thus, the problem of education, ever since this invention has been patented, is the **tutors’ education**. Without this beginning and this continuous training process of man through calling, a man who understands that „education is not a manifestation of the tutor’s personality, but an unsparing trait”⁴⁶ is difficult, if not impossible to fulfill a deep sense transformation which understands that „the real culture is based not on engineers and technicians but on tutors”⁴⁷.

Thus, the real education starts and continues in love and continues the tutors’ education – parents and teachers.

If we have in mind the fact that during all the education process the young man has to be guided and helped learn, those entitled to do fulfill this socio-human mission must themselves be in the situation to:

- **know themselves**, in order to understand if this concern to „model” the human inside really matches them, it is a calling or a replacement in order to survive in case of crisis;
- **understand that the Youngman’s life is a system of relations**, where the **relation tutor-student is definitive** in order to freely model the human being in love and harmony;
- **act as a guide who** has to teach the young man „what” to think and not „how” to think;
- **love his own children or students** in order to be continually in communion, understanding different natures, difficulties and skills, in order to make the future human being a free responsible man, oriented towards wisdom and truth;

- **understand that the truth is more important than the tutor**, that the preoccupation to blast the search for truth is the tutor's real religion which does not belong to a new ideology, country or belief;
- **help the student discover his main center of interest, his seal calling**, in order to be able to love his future work, place it in harmony with the other exigencies of life;
- **really guide the students and not their number, developing a permanent contact, based on trust, with the parents**, from where there should result the reciprocal involvement in man's modeling; who understands and loves freedom as responsibility consciously and willingly taken;
- **Manifest patience, consider authority and goodwill** in the formation of an intelligent, honest and sensitive man, highly dangerous for the false values of the society he lives in, and open to creativity in the name of „health of the entire common living”.
- **help the young human being understand his inner fears** – parents, environment, God etc. – to free himself from all these fears knowing that fear limits creative thinking and generates the conflicts in the inner and outer world, blocks maturation in freedom and responsibility in humankind and harmony;
- **practice a reciprocal educational process** under their relation student-tutor, the only entitled to eliminate domination and constraint in education, direct obstacles in the formation in freedom, love, wisdom and humankind;
- **awake individual freedom and intelligence** where there is in fact the spring of conscious or unconscious desire of encouragement and help beyond us;
- **help future people understand life with its experiences that teach**, on condition individuals live within freedom in love, humankind and harmony;
- **Not enter the state of „live-laziness”**, when repetition and routine stuck you in a project, probably because we acted according to the principle „the right man in the right place...for another”!

From the point of view of these exigencies that are stand before the vocation tutor, for real educate, in the sense of life and for the entire life, we must admit that an education that frees man is a real danger for all political and religious ideologies that today dominate our world. This is why it is vital that education isn't controlled by a government or religion, it must be **universal**, as invention of the human society in order to teach people grow up in freedom and responsibility, humankind and harmony, transforming authentic knowledge in creative wisdom.

In order to have **brilliant parents** and **fascinating tutors**, each of us needs on the inside to make a change of sense of the freedom to be and, on these grounds, the tutor will be able to represent „the most honorable and responsible” profession within a human community that constantly orients the young human being towards wisdom and truth, where the search for truth represents the flame that maintains harmony in humankind through wisdom and love.

This tutor does not intend to form man only as production factor but to form him from **broader points of view**, of teaching him to manage his life as integrating part of the „living whole”.

From here there derives the essence of education through love. An education that is not against knowledge, which does not regard this process only as knowledge and information gathering but as an active process of teaching the mind to search prosperity and life fulfillment, answers to life's challenges in cases of incertitude, answers which refer not only to the requirements of the present but also to broader prospect regarding life, work, love as integrant part of the time lived in a certain space.

For this reason, education through love must be concerned with teaching the human being which cannot fulfill itself without knowledge and cannot stagnate at the same level because it would mean to live not only on short human term, but on short stages of life, neglecting the essential: life as thoroughness, totally and not fragmentally lived. What is the meaning of life as

fragmented answer, in fragmented parts of life, when we all know that all and everything are in one?

The tutor must manage a broader perspective of the future human living and no man's transformation in a factor of production specialized on the moment and not „specialized” in the long run for self governing our own life, in harmony with ourselves , the peers and the whole living.

Thus, we need **new education** to approach the human individual's life as thoroughness, not in superficial but in deep as **profundity, width and high** of behavior in action and feeling. Feeling and action are not two different things. For this reason, when we talk about the compaction spirit, as action and feeling, we must admit we are in front of a new destructive model not only in education but also in life, including economic life!

That is why, when talking about education as love, as essence of the lived life, in interrelations, **school**, with its **education entrepreneurs** – tutors – the **family**, with its **natural** supporters, although in different areas of time to be, they must teach the human-being **understand the deeds and acts that take place and realize that this reciprocal relation**, as understanding, and later realize if the **communion feeling** is preferred, where you can learn or the **competition feeling**, where the best is born from who we are and what we have become! (Fig.5):

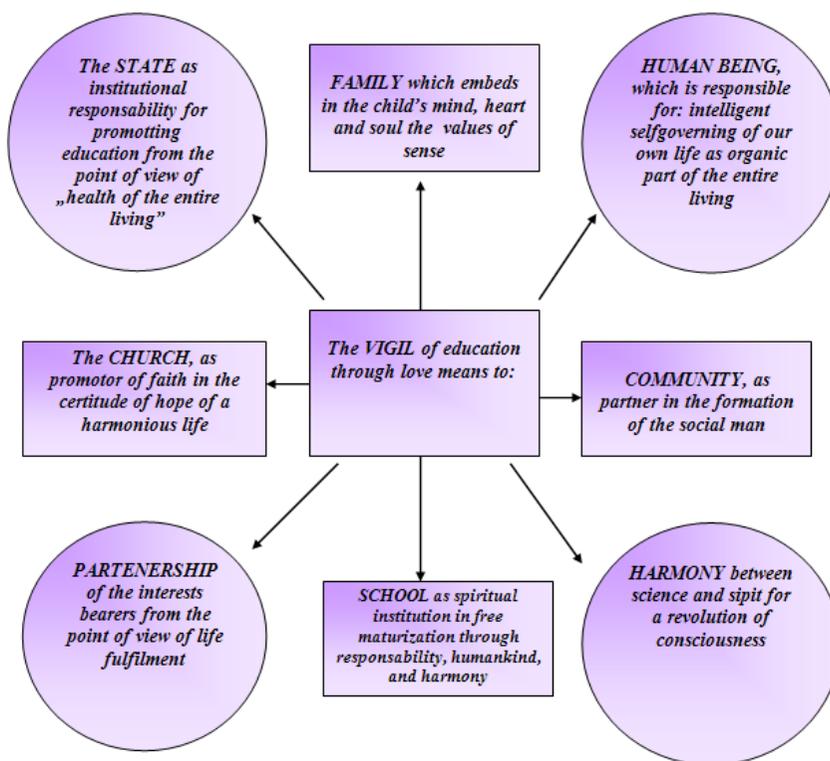


Fig.5 Model of education respiritualization

As tutors, it is vital to fulfill the communion not only with ourselves but also with those we „educate, as that together to reach the old Hwa Yen wisdom which today is comprised in the formula: „Where there is no love, there is no Education; Where there is no Education, there is no Wakening; Where there is no Wakening, there is no consciousness of the sense; Where there is no understanding of the mission, there is no „why”; Where there is no „why”, I must live, it does not spring from „why”; Where there is no „why” there is no „energy of the effort” to live, as energy in action; Where there is no energy for the action to live, faith is due to „deficit to live”!

In the magic of the road chosen by the tutor, it is essential for it to be led according to the rule of the „whole integrated”, in the „education bead” as in the rain bead there eyes the whole life, the whole rain, the whole flux towards happiness, the entire universe, the entire ocean, the entire living in humankind and harmony. This way of regarding education through love for the social human being must take into account the fact that „society anything to induce fear, establishing norms, religious ideals, class differentiation, successful ideas, feeling of inferiority, distinction between the poor and the rich”. Society makes everything it can to develop deformed values”⁴⁸. In this context, learning is a part of our existence, which fulfills human beings who learn when they are fearless. When the human living learns in a fearless environment, the tutor has the feeling of sharing knowledge through wisdom, love and humankind, to learn together with the student in a deep process of reciprocal trust which is lively only in a system of communication based on the rule „win-win” for all participants to the universal process of learning how to independently think and live in harmony in order to fulfill the others’ lives not as successful people, but as valuable people. We shall conclude with the Einstein’s interpretation on this report: “A successful man usually receives from his peers endlessly more than he gives them. But a man’s value should not be judged according to what he gives and not what he can receive”⁴⁹. And for putting these in harmony, it is worth showing that Mother Theresa, when referring to “love through action”, as model of life education, said: “...It is hard to overcome poverty. But at the same time it is harder to appease hunger for love than hunger for food”.⁵⁰

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IMPLICATION OF DECISIONS OF FINANCING POLICY ON THE FINANCIAL PROFITABILITY AND STABILITY OF THE COMPANY

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The present study aims at analyzing the influence of decisions on financing policy of the current activity on profitability and financial stability of the company.

Of course, the realization of such a research is not possible without a pertinent analysis on the concepts expressed in the literature of this field. In relation to this matter, we find that each author has his own concept about the subject under review. These expressed views, based on previous research, are related to the domain under analysis.

Our research is in the current phase, a theoretically applied one. It is based on the comparisons we make between different means of financing the company's current activity. We are convinced that an accurate determination of the influence of decision on financing policy on the profitability and financial stability, helps the financial management, by facilitating the process of adopting the most appropriate funding decisions.

Our research results are outlined in the information provided on financial management of the company that will lead to a better substantiation for decision-making policy-related process on funding.

Key words: policy of funding, decision, modalities of financing own resources, attracted resources, self-financing, leverage ratios, influence

JEL Code: G 32

1. Introduction

In the structure of own and attracted resources we include the part of the net profit allocated to self-financing, amortization for tangible and intangible fixed assets in operation, undistributed profit for the financial exercise, legal and statutory reserves and provisions not yet incorporated in the capital, increase of own asset value from revaluation and certain operating liabilities. Such conception is found in the work of other authors (Chebac 2008: 406) with interests in financing arrangements for company activity.

Using a part of the net profit for the current financing and afferent amortization of tangible and intangible assets related operating that compose the resource, in which the economic and financial theory and practice (Brezeanu 2009: 208; Bistriceanu, Adochiței & Negrea 2001: 229; Toma & Alexandru 2003: 112), is known as *self-financing*.

Self-financing is generally the pivot of firm's finance and for some of them it is the exclusive source of funding in critical phases of development. The fundamental nature of this resource holds to the fact that this is the item under which the external funding will be sought and attracted by the firm. This status of self-financing takes into two fundamental reasons, namely:

- on one hand, its size (in absolute and relative value), which provides information about the company's performance. A high self-financing assures the financial investors on possible financial compensation and enhancement, by the company, of the funds that they have invested and will invest in the future;

– on the other hand, self-financing creates the company's debt repayment capacity and provides a measure of risk, which lenders of funds assume.

According to almost unanimously accepted opinion, self-financing capacity reflects the financial potential released by profitable business activity at the end of the reporting period, intended to pay for own capitals (in dividend payment) and to finance expansion investments (share of profits set aside in reserves and fund of development). At the same time, it shows us the way to use amortization as the main pathway for renewal of physical assets in future financial exercises.

In essence, self-financing capacity is an indicator that expresses the company's financial independence, reflecting a potential or actual flow of availability. Its size depends on one hand on the profitability of the company and on the other hand, on the firm's investment policy and methods of amortization of fixed assets. Regardless of the intensity of amortization process (resulting from the applied amortization methods), the amortization included in costs and recovered through sales entirely becomes a self-financing source.

2. Financing current activity

The whole economic and financial activity of the company, directed to reaching its goals, runs on a macroeconomic environment dominated by uncertainty and risk. Attitudes exhibited by macroeconomic decision factors have been copied almost faithfully by managers in the period of analysis to which we refer. Some reckless manifested by financial managers are explained by Mugur Isărescu because of two causes: "(...) first was that the decision makers felt that the "good times" came once and for all, which obviously means that the expansion of costs could be permanent. The second was the election year 2008, which boosted expenses even more. The lax fiscal policy of spending set the basis for an involuntary fiscal contraction in the event of economic downturn" (Isărescu 2010: 9).

It goes without saying that between gross profit and net profit there are differences as there are differences between total assets and own capital. To deepen the analysis of the current financing of the company Alfa we select (in the table no. 1) information based on data from the company's financial statements.

Table no. 1

Financing of the company's current activity

No.	INDICATORS	UM	The period of analysis			
			2008	2009	2010	2011 (preview)
1.	Global self-financing rate	%	13,90	14,19	14,14	14,88
2.	Indebtedness rate	%	22,06	14,16	12,87	13,48
3.	Financial return	%	8,44	5,80	5,10	5,56

Source: authors' own calculations.

Noting a decreased appetite of the firm for borrowing, we observe (according to the table of data) a timid growth to self-financing orientation. The phenomenon can be explained by the relatively low level of profit achieved by the company in the analyzed year and by the fact that all these years, the company has paid dividends due to previous administration periods. A slight recovery is expected for 2011 both on self-financing and on the access of loans appropriated to the exploitation cycle.

The findings can be presented graphically as follows:

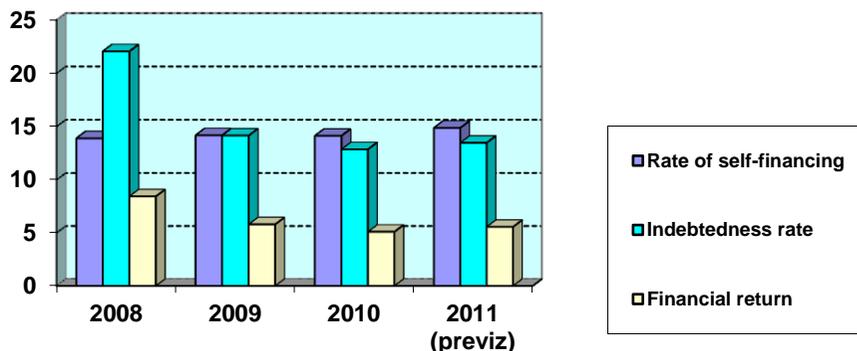


Chart no. 1. The evolution of self-financing, debt and financial return

3. Resources of finance of current activity. Their structure

In the period under review, self-financing with debt were important resources to cover the company's current financial needs. If the company had not had stable own resources (positive net working capital) accumulated in previous years, its financial stability would have been affected. The current status of ruling the funding cycle of exploitation of the Alfa SA company is presented in the following table (Table no. 2):

Table no. 2

Resources for financing the current activity

No.	INDICATORS	UM	The period of analysis			
			2008	2009	2010	2011 (preview)
1.	The need for funding	%	100	100	100	100
2.	Global self-financing	%	13,90	14,19	14,14	14,88
3.	The degree of indebtedness	%	22,06	14,16	12,87	13,48
4.	Own stable resources	%	64,04	71,65	72,99	71,64

Source: authors' calculations performed by the information in financial statements.

The dynamic analysis of company's financial resources for the period under study shows the great confidence manifested in its own stable financing resources of and in the current self-financing (or maintenance) ones. We must admit that, as it happens in reality, due to permanent resources, we cover permanent needs, most of which being represented by the fixed assets. Current operating needs for the exploitation cycle are represented by the size of circulating assets. Separating the two kinds of needs we can analyze to what extent the permanent resources of the firm have been used for the ongoing needs or cyclical needs. We consider here that the cyclical needs have to be covered by cyclical resources (mainly loans), and ongoing operating needs must be covered by the continuing financial resources (own net working capital). We attempt such an analysis presenting the information in the following table (table no. 3):

Table no. 3

Structure of own resources to finance current activity

No.	INDICATORS	UM	The period of analysis			
			2008	2009	2010	2011 (preview)
1.	Total fixed assets	thousand lei	98.217	93.492	81.726	93.985
2.	Total ongoing assets	thousand lei	32.358	30.804	36.972	42.518
3.	Total assets	thousand lei	130.575	124.296	118.698	136.503
4.	Total self-financing + loans	%	35.96	28.35	27.01	28.36
5.	Total need covered by self-financing and loans:	thousand lei	46.955	35.238	31.790	38.712
	- for fixed assets	thousand lei	35.319	26.505	22.074	26.654
	- for ongoing assets	thousand lei	11.636	8.733	9.716	12.058
6.	Own stable resources	%	64.04	71.65	72.99	71.64
7.	Total needs to fill from the stable resources of which:	thousand lei	83.620	89.058	86.908	97.791
	-for fixed assets	thousand lei	62.898	66.987	59.652	67.331
	-for ongoing assets	thousand lei	20.722	22.071	27.256	30.460

Source: authors' calculations performed by the information in financial statements

The analysis of data from the table above indicates that due to these ongoing resources the company needs to cover ongoing needs and a significant part of cyclical needs (current assets). Because permanent needs (mainly fixed assets) have some consistency over time, the variation of cyclical needs will entail variations in self-financing needs and current loan of the exploitation cycle.

4. Financial stability of the company

We will try to follow the extent to which the company's current financial stability was achieved at the expense of own resources (net working capital). For this we draw the following analysis table (Table no. 4).

Table no. 4

Achieving the financial stability of the company

No.	INDICATORS	UM	Symbol / Method of calculation	The period of analysis			
				2008	2009	2010	2011 (preview)
1.	Fixed assets	thousand lei	Ai	98.217	93.492	81.726	93.985
2.	Ongoing assets	thousand lei	Ac	32.358	30.804	36.972	42.518
3.	Permanent capital	thousand lei	$C_{perm} = C_p + DTL$	107.909	112.060	103.424	118.938
4.	Current liabilities (less than one year)	thousand lei	DTS	22.666	12.236	15.274	17.565
5.	The need for current funding resources (working capital)	thousand lei	$NFR = C_{perm} - A_i$	9.692	18.568	21.698	24.953

	needs)							
6.	Resources of coverage, from which:	thousand lei	-	9.692	18.568	21.698	24.953	
	- own (working capital fond)	thousand lei	FRP = NFR - DTS	-12.974	6.332	6.424	7.388	
	- DTS	thousand lei		22.666	12.236	15.274	17.565	

Source: calculations based on data from annual financial statements

The presented data show that in 2008, the company lacked sufficient resources to finance their current operating activity on the exploitation cycle. This prompted the call to attracted resources that are mainly represented by short-term loans. Call for debt is generated by the fact that in 2008 the company recorded a negative net working capital (a lack of own resources for funding). The size of debt is 22.06% of total necessary resources (according to table no. 2). In subsequent years, the company intensified the call for own resources (especially self-financing) gradually giving up debt (as shown in the data of table no. 2) which will lead to the restoration of financial balance. The information provided by the table no. 4 (row 6) shows that the company has its own resources to cover their financing needs that are growing and together with borrowed resources, it will result in a policy of funding the cycle of exploitation, which is to maintain the upward trend of the expected financial return for 2011 and onwards.

Our research (supplemented by a careful study of domestic and international bibliography specialized in the field) leads us to the possibility of formulating several conclusions about the basis for policy decisions to finance the companies with the development of complex financing process and the factors that stimulate or inhibit the employment of resources, attracted in companies' own circuit.

A first observation is that the economic *sector or branch*, to which the company belongs to, influences the overall risk of debt that is the sum resulted from the economic and financial risk.

A second finding regards the *taxation level*, which is manifested in the national economy and which is not neutral in relation to financial and fiscal situation of the firm (Chen 2004: 1349).

A third finding relates to the *economic situation* and *monetary policy* promoted by financial and banking institutions. As other authors state (Reinhart & Rogoff 2012: 235-236; Matis 2010: 132; Manolescu 2005: 388), the credit cheapens or is more expensive as the institutions mentioned to promote an expansive or restrictive policy of credit, which directly influences the financial structure of the company.

Recent researches (Isărescu 2010: 10) have concluded that within the same sector of activity, the *size of companies* and their *asset composition* differs. According to some specialists (Reinhart and Rogoff 2012: 239-241, Rajan and Zingales 1995: 1438) these characteristics exert influences on leverage degree and ultimately on the financial return of firms.

As other authors state, (Rajan and Zingales 1995: 1439) *the company* influences the permanent or temporary resource level. By joining the assets, liabilities composition is not conditioned only by the distribution of assets in fixed or ongoing ones, but also on the liquidity degree of different asset positions. The banking financial institutions generally give more difficult loans to companies, which have a higher proportion of fixed assets, whose market value decreases with time, becoming lower to the accounting value, comparison that is made in case of reaching the insolvency (or bankruptcy).

Discussions with specialists (money managers) have created the impression that a debt rate with a higher value in the hands of competent managers may involve less financial risk than a significantly lower one managed by inexperienced managers. Competent managers will find solutions so that company can handle a high volume of loans, with beneficial implications on financial profitability. Top managers have a unique style in business administration of the company and superior ability to collaborate with banks and, at the same time, a unique way to

convince them to grant new loans (respecting the allowed limits) for the financing of companies that they run. To this, we add the importance of achieving a profit large enough so that, on the basis of management decisions with a solid argumentation, it can support both self-financing and debt effects on the company.

4. Conclusions

Based on our research we found a similar behavior of companies on policy decisions to finance ongoing operations. There is established a specific correlation between the ratio of self-financing and leverage and technological and branch particularities of the companies. In conclusion, we can say that in the financing behavior of the analyzed firm, there are shown the same attitudes in the order of priority of the call made to funding resources. Thus, current funding is provided from retained earnings at first, then from own capitals and, ultimately, by calling on bank loans.

Regarding the restoration of financial balance (if needed) the firm calls for intervention of banks (using credit limits in the company's treasury), observing a slight tendency of development of business operations on the capital market through exchange operations.

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THE CORPORATE GOVERNANCE AND THE OPTIONS BETWEEN EQUITY AND DEBT CAPITAL. CONSIDERATIONS ON ACCESS TO CREDIT IN ITALIAN REALITY (PART I)

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Abstract:

To conduct a business today one needs intuitive skills and, therefore, an ability to respond to the new and numerous challenges that the market requires.

These challenges are economic, but not only. A continuous and steady development involves actually the need to go beyond the limits, not only in the case of traditional companies, but also of those in the start up phase.

To be in a multilateral and global economic system - as the present one – supposes a continuous upgrading of production technologies within companies, sometimes by undergoing serious reengineering processes.

The updating of the company, however, cannot and should not be perceived as a simple and sudden initiative that is applied superficially just to conform to a market trend. It involves a certain difficulty, and especially the demand for new and ongoing investment in the sector of competence, therefore, it requires a careful process of analysis to relate multiple aspects of the company, including the availability of equity or the need to resort to foreign capital, such as to the bond market, to national or European facilitating tools or to foreign intervention of banking nature, on short or medium-long term, calibrating these interventions based on business needs.

It is this delicate "step" in the life of a company - which requires a coherent, appropriate and stable organization of the governance of the company – that we want to tackle within this paper, as well as its interaction with the banking system, which in our specific case is the Italian one, all these by a brief empirical analysis of the relationship that links corporate governance to the access to finances, in the current banking context.

Keywords: Corporate Governance, Banking System, Reengineering, Start up, Management

1. Start up, Reengineering of the business and the resort to credit

The corporate governance aims at the company's well-functioning or the fulfilment of its object of activity. This goal requires, besides fully technical management skills, several purely financial capacities as well. The latter can already be held by the enterprise from start, or need to be sought on the market, through external sources.

*It is a well known fact, the principle by which foreign capitals generate a flow that should provide a *turnover* sufficient to recover the initial investment completely. To succeed in this task, the governance must perform a series of analyses of the company that shall allowing the company to adopt the most appropriate strategy. This is achieved by monitoring the state of the company before the investment, calculating its rate of return, thus evaluating the usefulness and opportunity of resorting to foreign capital. Normally, companies not so well equipped technologically do not experience too big difficulties in accessing foreign capital, while companies with a *high-tech* predominant in the productive organization do. With the latter we can notice a tendency to use less debt - at least in the *start-up* phase – favouring the venture capital. However, if this is not possible, they will also have to proceed to a careful management in order to make better use of the capitals obtained.*

Depending on the financial goal to achieve, governance shall take into account the various possibilities to access capital.

There might be various types:

1. Venture Capital [Increase of equity by issuing new shares and / or self financing, resort to Venture Capital, investment funds interventions and / or Private Equity, Seed Capital]

2. Debt Capital [issue of debenture bonds, use of loans or medium-long term grants, national, regional or European financial facilities, operations of Operational Leasing, Finance Leasing, Shareholder Leasing]
3. Disinvestments of existing heritage items or Lease Back
4. Self-financing generated by revenue management

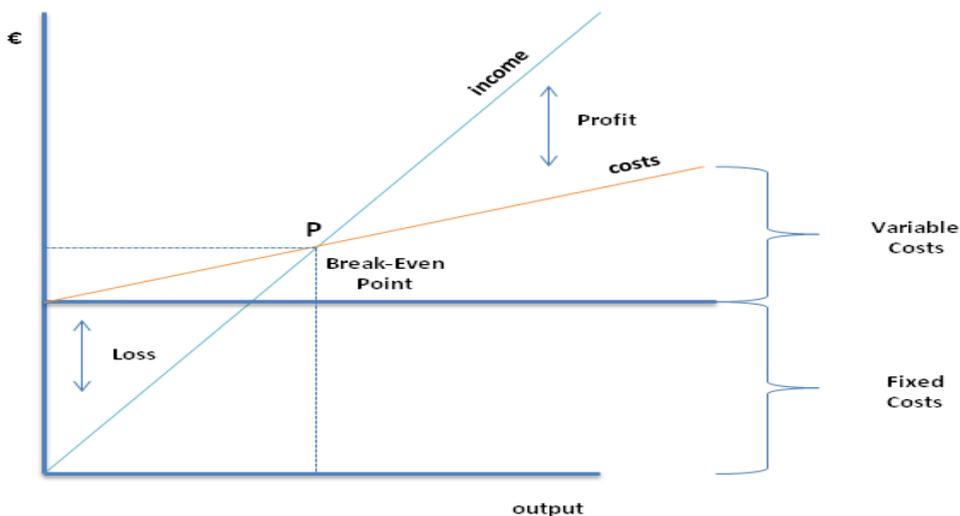
The choice would be based in this situation on the identification of appropriate financial solutions for the process of *reengineering* (1) being implemented or in case of *start up*.

As a first check, the governance will have to calculate what benefits can be achieved by the company and what time is needed to obtain them, in order to better determine the most appropriate financial coverage. Before proceeding to a brief review of the techniques commonly used in books on business economics, both to identify past performance and to calculate the best future investments, it must be said that these estimates should be seen as pure analyses *ex post* or as mere forecasts. This last observation arises from the fact that business management and market economy itself, par excellence, do not represent absolute certainties, but on the contrary, they are subject to different variables and conditions that reveal everything but the certainty of the context in question. A confirmation of this fact is: entrepreneurial risk as such, capital market and its own volatility, recurrent crises reminding of Schumpeter's theory, turbulences in the labour market, socio-political instability, diverging public policies arising from the need to address crises that, in our opinion, are no longer just economic or financial but gain the features of a true systemic crisis.

1.1 Break-Even Analysis

By *Break-Even* analysis we can make an estimate of the levels of *output* to be achieved in order to balance initial costs when an investment is planned. (2)

This analysis is called the cost-volume-outcome. Therefore, during programming it can be used in order to simulate the behavioural *trend*. of the firm. *Break-Even* analysis is usually considered among the preventive studies of typically economic nature.



The *break-even* point indicates the covering of the costs incurred at the beginning of the investment and, consequently, the initial point from which the investment begins to generate profit.

The cost-volume-outcome analysis aims to identify the effects of the variations in sales volume on economic performance, to assess the initiative of investment. In other words, we can say that

it emphasizes how much it needs to be produced and sold so as to begin to gain. *Break-Even Point* highlights the balance point where the gains from sales equal the cost of the products sold.

Assuming that:

- CF = fixed cost
- Q = volume of sales
- p = unit price
- cv = variable costs per unit

It is therefore expressed by the equality:

$$C = R$$

where: $C = CF + cv \cdot Q$

$$R = p \cdot Q$$

However, this analytical principle - even if now it is a consolidated procedure together with *payback period* analysis - is considered by most researchers as insufficient for a comprehensive consideration on whether or not an investment is risky, regardless of the variability of the market prices and being applicable on short periods only.

In this respect it is customarily to corroborate it with indicators or indices.

1.2 Profitability indices and the Financial Plan

The analyses with indices are a resource observable from several points of view. By applying them, investors can assess the profitability of a firm, thus providing the quality of their investment, the financiers can estimate the capacity of beneficiaries to cover the capital provided, or, simply, a company can carry out so-called "past" analyses - or on the previous management of the company - as well as "future" ones, on the administration of capital for specific investments. By this measure it would be possible to quantify the potential return on an investment.

Therefore, the areas of application of the above analyses are numerous:

- Patrimonial** - when identification of the *stability* of the company's assets is desired
- Economic** - when calculating of the firm's *profitability* is at stake
- Financial** - when the identification of the firm's *liquidity* capacity is wanted

The patrimonial motivations tend to represent the characteristics of the patrimony or the latter's stability compared with the requirements of company management.

Considering the case of a company with an indisputable patrimonial stability, it may be outlined by the following equation:

$$\frac{PN}{C_{mi}} \leq 1$$

where:

PN = net patrimony (contributed capital + reserves + retained earnings)

C_{mi} = average capital invested along the period considered, represented by the sum $A_c + A_f$ or the sum of circulating assets and fixed assets.

The equation underlines how and to what extent the net patrimony has financed the investments of the company. Also, the patrimonial solidity represents the financial independence of the company. The more the ratio tends to equal 1, the more capable is the company to act without the

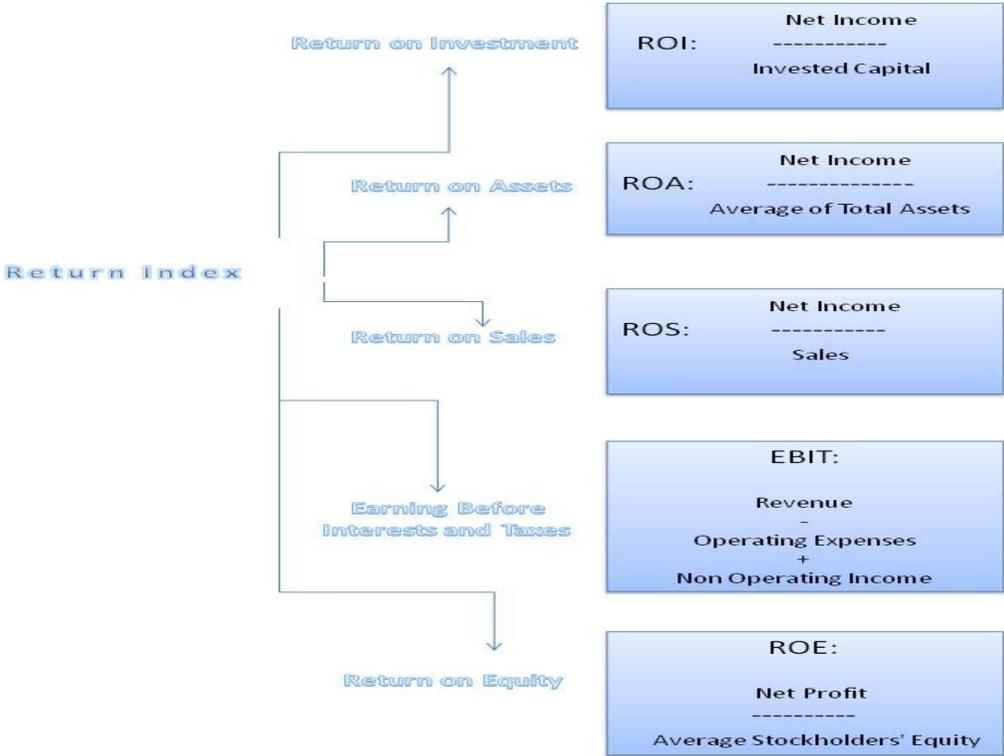
conditionalities arising from the banking system or from the resort to the capital market of third parties on the medium and long term.

Because of the size limits imposed to this paper, we shall now move to profitability indicators.

There are several indicators of profitability.

If we consider the relations:

- R_o = operating income
- C_{mi} = average capital invested along the period considered
- P_a = atypical earnings
- P_f = financial earnings



We can summarize the indicators represented schematically in the table above:

Return On Investment. It is perhaps the most widely used way to calculate best the ability of a company to produce capital fully exploiting its potential. ROI is the indicator of the firm’s capacity to recover the invested capital. It is expressed by the relation between the operating income and the average capital invested along the period considered.

Return On Assets. It is adopted when the financial profits or the atypical ones become "real"; with this indicator we can measure gross profit from the total investments. The company's operating income indicates the gross return of all investments, be they operational, atypical, extraordinary or financial. Therefore, it includes equity and debt capital. It is often identified in order to then apply ROI.

Return On Sales. The indicators mentioned above are then added a variation by calculating the ratio between the total sales in the period considered and the operating income. This indicator is the return on sales and it derives from the relation between operating income and net volume of business resulting from the administration of the given operations. If the value is “> 0”, it means that there is a further area of gains available after covering the total costs that arise from the company’s administration proper, further gains thus usable to cover other costs of administration and to reward equity. If the report is “= 0”, the gains from the sale are barely enough to cover the operational costs. If the coefficient is “< 0” we are dealing with a company administration insufficient to cover operating costs.

Return on Equity. ROE - understood as the ratio between net income and net patrimony – indicates a firm’s profitability in relation to its risk capital. Although this indicator is very often subject to manipulation so that the company appears solid and promising to third parties, it remains a valid and effective tool for business management analysis. (3).

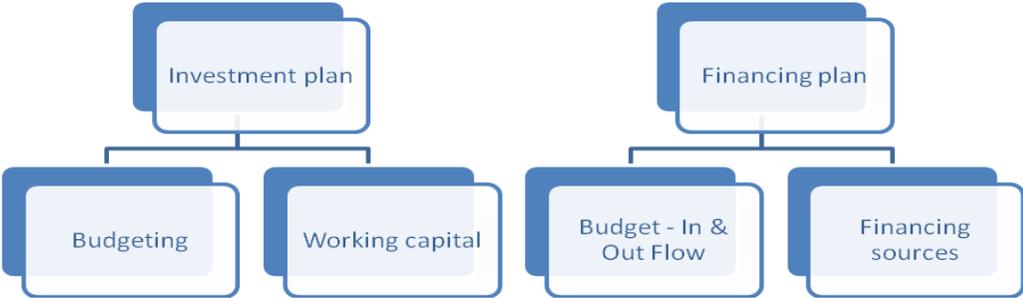
Earning Before Interest Taxes Depreciation and Amortization. Another indicator is the one referring to the gross operating margin. This indicator gives only a statement of business administration without consideration of the costs arising from depreciation, from other devaluations of the year and from fees.

We feel right again to confirm that these analytical methods constitute a source of research very important for defining a future investment plan. It is the very analysis on its own patrimonial stability and on its own profitability that guides the governance of an enterprise in its decision whether it is appropriate to make investments.

After the quick look at the key indicators of profitability, we will now consider the components more closely linked to the financial aspect of an enterprise.

When examining precisely its own financial situation, the corporate governance must take into account, above all, its own financial resources, to then calculate the structure that will shape due to the investments. The financial plan is certainly a viable help. This planning is developed through two different instruments:

Investment Plan and Financing Plan.



Through the investment plan the firm manages to develop a scheme that identifies all investments to be made both in durable goods or fixed assets (Capital Budgeting) and in goods of the circulating assets (working capital).

It will then be possible to undertake a range of analytical techniques – applicable in conditions of "safety", i.e. in the absence of inflation or of extraordinary financial constraints (4) - such as:

- a) average rate of return
- b) payback period
- c) net present value
- d) internal rate of return
- e) current rate of return

As explanatory only, we considered it necessary to present a simple list, although we are aware of the importance of these techniques, they require indeed a deeper study that would fail to be integrated in the current paper.

Once drawn up an investment plan that can maximize production capacity able to satisfy the sales estimate provided by the business plan, the review of the financing plan will follow. By this, the governance identifies the sources and their use, this resulting in a fair allocation and distribution on the various units. Therefore, the estimates of *inflow*, i.e. input flows, and of *outflow*, i.e. the output flows, are identified. (5)

Next, we shall identify the techniques of the financial analysis of investments in progress, and the indicators useful for future estimations.

1.3 Financial research instruments

Concentrating in a short exposition the analyses that aim at verifying the financial needs of the company, we want to emphasize that the *ex post* analysis of a company's balance sheet, or the review of a business plan of a *start-up* must have the following objectives:

- a) the study on the firm's capacity to meet at any time the payments necessary for its economic management;
- b) As a consequence, this analysis implies returning a judgement on the relationship existing between funding and the uses of funds available or sought by the company;
- c) the examination of the constraints that exist between the company's liquidity and the economic aspect of its administration.

We shall briefly see a series of financial indicators or ratios.

Relating the following elements:

$L_{i/b}$ = immediate and short-term liquidity

D_b = short term debt and other liabilities

we have:

$$\frac{L_{i/b}}{D_b} \leq 1$$

This relationship is called "*quick ratio*" because it highlights the ability of the liquidity to meet short term debts quickly.

The degree of liquidity that marks the average capital invested is expressed in symbols by the following equation:

$$\frac{L_{i/b}}{C_{mi}} \leq 1$$

The rigidity of funding sources can be expressed by the ratio of average invested capital and short term debt, in symbols:

$$\frac{C_{mi}}{D_b}$$

The liquidity index or cash coefficient, as called by some authors (6), has a function proportional to the degree of liquidity invested and a function inversely proportional to the degree of

exigibility of the correspondent total capital acquired, regardless of the form and / or nature of the acquisition of capital.

We can highlight a further financial and patrimonial coefficient, called “*Net worth to fixed ratio*” which represents the ratio of self-coverage of the fixed, or immobilised, capital.

This index results from the relation of net patrimony and fixed assets.

Thus, we have:

$$\frac{PN}{A_i} \quad < = > \quad 1$$

Assuming, instead:

V = sales made in a certain period

We have:

$$\frac{V}{C_{mi}}$$

that will be the average income per unit of operational investment.

This indicator may also capture some aspects of the financial dynamics and tends to measure the movement of the capital invested in the company analyzed.

Desiring in the second part of our analysis to make some considerations on the possibility of access to debt capital, mainly acquired from the banking system, we will consider one more very important indicator for the choices made by the firms that resort to external capital.

This is ROD, or *Return On Debts*.

This indicator is an important resource for companies that want to access external funding and, as long as the financial obligations that the company has to acknowledge to creditors usually have a massive influence on the remuneration of risk capital, they are values that should not be underestimated. (7)

The rate of return on third parties’ financial means will be obtained taking into account the values:

I_p = passive interests

I_{fm} = average financial debt in a certain period

from which we obtain the ROD formula:

$$\frac{I_p}{I_{fm}}$$

Obviously, if you want to evaluate ROD value on a medium-long term, we will have to apply the long-term interest to the numerator and the debt values on a medium-long term to the denominator.

Also, if we want to obtain the value of ROD on short-term, we will need to apply the short-term interest to the numerator and the short-term debt values to the denominator.

When taking into account not only financial indebtedness, but the total debt - which highlights debts to suppliers and controlled companies - we get the RODT indicator.

It is calculated using the following formula:

$$\frac{O_f}{I_{cm}}$$

with:

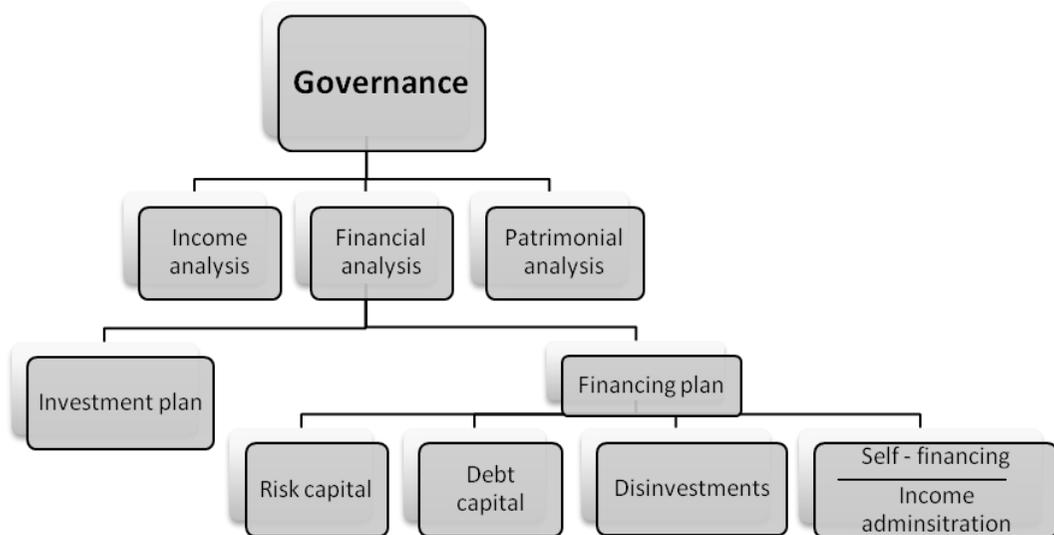
O_f = financial obligations

I_{cm} = average overall debt in a period

By use of these analytical principles the company will be in a position to be able to choose from the many forms of financing the one that best suits the project, either for *start up* or for *reengineering*.

We want to emphasize once again that the role of company management supposes a painstaking analytical process that extends from monitoring the historical evolution of the company, through the analysis of present management, to the forecast for the future, not forgetting perhaps the most incisive factor or the changing conditions imposed by the market.

Just explanatory, we shall summarise in the diagram below the decisions making process that is the attribution of the enterprise governance:



The diversity of the analytical techniques allows a support, not infallible, certainly, but at least effective, against the possible *default* (omissions) that a careless or unconscious management can encounter during its own investment. Obviously, we would like to illustrate the techniques without claims of completeness. Given these processes, typical to management, in the second part of our brief research we shall analyze the sources of companies' financing - mainly in Italy.

We will examine the countless possibilities of access to credit and through the data provided by Banca d'Italia it will be possible to outline a current view on the relationship between credit institutions and companies.

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SCHOOL ENGAGEMENT, WORK VALUES AND STUDENTS' TRAINING FOR THE LABOR MARKET

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This paper reflects theoretical and empirical interrogations regarding concepts which gain interest in recent research in relation to school results and school-to-work transition of high education graduates: school-engagement, valorization of work, work ethics and school social capital. The initiative of such approach is linked to the identification of the obstacles and implicitly the mechanisms which facilitate an easier school-to-work transition of high education graduates of economic studies. In the current research we followed which are the motivations regarding work, and the measures of school engagement, identifying that students with higher academic engagement present greater interest in general criteria related to work and are less intrinsically motivated. The research findings in this area on the one hand confirm the importance of school-engagement for the students from tertiary education. On the other hand, it suggests, besides the mediated effect on school results on the successful insertion on the labor market, also a direct impact on their work engagement of these graduates. In addition to these aspects less visible and less studied, research in this field revealed other obstacles that occur in the successful integration of graduates in the workplace. It was found that both employers and young graduates' employees assigned increased importance for the success in the workplace to transversal skills that are considered less developed through tertiary educational system. In addition, experience at the workplace, the practical training and voluntary involvement in different actions can also be useful tools in preparing students for the labor market. The data, both qualitative and quantitative, analyzed in this paper were collected within the project "Practical training of economists students. Inter-regional partnership in the labor market between universities and the business environment". PRACTeam project is coordinated by University of Oradea - Faculty of Economic Studies, financed through European Social Fund - "Investing in People!" Contract no. POSDRU/90/2.1/S/64150.

Key words: school engagement, transition to labor market, young graduates, social capital

Argument

On the ground of socio-economic changes of the Romanian society, marked by profound negative effects of world economic crisis and continued by dramatic effects at the social system level, the study of school-to-work transition is a legitimate approach. The results of reform implementation in the educational system continue to affect the actions of social actors within the educational system and their approach regarding social development. The topic of school-to-work transition is approached from different theoretical perspectives. One may look to these matters in the light of social mobility theories regarding trends in the access to statuses of destination (see Boudon, 1974) or solely from the perspective of social policy effects in the educational fields (Quintiny et al, 2007).

Most national and international statistics show that graduates of tertiary education have better chances to find a job, differences between male and female are smaller for the higher educated and more, they find a job faster than those with upper secondary education (OECD 2010, ECEA 2012). These findings are confirmed also for Romania (Voicu et al, 2010) where several particularities can be revealed. Some of the particularities can be traced also to the work ethics or value attributed to work, motivations and attitudes related to work (Heintz 2005, Săveanu and Săveanu, 2011). Romania is among the countries that have to face the EU agenda such as Europe Strategy 2020 which aims at five major objectives transposed in the national objectives. Some of these objectives are related to reducing school-drop-out under 10%, and the rise up to 40% the

percentages of higher education graduates in the population of 30-34 years old (Strategia Europa 2020). More, the graduated studies should become a real indicator of rising student's employability (ECEA, 2012). In this regard, as shown in the following table, Romania registered a constant increase of investments and results of tertiary education, even though the insertion in labor force of people with higher education is still rather low.

	2002	2003	2004	2005	2006	2007	2008
school enrollment in tertiary education	32	38	42	46	52	56	62
expenditure per student in tertiary education (% of GDP per capita)		42	47	51	59	64	71
labor force with tertiary education (% from total labor force)	10	10	11	12	13	13	14

Table no. 1. Evolution of tertiary education indicators in Romania, own presentation based on World Bank data basis – accessed on <http://data.worldbank.org/indicator>

The preparation of students for the labor market assumes besides the acquisition of knowledge transmitted through university programs, the development of skills needed on the labor market, Universities are responsible with maintaining their student's engagement. The concept of school engagement was loaned from studies that focus mainly on high school level, but it currently gains ground in analysis regarding the higher education. The functionality of the concept is proved through the explicative models regarding the persistence of students in the system and the length of their educational careers. The educational system has a pyramidal structure, and those at the top – achieving higher education, are the survivors of several school transitions (Mare, 1981). The collectivity of students is restricted at each transition to a higher level and the decision to continue the school route is also a result of the individual level of engagement.

If one considers the type of relation a child develops with school one can look at this relation from the perspective of investment in school social capital. The results of this investment are found in measures of school engagement and attachment (Finn, 1993; Willms, 2003). Both can be associated to the feeling of belonging of the pupil or student to the school life. Both behavioral (class attendance, involvement in extracurricular activities, time allocated for homework) and emotional engagement (developing a feeling of belonging, positive orientation towards school, internalization of school values and norms) have a very important impact in school performance (Chapman, 2003; Libbey, 2004), therefore facilitating the transition to work.

Methodological framework

Our study is conducted within the project “*Practical training for economics students. An inter-regional partnership between universities and business sector (PRACTeam)*”. PRACTeam is implemented by University of Oradea in partnership with West University of Timisoara and University “Stefan cel Mare” from Suceava (POSDRU/90/2.1/S/64150) during 2011-2013. The project's goal is to facilitate students' school-to-work transition mainly by improving the quality of practical training provided within the BA and MA curricula. Additionally to this goal several services are offered primarily to students but also to the tutors from the companies and institutions where students run their practical training sessions. In this context, part of the management team of the project initiated a students' needs analysis during the first year of implementation, endeavor which was broadened in the second year with a survey regarding profiles of students and factors that facilitate school-to-work transition. Our analysis is based on some of these data, focusing mostly on exploring the relationship between attitudes and motivations towards work, school engagement and prospects of successful job seeking.

In the second year of implementation of the project the students' needs analysis was based on several focus groups conducted with three types of groups on each educational level, at each of the partner Universities. The first group consisted of students that finished their practical

training within the project, a second group that did their practical training in the classical manner, and a third group consisting of prospect students for the practical training sessions. There were a total of 21 focus groups organized. At each a mean of 12 students participated from different educational programs. In this paper we will refer solely to the aspects relevant to our aim, more information is available on project's web site.

The survey was initiated in the second year of the project and is addressed to the students which benefitted from the practical training. It is based on an on-line questionnaire composing in several topics from assessment of competences and interests related to work, psychological attitudes and values to aspects regarding social capital of students. The data collection is still ongoing thus the results presented in this paper is based on a preliminary data base consisting of 385 responses obtained from students from all partners in the project.

Analyses and results

In the following section we will present some results of our explorative analyses conducted on the available data collected through PRACTeam project. Our aim was to describe some of the dimension related to the integration of students in the labor market and their level of academic engagement.

Regarding students statuses on the labor market, data show that among students who are participant in the PRACTeam project, 94% are currently unemployed (266 students of 283). We have to emphasize that this value does not reflect the reality about the employment statuses of high education students, because one of the objective of the project is the increase of the number of students who are employed during or after the project end (consequently students selected in the projects were unemployed). Taking into account that the respondents are students involved in the first practice training organized in the project, we estimate that there is a higher percentage of students that are currently employed during their higher education studies. We obtained similar values regarding the percentage of students who own their own businesses. 96.5% (273 students) state that they do not have their own business. It is worth mentioning in this regard that the situation is somewhat different regarding their parents statuses. 88.7% of parents have their own business. There is a significant relationship between these two dimensions (Pearson Chi-Square =8.51, df =1, for $p = .004$, adj. residual = 2.9), showing that there is a higher chance for students to own their businesses if their parents own a business: 12.5% of students who own a business have parents who also have their own businesses, compared to 2.4% students who have business but their parents don't have their own business. This result suggests that entrepreneurship skills are mostly developed within the family.

According to economists students the most important skills for an efficient employee is a responsible behavior at the working place (mean value 4.69 on a 5 point scale) and the professional training (mean value 4.52). These values suggest that for the school-to-work transition and for a better integration on the labor market students give almost the same amount of importance to the transversal competences and for the information and skills that they acquire during their courses (specialized training). To argue this statement, data also revealed that on a four point scale, students appreciate their theoretical training as important on the labor market with a mean value of 3.23.



Fig. 1. Mean values for the skills requested on the labor market

The graphic presented below reveals differences between what students consider important for them and what university training actually offers. High education attainment is considered important for the development of students (professional and personal), but data suggests that students, at least economists students, are not fully satisfied with the training they receive during their college studies. Therefore the mean value recorded for the importance of professional training attributed for themselves is 3.63, significantly higher compared to what university offers for their training (mean value 3.06; significant for $t=13.71$, $p=.000$). The significance test for personal development reveals similar results (mean value 3.61 importance for themselves, compared to 3.09 men for what University offers, for $p=.000$).

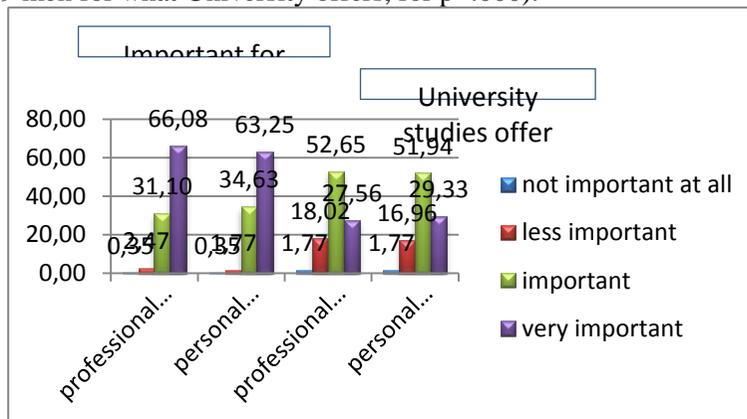


Fig. 2. Importance given to personal and professional training and the contribution of University studies to personal and professional training

Taking these results into account, we now turn to the topic regarding students' attitudes toward work. We used a 17 items scale where students had to assess the importance/value given to different aspects regarding work.

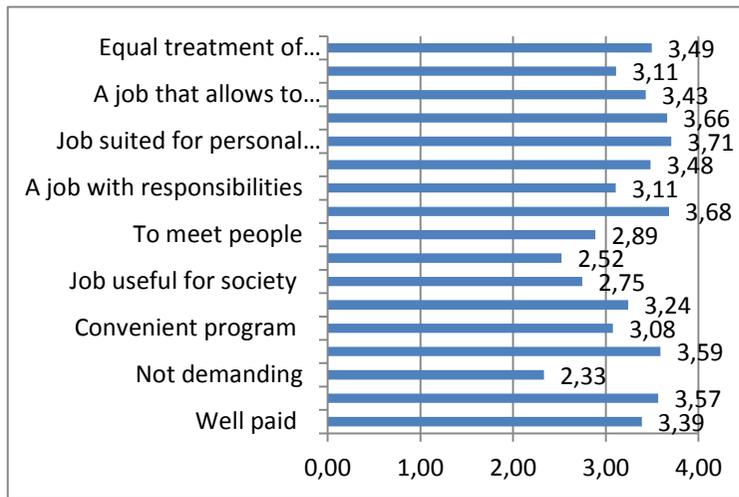


Fig. 3. Mean values recorded for items for valorization of work scale

Due to some measurement errors, for the factor analysis we excluded 4 items (work with nice people, job security, job suited for personal capacities, equal treatment of employees). We show below the results of the factor analysis. As it can be seen, there are two factors, one that refers to general motivation, extrinsic motivations related to work, and one that refers to a more personal motivation, an intrinsic one, that includes items referring to a more comfortable working place: job well paid, with many days off, with convenient program and not demanding for hard work (Comşa, 2009).

Table 2. Results of factor analysis - Rotated Component Matrix (method Varimax)

	Factor 1 Intrinsic	Factor 2 Extrinsic	Factor 3
Well paid	-0.071	0.582	-0.163
Not demanding	-0.042	0.758	0.213
Convenient program	0.115	0.723	0.008
Possibility for initiative	0.668	0.024	0.086
Job useful for society	0.509	0.173	0.213
More days off	0.060	0.729	0.095
To meet people	0.684	0.126	-0.131
A job where you feel you can do something	0.699	-0.002	0.031
A job with responsibilities	0.718	-0.125	-0.035
A job that is interesting	0.700	0.017	-0.089
A job that allows to learn new things and skills	0.609	-0.120	0.301
A job that allows to combine work with family life	0.070	0.088	0.896
To have a say in important decisions	0.642	0.035	0.309

Further, we analyzed the levels of academic engagement of economist students. We used a five items scale: *I can learn when there are other interesting things to do, I can finish my papers requested for courses or seminars, I can learn for an exam, I can concentrate to pay attention to classes, I can participate to courses and seminars* (1- not at all, 4 - in very much amount).

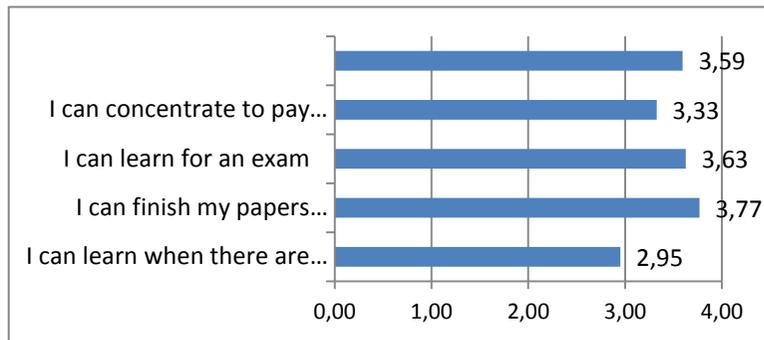


Fig. 4. Mean values recorded for items from engagement scale

The validity of the scale is proven (Cronbach Alpha above .70), therefore we summed the items into one measure; higher value of the scale means higher level of student's engagement. We reached some interesting results regarding the relationship between the level of school engagement of students and the value attributed to work. According to our data, there is a high positive correlation between the levels of engagement and an extrinsic motivation for work, and a high negative correlation between the levels of engagement and an intrinsic motivation for work. These results suggest that for more engaged students work is more important and less engaged students are interested more in factual characteristic of their job: payment, days off etc.. Therefore academic engagement represents a first step toward labor market integration. Other analyses revealed also a positive correlation between the value attributed to work (general valorization) and the importance given to theoretical training during university studies for an effective integration on the labor market (Pearson Correlation = .185 significant for 0.01 level).

Table 3. Correlation between school engagement and value of work

		General motivation	Intrinsic motivation
engagement	Pearson Correlation	.340(**)	-.205(**)
	Sig. (2-tailed)	.000	.001
	N	283	283

** significant for 0.01 level (2-tailed)

Conclusions and further developments

As stated in the beginning of this paper our research is a preliminary testing of broader hypothesis. These hypotheses refer to the relationship between school engagement, attitudes regarding work and transition from school-to-work of graduates of higher education. The intention is to look at individual level factors that facilitate or, on the contrary obstruct, a successful accession to jobs. We consider successful transition a graduate that finds a job in a short period upon completion of studies and that jobs requires the skills and competences the graduate acquired in his/her training.

The main conclusion of this preliminary investigation is that students with a higher level of school-engagement are also the ones interested more on general motivations when looking for a job. This implies that better students are the ones that are more realistically setting their criteria when evaluating a "good working place". Starting with this initial finding we will further investigate the relation of school-engagement with school-to-work transition. As mentioned in the methodological part the data presented here are derived from the first wave of data collection from a longitudinal survey that will reflect also when/if our graduates got employed. We will expect that engaged students will acquire a job in their field faster than the ones less engaged. This relation will be also mediated by school results, as we expect that more engaged students

will have better results – a dimension that will be included in the future waves of data collection. Additionally we will investigate the relation of school engagement of students with their decision of getting involved in extracurricular activities as well as voluntary work related to their field of study. The effect of these types of activities will be also measured regarding the job acquisition.

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THE CAUSES OF ECONOMIC CRISIS. A BEHAVIORAL FOUNDATION.

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The cyclical path of economy is a common place in the economic theory. The economic crisis that started in 2007 was not only one of the most severe since the WWII but it came unexpectedly. The cause of the crises and of the surprise consists in the economic models and theories that were founded on the rationality and maximization behavior of the economic actor. People lack the rationality the mainstream economics assume. This is why both economists and simple people do not act as theory predicts and finally economy does not tend toward equilibrium but suffers recurrent crises. This crisis started as a financial one, because of the subprime loans made in USA, but have spread in production sector because of credit frozen, is now in transforming into a social crisis because of austerity measures taken by governments. The paper analyzes the theoretical foundation of economic theory and how the facts that characterize the recent economic evolution fit with the non mainstream theories. It presents the figures of the economic evolution in the last 3 years and explains them based of the agent's behavior described by Herbert Simon and Daniel Kahneman. Their challenge of mainstream economics is based on an analyze of human behavior. Herbert Simon introduced the concept of bounded rationality as opposed to perfect rationality postulated by neoclassic economics and Daniel Kahneman realized experiments that proved that people cannot stick with the performances assumed by mainstream economics. Their conclusion permit to understand the approach of George Soros who says that people actions are bounded by reflexivity and as a consequences sometimes economy move not toward but far from equilibrium, creating bubbles that end in financial and economic crises. As Akerlof mention the cause of the crisis is the reliance of a false theory which said that we are safe. The conclusion is that we need new theories more close to the real life and an agent description that capture the limited characteristics of the human being despite the abstract "homo oeconomicus".

Keywords: economic crisis, efficient markets, behavior, rationality, ideology

JEL codes: D01, D83, E21, G14

I. Introduction

The cyclical path of economy is a common place in the economic theory. Rarely, in the last century, we saw a period longer than 20 years without an economic crisis. The latest, which started in 2007, should not surprise us. A long list of disequilibrium's accumulated. This crisis started as a financial one, because of the subprime loans made in USA, but have spread in production sector because of credit frozen, is now in transforming into a social crisis because of austerity measures taken by governments. The curious thing is that almost nobody predicted it. The large majority of economic analysts presented optimistic predictions even at the beginning of 2008, when the crisis already started. For instance

the forecast of the GDP growth and unemployment rate was missed by 101 out of 102 experts (1) (Morris 2010: 7). Thus it is not surprising that the crisis came totally surprisingly. With the Gary Gorton and Andrew Metrick's words "The financial crisis of 2007-2009 was the event which was not supposed to happen, but it did." (Gorton and Metrick 2011: 2)

The problem doesn't passed unnoticed by the most important economists of the last century "What had people been thinking? Why did they not notice until real events - the collapse of banks, the loss of jobs, mortgage foreclosures - were already upon us?" (Akerlof and Shiller 2009: 2) After the events the facts that were seen as impossible became considered as inevitable.

And the explanation seems compelling and quite simple. People acted in a way that led to the greater disequilibriums after WWII, being sure that the economy is in a natural state of equilibrium, predicted by the mainstream theory. „There is a simple answer. The public, the government, and most economists had been reassured by an economic theory that said that we were safe.” (Akerlof and Shiller 2009: 2) The reality shows that they were wrong and the effects may be are still to come, as the taken measures – mainly quantitative easing - relieved the pain but didn’t cure the disease. At the local level pressed by the EU an IMF constraints, the government took austerity measures that deepened the crisis.

II. The foundation of economic behavior

There are an extensive literature about economic growth, business cycle and the behavioral foundation of these theories. The first is called mainstream economics that rely on the rational and maximizing behavior of the individual. It is based on several axioms. They are:

- For every individual A and any options x and y, is true one and only one of the following three statements: A prefers x for y, A prefers y for x, A in indifferent between x and y
 - The preferences of A between alternatives are transitive
- A tries to maximize his utility, where utility of an option x is bigger than the utility of an option y if and only if A prefers x for y. The utilities of two options are equal if and only if A is indifferent between them.
- If option x consists in getting the bundle of goods x’, and option y in getting the bundle of goods y’, and y’ contains a quantity at least as big of every good as x’, and at least for one good a bigger quantity, then all agents will prefer y for x.
- Marginal utility of a good x for an agent A is a decreasing function of quantity x which A dispose.
 - The behavior of any agent A is maximizing, the consumer maximizes his utility through consumption of goods, and the producer maximizes his profit.

These axioms reflect a behavior that is perfectly rational and maximizing. The individual (“homo economicus”) is an abstractization of the real individual, which doesn’t influence the theoretical conclusions. But are they realistic? The critics of this model are very strong and are sustained by the results of other sciences: psychology, sociology, and biology. Ronald Coase, a Nobel prize winner agree that there are “a lot of complaints about formalism in economics – the elegant but sterile reasoning and so on – but also talks about the lack of realism in economic discussion.” Coase 2002: 5)

A consistent criticism to the concept of “homo economicus” came from Herbert Simon. His main critics at the individuals’ behavior considered by the mainstream economics consists in the following observations:

- people have major difficulties in gathering information necessary for decision making, in order to generate all the possible alternatives;
 - the human brain has a limited computing capability leading to difficulties in analyzing and comparing the alternatives;
- people have difficulties in getting aware of their own preferences.
 - the values, needs and demands of the individual changes in time and are influenced by the environment;
- people haven’t a consistent utility function (Simon, 1992)

As a solution to these shortcomings in the rational behavior Herbert Simon defines bounded rationality as a substitute for perfect rationality. He defined the concept of satisficing option, meaning that people don’t maximize, but stop their decision process when arrive at a good enough solution. This along with the idea that human brain has computing limitation represent the core of the concept of bounded rationality.

In the attempt to save the concept of a rational maximizing behaviour, the mainstream economics extended the decision making area including information gathering. The individual is assumed to maximize his utility function, function that includes the cost of obtaining the necessary information. It was an promising approach but in this case the individual doesn't know if this worth the effort involved by this action, he doesn't know when to stop, when he has enough relevant information. Thus he doesn't know if his choice is optimal. Moreover the individual takes into account the expected benefits and not the the real ones, when he decides to stop the information gathering, because he don't know the latest.

Other criticism comes from experimental economics. In this field Kahneman and Tversky used relevant experiments in the area of rationality, arriving at the conclusion that there are many areas and situations when people don't act rationally, and the maximizing behavior is at best an desire. To name jus few of the heuristics and biases discovered: representativeness, availability, adjustment and anchoring. (Kahneman and Tversky 1974). Thus we cannot say that the people have a rational maximizing behavior. We can make an assumption that in certain conditions we can approximate the real behavior with the theoretical one. But if the theory works well in normal conditions it fails during the major crises because the markets are irrational, and largely overreact.

III. The relationship between behavior and economic evolution

The human behavior at the microeconomic level determine through aggregation the economic behavior at the macro level – GDP evolution, savings, investments, deficits etc. The ideology underpinning that specific behavior, the shared mental models, according to Douglass North play also an essential role. For instance the deregulating principles, based on the assumptions of efficient market, prevailed for about 30 years, starting from the Washington Consensus, at the beginning of '80. Their core idea is that the market is always better than government (people know always what is good for them better that others) and because of market efficiency is always in a near equilibrium point. Any adjustment will take place mainly smooth because the market is very vigilant. But is this correct? Are the markets efficient? The answer is mixed. They are efficient in conditions of economic normality when there are small deviations from the equilibrium, but inefficient when the economy is far from equilibrium. George Soros show, from real life facts, that future actions of people depend on the expectations they have, but their actions changes the reality and the expectations of the other actors. Thus the curves of supply and demand are not independent, but based on the people expectations. For instance “the decisions regarding buying and selling of stocks are based on the expectations about future prices, but the future prices depend on their actions of buying and selling.” (Soros 2008: 58)

The people with their bounded rationality are often victims of the general ideology which lead to overreaction both positive and negative. This approach is consistent with Douglass North, mental models and ideologies. However according to North the performance of an economy is strongly related with the ideology and, based on it, the institutions a country develop through time. (North 1999: 107-117)

People believed the same ideology that markets are efficient, and have the same mental model that prices are going up because in the last 20 years, they do so. Thus when the prices go up creates an expectation for further rising, through a process of reflexivity, synonym of “self-fulfilling prophecy”. The same is the case when the there is foreseen a pessimistic scenario. A decreasing of the incomes leads to reduced spending and creates the conditions for further decrease of the incomes.

A similar thing happened on the financial markets. After the massive deregulation in 80' and 90' many financial products were issued, like CDS and derivatives. The idea, based on perfect equilibrium theory, was to spread the risk by hedging and transferring it to other financial institutions. But while it could seem to be a solution at the microeconomic level, in fact it creates

a systemic risk that could not be calculated by a bounded rational individual, even if he dispose a huge electronic computational power. As Soros explained regarding the situations close vs. far from equilibrium the economic experts were right in periods of relative lull but deadly wrong in the time of rapid falling of the economy.

The government also acts according to the bounded rationality principles. The public decision maker suffers from the same shortcomings regarding rationality and computational power. Thus their decision can be suboptimal and this crisis proved that, through poor interest rate management of FED to mention just one item, it was actually the case.

IV. The economic crises and its behavioral roots

The current economic crisis is the worst from WWI. The magnitude of fall of GDP, and the level of unemployment, in many countries, is unprecedented since then. The worse is that the crisis is not finished yet. The measures taken by the governments and central banks didn't cure the disease but postponed the end. What happened? What were the measures used? What is the solution?

Let's see first the US example, the starting point of the crisis. The economic figures show that we had a bubble on almost all markets: real estate, stocks, and commodities. The plain facts are that after a long period of steady increase of GDP, in 2007 started a brutal fall of the values of assets, and incomes. The Dow Jones Index went down about 50% in less than a year, the Case Schiller index of real estate market lost about 20%, and the price of oil fell from 150 USD to 40 USD in the same period.

Suddenly people and economists started to talk about many major disequilibrium on different markets: real estate, stocks, derivatives, etc. What said economic theory about these facts?

What was the mechanism?

If the market were efficient this could not happen. Efficient markets allow adjustments, but smooth ones. This kind of crisis is simply impossible. But they happen. Why? And we come to the question from the beginning: Are the markets efficient?

The real life conclusion, despite the theoretical appealing, is a clear NO. Where comes the discordance from? The problem is fundamental and come from the very foundation of economic theory, the rational maximizer "homo economicus". The real despite non obvious roots stems from the non perfect rationality and non maximizing behavior of the economic actor. "The idea that economic crises, like the current financial and housing crisis, are mainly caused by changing thought patterns goes against standard economic thinking. But the current crisis bears witness to the role of such changes in thinking. It was caused precisely by our changing confidence, temptations, envy, resentment, and illusions—and especially by changing stories about the nature of the economy." (Akerlof and Shiller 2009: 5)

An interesting and informed opinion has George Soros. He said that the economy follow a cycle of bubble creation and severe falling then.

The bubbles were created by the irrational behavior of the people, both specialists and simply people. FED kept the interest rate at 1% too long fostering credit and assets bubble. People were happy to borrow at a very low rate, believing that the prices will go up forever. Investors, who disposed from sophisticated models and huge databases, were wrong, too. And the reflexivity, the term described by a genuine speculator, George Soros, played for a time in their team. According to Soros prices can rise too much through a process of reflexivity, when people expect for the prices to rise and as a consequence they buy more thus the price rise even more enforcing the expectations.

Another effect was that people stopped to save conducting to disequilibrium between saving and investments, that had to be financed through external capital. The easy credit euphoria pressed also to prices increase toward unsustainable levels creating the illusion of wealth.

The same happened at the public authorities. Pressed by the increasing social expenditures they borrowed heavily in the hope that the future growth of GDP will allow them to repay the credits (public deficits). But the economy grew thus based on unsustainable stimulus, cyclical measures that leave a very small maneuver space for the government when the crisis hit.

The public authorities myopia is thus even more dangerous and non understandable taking into account that they benefit from huge research and analytical resources.

The Romanian case is quite similar, excepting the interest rate, much higher because of the historical high level and the joining to EU which enhanced the trends. The real estate prices went up, about 700% in 5 years, the stock exchange index increased 500% in 4 years (from 2004 to 2008). After the peak in 2008 the real estate properties lost about 50% in 2 years and the stocks lost about 80% in about 1 year.(3) The GDP fell 7,1% in 2009 and 1,3% in 2010. The pattern of crisis and of its roots are quite similar with the other countries. An euphoria of credit spending, fostered by cheaper money that came from abroad after joining EU in 2007, increased all assets prices, to unsustainable levels, leading to a steep decrease after the peak.(2) The NBR and government measures were rather pro cyclical by easing the credit conditions – credit only with ID – and by running a budget deficit -4,8% in a year - 2008 - with an economic growth of 7,1% . Could such things be avoided? The answer is yes in an ideal, neoclassical world, populated by rational maximizers people. In such a world, proposed by mainstream economics, the disequilibrium's would be rapidly absorbed and neutralized. The people would analyze the unhealthy increase of the assets prices and voluntarily restrained from making more credits. The policy makers would take counter cyclical measures – budget surplus in steady growing years and deficits in negative growing years – which would smooth the trends. The real life individual prevented these rational but difficult actions, and the results are seen in these days in the life we live.

We can conclude as Akerlof and Shiller do about “important economic events [...] that their causes are largely mental in nature.” (Akerlof and Shiller 2009: 2)

V. Conclusions

The economic crises that started in 2007 started new debates about human behavior. How could it appear in a period of the spreading of free market that assures, on medium and long term, all the equilibriums in an economy? This paper analyzes the causes of the crises from the point of view of economic behavior. Both those who support the presuppositions of rationality and maximization of behaviour and those who are against them have solid arguments. Yet, the debate went outside the academic rooms. The effect of a wrong economic theory, which impacts on the public policies accompanied by a corresponding ideology like free market efficiency, which impacts on all economic actors can be devastating. It is not about academic recognition, but about human lives. This is why even neoclassical theory is mainstream, it is inevitable an in depth inquiry in psychology and a dynamic approach to economic processes.

The reality offer permanently example of situations in which one or more of the rationality and maximization axioms are broken. In this respect Herbert Simon defined bounded rationality as a substitute for perfect rationality from standard economics and Daniel Kahneman proved through various experiments that there are many biases in human behavior. The conclusion is that, in order to avoid the huge disequilibrium's that led to the actual crisis we need new theories more close to the real life and an agent description that capture the limited characteristics of the human being despite the abstract “homo oeconomicus”. People, specialists and non specialists, have to be aware of the difficulties to make a perfect rational decision and to learn to avoid the irrational phases of economic cycle.

VI. Notes

1. The actual evolution of GDP was -0,8% (2008/2007) compared with an average forecasted of 2%, while the actual unemployment rate was 6,9% compared with an average forecasted of 5,2%(2008/2007) .
2. In fact we can see that the faster the bubble increase, the steeper the fall.
3. The value raised from 2000 points in 2004 to over 10.000 points in 2008 and returned to 2000 points in 2009.

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ADOPTING THE SINGLE CURRENCY AND THE CHANGEOVER PROCESS

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Changeover will be a complex phenomenon which depends not only macroeconomic indicators, but also the social reaction, the way the environment social, consumers, unions, the population in general will be able and willing to adapt to the rigors of the euro. Adapting systems to the changeover is a complicated process that should not be underestimated, all businesses need to prepare a project with all the changes resulting from the changeover: what steps should follow the objectives and those responsible.

Legislative adjustments represented an important part of the public sector changeover preparations.

Conversion to a common currency, the euro, will not only involve economic issues, like the reduction in exchange rate risks and the increase in price transparency, but also a number of business and technical issues. Will be strategic decisions that will fundamentally affect the way an enterprise conducts its affairs, who can change the functionality that is expected from information systems.

The impact of euro conversion on retail systems reflects changes on price displays, labels, pack pricing, bar codes, psychologically sensitive price points, weighing scales, the unit pricing directive, the loss of margin on low-unit-price items, consumer information, personnel training, adapting cash registers, scanning systems, cash office management, security, the use of credit cards, and so on. Sales and purchasing price lists will have to be reviewed.

The paper structure consists of the following parts:

Convergence Methods

The Changeover and the Public Sector

The cash changeover

The five main reasons why the euro is still a strong currency

The methodology for conducting research involves analysis of the accounting measures adopted by other Member States of the Economic Monetary Union in the pre-stage and after accession, generated, especially by the changes.

The research results will have a particular importance for the economic consultancy. Even if the results will mainly target the Romanian accounting system, they could be used by a broad category of the population (students economists, economists accountants, tax consultants, officers of the legislative system, etc.).

Conclusions: The research aims to identify issues that the Romanian accounting system is going to meet them as result of finalising the process of monetary integration. The paper will focus on changes in every aspect: formally, logistics, functional etc.

Keywords: the convergence, the changeover process, euro-strong currency

JEL classification: G32, M41

The euro is the single currency shared by (currently) 17 of the European Union's Member States, which together make up the euro area. The introduction of the euro in 1999 was a major step in European integration. It has also been one of its major successes: around 330 million EU citizens now use it as their currency and enjoy its benefits, which will spread even more widely as other EU countries adopt the euro.

Apart from making travel easier, a single currency makes very good **economic** and **political** sense. The framework under which the euro is managed makes it a stable currency with low inflation and low interest rates, and encourages sound public finances. A single currency is also a logical complement to the single market which makes it more efficient. Using a single currency

increases price transparency, eliminates currency exchange costs, oils the wheels of the European economy, facilitates international trade and gives the EU a more powerful voice in the world. The size and strength of the euro area also better protect it from external economic shocks, such as unexpected oil price rises or turbulence in the currency markets. Last but not least, the euro gives the EU's citizens a tangible symbol of their European identity, of which they can be increasingly proud as the euro area expands and multiplies these benefits for its existing and future members.

Delors plan established covering three stages to achieve transition to monetary union:

First Stage: 1 July 1990 - January 1, 1994: • full liberalization of capital movements: was made from 1 July 1990.

- realignment of pairs to be less common and have been a closer coordination of monetary policies.

- What happened in that period?

The second phase: 1 January 1994 - January 1, 1999: It is a stage of transition from the European Monetary System to Monetary Union that has provided the following:

- Monetary policy, while still being national, were to be closely coordinated.

- Creating a central monetary institutions to become, later, the bank Central Europe. This institution was established as the Institute European currency, based in Frankfurt. Central banks continued to operating in the national banks.

The third phase: 1 January 1999 (latest): Delors Report provides orientation and irrevocably fixed exchange rates eventually replace single currency.

Those countries that wish to enter the EMU must meet the convergence established in the Maastricht Agreement, as follows:

1) the average inflation rate, measured against the CPI in previous examination, should not exceed more than 1.5 points average percentage rate of inflation in the first three countries that have registered lowest rates of inflation;

2) long-term interest rates calculated in the previous examination not exceed by more than 2 percentage points the average interest rates recorded by the three European countries with the lowest interest rates;

3) public deficit ratio, defined as the ratio between state and overheads gross domestic product (GDP) must not exceed 3%.

4) gross national debt (external), defined as the ratio between the nominal value of external debt to gross domestic product later this year and should not exceed 60%;

5) is required at least two years active participation and compliance within margins of the exchange mechanism of the European Monetary System.

The process of building Europe is one of progressive integration. The single market for goods, services, capital and labour, launched in 1986, was a major step in this direction. Economic and Monetary Union and the euro take economic integration even further, and to join the euro area Member States must fulfil certain economic and legal conditions.

Adopting the single currency is a crucial step in a Member State's economy. Its exchange rate is irrevocably fixed and monetary policy is transferred to the hands of the European Central Bank, which conducts it independently for the entire euro area. The economic entry conditions are designed to ensure that a Member State's economy is sufficiently prepared for adoption of the single currency and can integrate smoothly into the monetary regime of the euro area without risk of disruption for the Member State or the euro area as a whole. In short, the economic entry criteria are intended to ensure economic convergence – they are known as the 'convergence criteria' (or 'Maastricht criteria') and were agreed by the EU Member States in 1991 as part of the preparations for introduction of the euro.

In addition to meeting the economic convergence criteria, a euro-area candidate country must make changes to national laws and rules, notably governing its national central bank and other monetary issues, in order to make them compatible with the Treaty. In particular, national central

banks must be independent, such that the monetary policy decided by the European Central Bank is also independent.

The Member States which were the first to adopt the euro in 1999 had to meet all these conditions. The same entry criteria apply to all countries which have since adopted the euro and all those that will in the future.

Adapting systems to the changeover is a complicated process that should not be underestimated, all businesses need to prepare a project with all the changes resulting from the changeover: what steps should follow the objectives and those responsible.

This implies: involvement of members from various areas of activity and the existence of knowledge the following areas:

- Specify the business and software are used (users and management);
- designing and developing information systems (systems analyst)
- technical aspects of information systems (programmers);
- management and accounting (accountants and auditors).

Conversion to a common currency, the euro, will not only involve economic issues, like the reduction in exchange rate risks and the increase in price transparency, but also a number of business and technical issues. Will be strategic decisions that will fundamentally affect the way an enterprise conducts its affairs, who can change the functionality that is expected from information systems.

The impact of euro conversion on retail systems reflects changes on price displays, labels, pack pricing, bar codes, psychologically sensitive price points, weighing scales, the unit pricing directive, the loss of margin on low-unit-price items, consumer information, personnel training, adapting cash registers, scanning systems, cash office management, security, the use of credit cards, and so on. Sales and purchasing price lists will have to be reviewed.

The changeover to the euro has three specific features:

1. New products or services may introduce new functionality. These new requirements must be managed just as in all other new projects, particularly at this difficult time for obtaining IT resources.

2. The transitional period involves handling two denominations of currency with a fixed conversion rate. There is no need to spend any more than is absolutely necessary for a transitional period. Coordinate with your trading partners to reduce this effort.

3. The conversion effort is plagued by exaggerated claims of difficulty. Don't *(be fazed by these pronouncements.- Managing Risk in Euro Currency Conversion-Cutter it journal- by Patrick O'Beirne)*

The Changeover and the Public Sector

Legislative adjustments represented an important part of the public sector changeover preparations. Every country will have to implement a law on the conversion of national currency

into euro. Although this seems to be a rather trivial task, it should not be underestimated. The question of how to round certain amounts remains. So far, all participating Member States have defined some signal amounts (round numbers) in the legacy currency; these signal amounts are e.g. related to tax thresholds, social security payments, charges and fines or fees.

In the euro area countries, national legislation ensured correct conversion according to specified rounding rules, taking into account practicability. This step is of particular importance also for all types of official forms, stamps, public transport tickets, parking tickets or any other public services sold via vending machines.

In turn, these forms, stamps, ticket machines and the like will have to be adapted or newly produced. Last but not least, also any references to interest payments linked to central bank interest rates must be considered (Lachs and Ritzberger-Grunwald, 1998).

All these legislative adjustments have to go through specific national legal processes which probably also involve decisions made by parliament or other democratic institutions. Keeping in mind that legislative and political processes can sometimes be lengthy, the preparations of the necessary legislative adjustments are definitely among the first steps in the changeover process.

Another main preparatory task — and perhaps the most demanding for the public sector — is to adapt the whole system of public accounting and the respective IT systems to the euro. With respect to social security data, the question will also be whether all historical data will have to be changed into euro or whether data should be converted into euro only when necessary.

In Austria, as in the other participating Member States, there was a preference for the second option, which certainly represents a reasonable approach in terms of costs and time (Federal Ministry of Finance, 2000).

The public sector may take the function of a frontrunner. If the public sector switches to the euro early, this will be a positive signal and a good example to the general public. However, the public sector did not do so in most of the current euro area members. While the EU institutions switched to the euro on January

1, 1999, the national administrations in general proved to be the slowest ships in the convoy. Some administrations justified this on grounds that an early changeover might be confusing to the public.

(The Euro Changeover in the New Member States — A Preview Focus 1/05 _ ceec.oenb.at 59)

The cash changeover

The cash changeover requires thorough information and major logistical efforts, including the production of euro banknotes and coins, frontloading the new cash, promoting security and increasing storage capacities, supplying the citizens with euro cash and, last but not least, withdrawing the former national currencies.

Although most countries announced a dual circulation period of two months, the responsible authorities had the ambitious aim to complete the cash changeover within a much shorter period of time.

The cash changeover poses considerable logistical and organizational challenges and constitutes an enormous task not only for the NCBs but for all parties involved, such as commercial banks, retailers and others. In addition, after the old national currency has ceased to be legal tender, the withdrawal of old national banknotes and coins remains a challenging task.

Against this background, three periods can be distinguished within the cash changeover process:

1. the pre-changeover period
2. the actual changeover or dual period and
3. the post-changeover period

The five main reasons why the euro is still a strong currency

Here are the five main reasons in vision of Jeremy Warner- assistant editor of The Daily Telegraph-at October 24th, 2011 why the euro is still a strong currency .

“1. Internally, the eurozone is a terrible mess, with extreme imbalances of debt, trade and competitiveness, but in aggregate, it looks like a remarkably strong economy. The current account is broadly in balance, public debt and the ongoing deficit as a proportion of GDP remains well below that of the US, levels of household and private indebtedness are relatively low, and there's even a little growth, albeit fast disappearing.

2. China is attempting to diversify its foreign exchange reserves away from undue reliance on the dollar. The euro is the biggest and most obvious alternative.

3. Interest rates are higher than in the US and the UK, and there has been no quantitative easing of any significance to debase the currency.

4. The dollar and sterling are justifiably weak. All problems are relative, and both the US and the UK still have big ones in terms of dealing with the aftermath of the financial crisis.

5. If the eurozone breaks up, forcing weaker members such as Greece to leave, you are left with a potentially much stronger core. The more "Germanic" the centre of gravity in the eurozone, the stronger the currency will be.”

Conclusions:

This paper aims to determine the changes produced by joining the single currency. To achieve full economic integration, Member States should join the euro zone and harmonize their fiscal policies, including taxation, and other economic policies. The process of implementing the single currency will deal with various problems, like: functional problems, logistics problems, formal aspects.

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REALITIES AND PERSPECTIVES OF BUSINESS TOURISM ON A GLOBAL SCALE

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At an extensive level, business tourism is often defined as being the action of travelling for business purposes, more precisely to solve commercial problems or to attend different conferences and meetings organized by economic institutions in order to diversify and improve the quality of the economic goods and services. Although, the vast majority of these actions may involve running a paid activity, they are part of tourism, the organization and their implementation requires the use of technical facilities for accommodation, food services, leisure and consumption of specific services supplied by the organizers. Until now and much more to come, business travel is and will be the privilege of developed countries with established and authentic market economies. However, business travel is the most important niche which can enable Romania's access to the international touristic circuit.

Keywords: business tourism, conference tourism, fairs and exhibitions, incentive travel, leisure tourism.

JEL Classification: L83

Theoretical aspects concerning business tourism in the history of tourism evolution

Business tourism is part of the activity of tourism, being in the same time the most dynamic type of tourism, with a share of about 20% of the international travel and nearly 25% of the total tourism revenues, representing one of the most „dynamic” and „expensive” activities (Minciu: 2004).

History of business tourism is trapped in time. Emergence of subsistence agriculture in Africa and Europe, with thousand of years BC, automatically led to the development of commercial trade which was increasingly carried on longer distances. However, urban development stimulated an increased need for household products. That being so, one can say that business travels were first initiated by small traders and artisans who could travel thousands of miles to sell their products. The commercial phenomena developed in the era of the great empires: Egypt, Persia, Greece and Rome, which stimulated trade and thus increased business travel. The decay of the empires brought each time periods of economic and political instability, temporarily reducing the volume of business travel (Swarbrooke and Hower: 2002).

In the Middle Ages and until the early modern era, the main travelers were merchants and pilgrims. Not incidentally, from an historic point of view, business men represented the major element of mobility and continuity factor in relations between people. This statement is confirmed by the fact that until the XIVth century, there had already been adopted advanced technics and legal instruments such as bills, insurance policies and fee contracts that obliged traders to a greater care of their businesses (Constantini: 1996), mechanism which are very much improved nowadays. Along with merchants, throughout history, there were three other professional categories who practiced business tourism even if in an incipient way: the priests of all religions who traveled in order to include religion in the occupied territories, for meetings or for pilgrimages, soldiers and private mercenaries travelling to either take part in battles or to move to the occupied territories or simply to move the garrison, workers who temporarily

migrated seeking work for a few months per year when in their willages, workplaces were not to be found.

However, in the second half of the XVIIIth century and throughout the XIXth century, business travel and tourism in Europe have developed due to three main reasons: the industrial revolution which started in England and then extened in almost all european countries, the development of the modern age empires, the improvement of the road network prefaced by the appearance of the railway systems. Cities were able to combine greater benefits by hosting such events and by becoming destinations for business, consumption growth and developing facilities offered to the tourists for the fundamental role of stimulating business. Especially, towards the end of the XIXth century, „economic tigers” of southeast Asia, Middle East and oil rich countries, undoubtely became major factors in developing this form of tourism (Swarbrooke and Hower: 2002).

In addition, in the past very few were those who traveled for pleasure, most of them due to the commercial activity, religious and military motivation, activities that are found today among the reasons for business travel, although to a much larger and advanced scale. Eventually, everything that was stated to be a history of tourism, is in fact a history of business tourism.

Conceptually, business tourism involves travelling to another town, a distance more than 50 kilometres from the town of origin, business travel being strictly determined by events or educational purpose. In fact, business travel may be divided into individual travel, group travel, travel at events (MICE Area-Meetings, Incentive, Conventions, Exhibitions), team-building and treading trips (Svetlana: 2008). Basically, business travel can be divided into different categories:

- Meeting, organized in the form of several alternatives (meetings, colloquim, conference, congress, convention, reception, seminar, symposium, summits, workshops) to discuss common issues (commercial or non-commercial, bringing together many people, lasting a few hours or a week, employing a few services of the tourism industry and is based on the assumptions of organization and justification, the membership to the business tourism field, R., Davidson., 1994).

- Exhibitions and trade fairs, presentation of products or servicies wirth a target audience to promote sales or visitor information, business organizational form of tourism that stimulates exhibitors and visitors travels, while ongoing different touristic servicies such as catering and guests accommodation.

- Internal treading courses, where all participants belong to a single organization, or open events where the institution that coordinates treading courses offers trainings which are available to all who want to benefit from them.

- Product lauches, special events, which means that many organizations currently use them as a way to promote producs and services to be marketed with different audience including the media, retailers and consumers, involving a relative short time (sometimes just a few minutes) but with a relative large budget.

- Incentive travel, defined in 1998 by the „Society of Incentive Travel Executies -SITE”, as a management tool that, by providing exceptional travels, motivates and/or recognizes participants the high level of performance achieved in performing the tasks within the organization.

- Individual business travel, entrepreneurs who proposed in their strategy the development of their companies, and the expansion in a national or international area (multinational, transnational) that involves all basic and complementary services in the touristic area, including leisure tourism.

- Officials travelling in companies interest, nationally or internationally, during which the local or national communication interests are promoted on very different areas (economic, social).

However, the contents of the complex business travel, allows for multiple definitions and classifications, the literature in the tourism field and developing practical reality, have developed more and more in the last decades.

Similarities and differences between leisure tourism and business tourism

Basic touristic services and many of the additional or complementary services are characteristic both to business and leisure tourism. Transportation, accommodation, food, information and promotion services or activities of travel agencies and even landmarks are present in both markets, even if tourism services may be different. Business tourism includes an important element of leisure tourism.

However, there are important differences between the two types of tourism. If incentive travelers can say that almost all the rest are similar to leisure tourism, except how they pay for services, but even for delegations at a conference, visitors to trade fairs or even individual business travelers, visiting attractive places may be the relaxing solution after a hard day of work.

Chart.1 Similarities and differences between leisure tourism and business tourism

Factors of influence	Differences		Similarities
	Leisure Tourism	Business Tourism	
Who pays?	Tourist	Tourist employer or associates.	Managers may pay their own trips.
Who decides the destination?	Tourist	Trip/meeting/incentive/conference /exhibition organizer. All year round from Monday until Friday.	The organizers may take into account people wishes.
Period of time for these trips	During holidays and weekends.	All year round from Monday until Friday.	July and August are avoided when choosing important events.
Control period- the period of time between booking and departure	Holidays are often booked with months in advance; for short-time holidays booking may be done with a couple of days in advance.	Some trips may be announced short time in advance.	Important conferences are booked years in advance.
Who travels?	Anyone with enough money and time.	Persons whose work requires travelling or associate members.	Some business men are often accompanied by partners.
What type of destinations are used?	All types: seaside, cities, mountains and rural area.	In cities focused more on industry.	Destination for incentive tourism are close to those of leisure tourism.

(Swarbrooke and Hower: 2002)

Unlike classic tourism, those who travel in business interest, often spend more money on accommodation and transportation, mainly because quality touristic services and specialized services (conference rooms, translators) are needed.

There are four great similarities between the demand for leisure tourism and business tourism:

- Business tourists become leisure tourists with the end of the working day;
- Conference program includes leisure activities for delegates;
- Travel incentive means offering a holiday as a reward for one's work;
- Business people are accompanied by their partners and/or children who are travelling for pleasure and not for business.

Trends in global business tourism.

Business tourism has been known as one of the most dynamic sectors of the economy, the development trend is supported by the growth of international relations in all fields and especially due to the globalisation of the economic life. According to statistics, in 2010 there were 9160 meetings in 223 countries and 1557 cities. Compared to 2009 (which saw the maximum number of meetings), the number of meetings was reduced by 11% in Africa, 11% in Europe, 6% in North America, 16% in South America, 2% in Australia and Pacific, and just in Asia growing by 14,9%. Share of mainland meetings in 2010 is as follows:

Chart 2. Meetings share by mainland in 2010

Mainland/ Meetings share	2006	2007	2008	2009	2010
Total	100	100	100	100	100
Europe	56,8	58,3	56,7	57,66	56,19
North America	13,9	14,9	16,5	15,96	17,17
Asia	14,9	12,9	13,7	12,8	13,08
South America	6,4	6	4,71	5,19	5,12
Africa	4,8	4,8	4,6	4,25	4,03
Australia and Pacific	3,2	3,1	3,8	4,13	4,41

Europe continues to maintain a relative constant position (56,19%), for the period, while North America recorded a significant increase (17,17%) in the succession of years taken into analysis. Top countries in terms of international meetings in 2010 is as follows:

Chart.3 Top 10 countries by international meeting organisation in 2010

Country	Number of reunions	Percentage of total meetings %
USA	1080	11,70
FRANCE	552	6,03
GERMANY	404	5,36
UK	377	4,12
SPAIN	301	3,04

ITALY	336	3,67
SWITZERLAND	302	3,30
BERLGIUM	282	3,08
AUSTRIA	279	3,05
CHINA, HONG KONG AND MACAU	231	2,52

It can be remarked that developed countries, by their economic and technical size, have the largest percentages from the total countries. Top 10 cities in terms of international meetings in 2010 is as follows:

Chart 4. Top 10 cities in terms of international meetings in 2010

City	Number of reunions	Percentage of total reunions %
PARIS	221	2,41
VIENNA	219	2,39
BRUXELLES	190	2,07
GENEVA	188	2,05
SINGAPORE	156	1,70
COPENHAGEN	137	1,50
BARCELONA	133	1,45
LONDON	131	1,43
BERLIN	110	1,20
SEOUL	109	1,19

We also remark the fact that cities have supremacy in urban tourism, monopolize the largest share of international meetings. The reunions considered in the classification meet the stringent selection criteria imposed by the UIA (Unioun of International Associations):

- are organized or sponsored by international organizations that are included in the „Yearbook of International Organizations ” and the „International Congress Calendar”;
- are national meetings with international participation, organized by national branches of international associations.

Chart. 5 Total business tourism revenues during 2005-2010 and forecast for 2015

Years Revenues(mld)	2005	2006	2007	2008	2009	2010	2015 (F)
TOTAL Business tourism:	502,64	480,05	461,32	521,81	592,08	652,9	962,71
Corporations	434,57	414,53	398,03	450,08	509,91	561,95	834,37
Governments	68,08	65,51	63,29	71,74	82,16	90,94	128,34

Years Revenues(mld)	2005	2006	2007	2008	2009	2010	2015 (F)
Total tourism business (growth compared to previous year %)	10,32	-2,18	-6,15	2,16	5,22	4,64	3,13(annual)

Correlating the data, we find that the private sector focuses mostly business tourism revenue (about 75%) in contrast to the actions initiated by public institutions. As regard to Romania, the general positive developments in the last few years, have had direct effects on business relations. As a result, business tourism may now have an increasing trend, although this type of tourism has a quite low development. Before 1990, in Romania business travel was underdeveloped and the only events were organized in Romexpo Exhibition Complex.

Currently, business tourism is probably is the most stable sector in the Romanian tourism, with a steady development in the past two or three years. Following the references offered by accredited institutions to the media, there is a permanent increase in this area, with over 20% per year from 2005 until present. The main reason for about two-thirds of the total 2 million foreign tourists who arrived in Romania in 2010, was the participation at conferences, team-buildings or training sessions. Recording a major proportion in the urban sector, business tourism has its landmark in Bucharest, where the percentage of those arrived for business work last year was around 80% of the total capital stays in hotels, and major cities such as Timișoara, Cluj-Napoca, Sibiu, Iași and Constanța, evolving infrastructure domain MICE (Meetings, Incentives, Conventions and Exhibitions), due to the existence of international airports and development of new accommodation at a high level of rating.

Moreover, the number of arrivals at the border crossings in 2010, was over 25% higher than the same period in 2009. Currently, the capacity of 4-5 star hotels in the capital, is situated as that of some cities such as Budapest or Prague, and the number of conference rooms can not fully satisfy the demand for events in many cases requiring reservation with two to three months before. The 110 hotels in Bucharest comprise a total of approximately 8.000 beds which meets the requirements for making a proper business travel.

Business tourism performed for the governmental, commercial and educational purpose, attracts clients not fully interested in prices but rather interested in speed, quality and efficiency. In general, to the purchased business package, an agreement package could be joined, taking into account the possibility that a satisfied customer might make a request for a return circuit with their beloved ones in the same places.

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ANALYSIS OF PLACING THE POPULATION SAVINGS IN ROMANIA IN THE CURRENT PERIOD

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In Romania, after a careful study of the saving process and the analysis of the determinant factors, it could be highlighted a number of ways of population savings. Because the permanent correlation of income and expenditure by business entities is not part of the economic and social reality, issue of placement of saved income rises, in certain periods of time, and also making use of investments in previous periods, in which case the need to use the savings appears. It is important to make distinction between the different possible allocations of savings, because depending on their destination, the economic effects are radically different.

Key Words: savings, income, investments

JEL Classification: E2, E21, E22

The paper "The savings in Romania" was designed based on the belief that in our country, after 1989, the saving contribute greatly to economic growth and to reach the goals of European Union membership. In this context it has been studied and analyzed the saving in conditions of freedom and in terms of access to financial and monetary market.

The purpose and tasks of the work are formed by the theoretical and methodological study of the forms and motives underlying the romanian population process of saving and the impact of the influence factors on this process. Achieving of its purpose is conditioning the following research tasks: (i) analysis of scientific papers that are directly or indirectly the subject of research data, (ii) studying the nature and the content of economic category of "saving", (iii) research into the causes, the reasons and the assessment methods of inequality savings of the population;

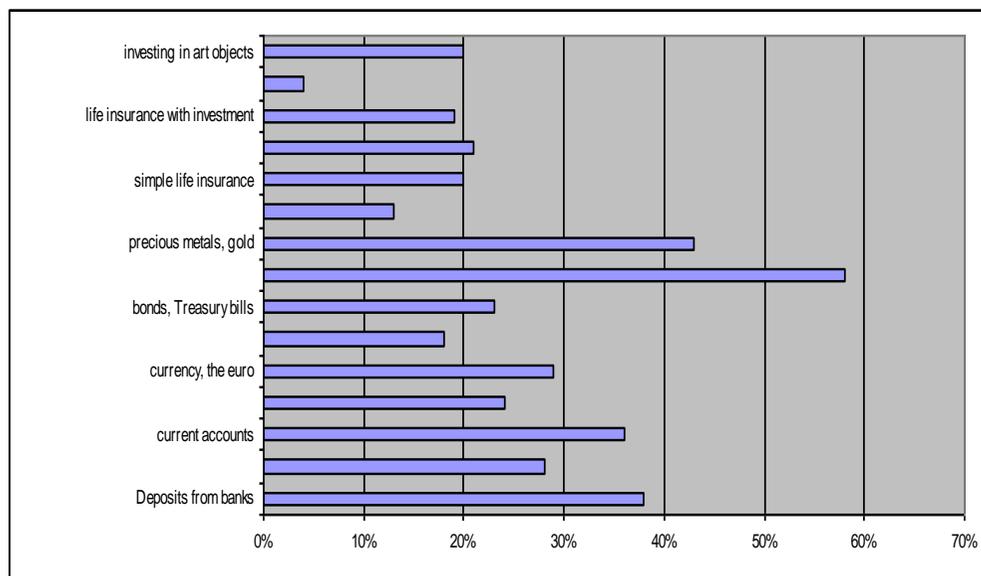
The Research subject is the process of population saving, especially the impact of several factors influencing the evolution of this process. Theoretical-scientific and methodological support of the presented work is based on the works of renowned scientists: A. Smith, D. Ricardo, JS Mill, D. Marshall, J. M. Keynes and other economists from abroad and domestic. The informational support of the work was the data of the National Institute of Statistics, National Bank of Romania, the Deposit Guarantee Fund in the Banking System, sociological data and statistics in Central and Eastern European countries.

The Research methodology was based on the use of methods such as dialectical method with its components - analysis, synthesis, induction, deduction, research from simple to complex, from the historical to logical, from qualitative changes to quantitative changes and the internal methods of economic subjects - observation, comparison, selection, grouping, etc.

After a study made by HVB Bank with GfK group, and in conformity with the studies conducted by Metro Media Transylvania can be said that public confidence in savings instruments is increasing.

According to all these analyzes the preferred way to save money is buying apartments or houses (58%), respectively investing in real estate. These rules are, at present, the most profitable forms of savings, but also the safest.

Chart 1 –Forms of savings (%)



Source: data processed from National Bank statistics

For many people, buying a land or buying a building or a home is an important saving. In addition to the dream of having a house with own garden, an important role is played by the desire to have a safe investment and that of ensuring a stable situation for old age.

Bidimensionality scale assessment of the main ways of saving - safety and profitability - indicates an inclination to appreciate the savings in real estate, the banking investment in precious metals as the safest and profitable. Bank placements are better appreciated in terms of safety than in terms of earnings.

Preferences for bank deposits are found in greater for categories: over 50 years, people with high occupational status, with higher studies, medium and large cities, with a monthly personal income between 900 and 1,500 lei from Bucharest.

Generally, the bank deposits and savings books CEC type are very low risk instruments, but with minimal gains. Socio-demographic differentiators being analyzed shows that young people prefer saving tools evolved, characterized by risk and high profitability. CEC preferences deposits will be found in greater on people over 50 years and retired with elementary education, relatively low-income urban areas.

The main tools promoted by savings institutions are:

- librettos with interest on demand savings account;
- librettos of term interest savings deposits;
- teenager deposit;
- youth deposit;
- deposit with fixed interest rate, etc..

Keeping savings at home is preferred by 18% of the population, being largely preferred by young people with relatively low education level, with a maximum personal income of 300 lei monthly. But it also found that this preference decreases with increasing education levels. Thus, young people do not think to save, and the elderly are based on the youth for support in old age.

A very important form of investment is the purchase of securities. The securities are investment securities with legal regime by which people can ensure the funds to cover the expenses. Percentage of interest rate, the current issue and the redemption period shall be such that acquisition of such securities to be an attractive investment option for investors. There are two types of securities: stocks and bonds. Statistics shows that 23% of Romanian invests in bonds, Treasury bills, government securities, 13% in shares and 20% in simple life insurance. So the trend now is for people to save in real estate. Lack of diversity of these tools, but also of confidence in them, leads more towards consumption than for saving.

Keeping savings in Euro or dollars is preferred, usually, by the people with high occupational status, with higher education in cities of over 20,000 employees, with personal and household monthly income of over 900 lei. Thus, the share of those who have opted for the euro (29%), being by 5 percentage points higher than those who have opted to save the U.S. currency (24%). However, saving money as deposits are classified as economic behavior fitting in general causality which works in the wider economy. Although many financial-related behaviors have non-economic causality (psychological, contagion generated etc.), generally, they are subsumed to the dynamics of some macroeconomic variables that are either generating or conditional for saving behavior, both in volume as and the structure of the "portfolio" of saving.

It should be noted that the consumption/saving border is far from being clear, obvious; so, buying jewelry or paintings can be seen as a form of savings, although it is consumer goods. If diamond kept in a box is then placed to achieve capital gains, it is undoubtedly speculative purposes. But more often, buying carpets and paintings from East is part of consumption that integrates a heritage whose function of precautionary saving is often located in the background in relation to the main use.

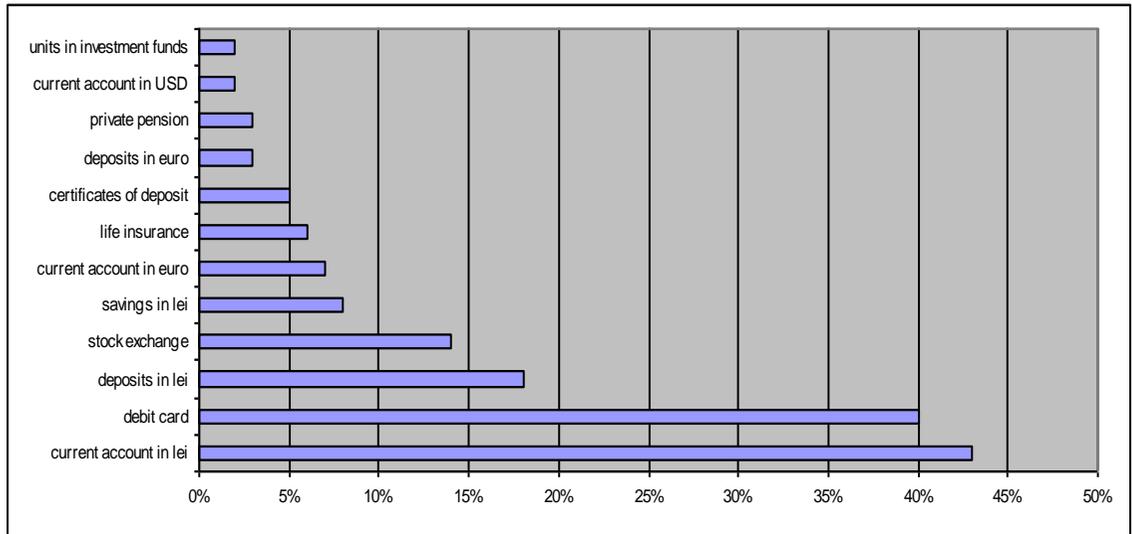
So, we can conclude that saving is immediate unconsumption of an income part and raising money for a certain period, a process that has as possible destinations the hoarding, placement and investment.

In terms of profitability that measures the difference between profits when investing in real assets and the interest rate that would be obtained by placing the used capital to finance these investments.

It's a key indicator to understand the inclination to investment and the decision of capital holders when they have to choose between industrial adventure and financial investment.

As noted, between 2009-2011, the investment portfolio has as main instrument of saving, the current accounts and debit cards used in the last year by 40-43 percent of accessed household members. Then comes the deposits in lei and shares used in 18 percent and 14 percent of visited households (in the study conducted by Metro Media Transylvania). The following are placed in descending order the books in domestic savings (8 percent), euro current accounts (7 percent), life insurance (6 percent), deposit certificates (5 percent), euro term deposits (3 percent), private pensions (3 percent), units in investment funds (2 percent).

Chart 2 - Savings instruments (%)



Source: data processed from National Bank statistics

Most households with savings instruments have only one instrument of some sort in this category, notices are valid for credit instruments.

In 2011, total savings instruments of some kind held in the household usually overcomes 1,000 lei.

Also, at this moment, in Romania the population invests small amounts in private pensions. The number of those who seek special funds and pension savings products is relatively low (about 21%). But in the future we hope to increase demand for advisory services in asset management. Due to this growth and market potential, pension plans will become increasingly important. Since 2008 in Romania and the countries of Central and Eastern Europe, almost half of the working population began to invest or consider investing in individual pension in addition to state pension. By this pension program, young people have a huge advantage: due to the longer period of saving, they will have to make smaller investments to receive sufficient additional payments from sources such as private pensions. The young people will start saving earlier, so they will benefit from greater savings during idle.

In conclusion we can say that in this paper this problem has been treated both theoretically and in practical terms, being made a sociological study on how to keep the savings. There are many reasons for saving, which reasons the literature has structured so: the reason of speculation, of precaution, business or income. Of course, one of the basic ideas of people about what saving is, is to put aside, regularly every month, for example, a certain amount of money for the next period.

Savings portfolio is generated by building upon the structure of possible savings. As the promise of fructification is accompanied by an associated risk factor, we can say that, in fact, savings portfolio is generated by profit-risk ratio associated with each possible way of financial investment. Based on the above, saving can take the following forms: pure savings, which preserve the saved material (such as bank deposit, non-bank money saving), savings and investment, which not preserves the saved material but preserves an equivalent form of it (such as real estate investments).

The paper concludes with an analysis of placing savings, analysis that is aimed to highlight the growing confidence of the population in saving instruments. According to these analyzes it could

be highlighted the fact that in Romania the people's most preferred way to save is to invest in real estate, which currently represent the most profitable forms of savings, but also the safest.

Regarding the savings instruments, they have been studied throughout the end of the work, using statistical and mathematical analysis. Thus, it could be concluded that currently the investment portfolio has as principal saving instruments the current accounts, followed by deposits in lei and shares acquired on the capital market. Starting in 2008 in Romania, began to take shape the people's confidence in private pension saving because they have a huge advantage: young people will begin to save early and both will benefit from greater savings during idle.

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SUSTAINABLE DEVELOPMENT CHALLENGES AND FDI IMPACT IN HOST COUNTRIES

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This survey analyses aspects of the relationship between FDI and sustainable development within the Romanian economy, focusing in particular on volume, dynamics and structure of FDI companies in Romania, impact on imports and exports as well as ratio between repatriated profit and profit reinvested in the host country. A series of proposals have been made for increasing the contribution of FDI in the sustainable development of Romania by attracting FDI in particular to the tradable sector and for increasing the favourable propagation effects to Romanian companies.

Key words: export, import, FDI, trade balance deficit, reinvested profit, repatriated profit.

Jel Classification: F15, F21, F23, F43.

We shall try to evaluate on a macro-economical scale the manner in which the foreign direct investments in Romania have succeeded to meet the requirements for sustainable development starting from the assumption that the foreign capital intake must represent, together with other internal and external agents, a factor which contributes to sustainability of economic growth.

Volume, Structure and Dynamics of FDI.

According to official statistics issued by the Romanian National Bank and the National Institute of Statistics²⁹, the final stock of FDI in Romania as of 31 December 2010, equalled 52.585 billion euro, registering an increase of 5.2% in comparison with the former year. This amount included equity investments (including reinvested profit of 35.5 billion euro (67.5% of final stock of FDI) and 17.0 billion euro (32.4% of final stock of FDI) total net credit received by transnational company subsidiaries, which represented an increase in weight of 26.5% in 2009 to 32.4% in 2010.

Table no. 1 FDI Stock in Romania in the period 2003-2010

	31 Dec. 2003		31 Dec. 2004		31 Dec. 2005		31 Dec. 2006		31 Dec. 2007		31 Dec. 2008		31 Dec. 2009		31 Dec. 2010	
	Mil. Euro	Mil. Euro	%													
	Total	9662	15040	55,7	21885	45,5	34512	57,7	42770	23,9	48798	14,1	49984	2,4	52585	5,2
Equity investments (incl. reinvested profits)*	7092	12007	69,3	17490	45,7	27016	54,5	31501	16,6	34892	10,8	35600	2,0	35529	0,2	
Credits**	2570	3033	18	4395	44,9	7496	70,6	11269	50,3	13906	23,4	14384	3,4	17056	18,6	

* Net credits from direct foreign investors

**Equity investments are consolidated with net losses.

Source: Foreign Direct Investments in Romania, Romanian National Bank, 2010

²⁹ See Direct Foreign Investments in Romania

Unlike equity investments of companies with FDI which do not require reimbursement thereof to the parent company, the net credit is a debt which must be reimbursed by the subsidiaries, the parent company having total decision control on reimbursement terms. Having in view the particularities of the two components of FDI, we consider appropriate to have a distinct analysis thereof, with due consideration of the fact that the first component is direct contribution to the stock capital of the FDI company while the second is a loan with all associated rights and obligations.

As far as equity investments to stock capital of FDI companies are concerned, in case of privatisations of public assets with foreign investors, a special attention should be paid to the difference between subscribed and paid capital as intangible capital or in-kind contribution which has to be correctly evaluated based on appropriate and customary market methods.

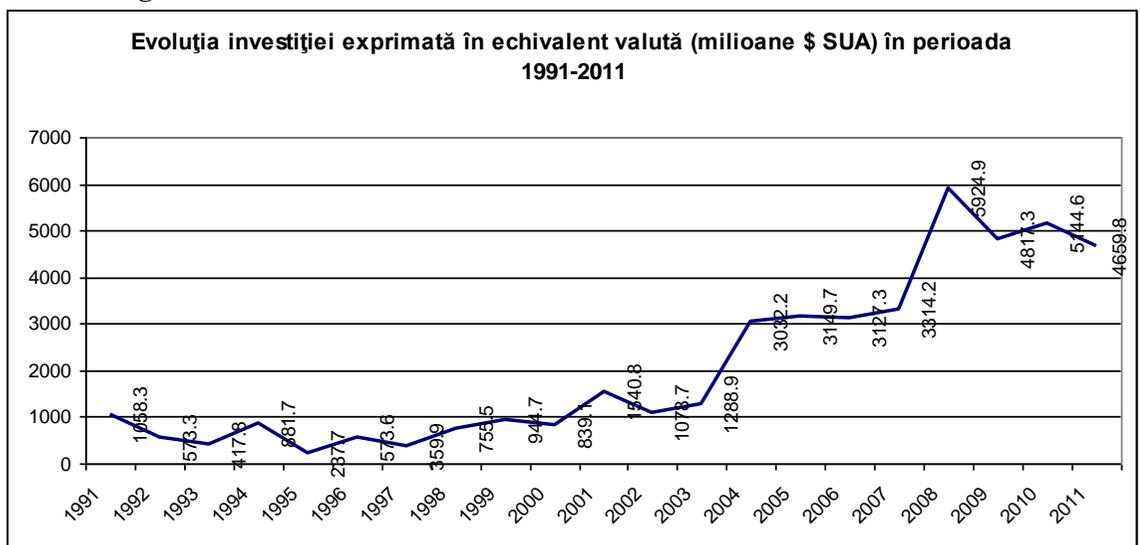
As pointed out in Table 1, equity investments to stock capital of FDI companies (including reinvested profits) in Romania have increased in the period 2003-2010 by about 5 times while volume of credits has increased about 6.3 times, which highlights the interest of parent companies in granting credits to their subsidiaries both in order to obtain the higher interest rates practiced in Romania as compared to rates in the country of origin of the parent company, as much as to increase the profit rate of the Romanian subsidiary as compared to profit rate in other countries hosting subsidiaries of the parent company.

The volume of FDI in Romania has known a fast growth during the entire period of transition considering that FDI's were practically non-existent at the beginning of the 90's due to the autarchy and the monopoly of the state over the foreign trade and external economic relationships.

Several distinct sub-periods of FDI evolution in Romanian can be highlighted in the years from 1991 to 2011 in connection with the economical reforms in progress in the Romanian economy as well as with a series of external factors having a strong impact on the local economy such as association, pre-accession, accession and post-accession to the European Union and the international financial crisis.

During the **sub-period of pre-association to EU** (1991-2005), FDI have had a modest evolution with small variations from one year to another, the annual volume of FDI being situated between 817.9 mil. euro in 1991 and 183 mil. euro in 1995, which placed Romania as one of the Central and Eastern Europe countries with the lowest rates of FDI per capita.

Diagram no. 1



In the period of Romania's **EU association**, the annual volume of FDI fluctuated between 729.9 million euro in 1999 and 278 million euro in 1997, with slightly higher rates than the former period, marked however by the heavy economic decline of Romania in the period 1995 – 1999.

In the **pre-accession period** 2000-2006, the annual rate of subscribed stock capital fluctuated between 833.8 million euro in 2002 and 2435 million euro in 2005, the annual volume of FDI exceeding in the last three years 2.38 billion euro, this period being particularly marked by start up of important privatisations in the manufacturing industries and in the banking system.

The post-accession period of the years 2007-2011 has known annual growths of FDI of over 3.5 billion euro, which basically consisted in a higher control of Romanian FDI companies, an entire range of economic sectors being fully privatised to foreign capital which had a controlling share thereof oscillating between 70 to 85% in certain cases. It is in the same period, namely in 2009, that the economic crisis broke in Romania and led to a drastic reduction of annual FDI.

At the beginning of 2012, following decisions made by applicable authorities, the partial or majority privatisation of 35 public companies in the field of energy production, distribution of natural gases, national post, railway transport, etc has been foreseen although part of these companies made substantial profit.

Proposals were also made for privatisation of a series of public assets in the mining industry, proposals yet incomplete however.

The main reticence against these privatisations is related to the poor argumentation of the short, average and long term economic-financial efficiency thereof, the crisis situation which is hardly a period of high sale prices, the fact that too many state assets are sold in a single step which makes the privatisation offer exceed the demand, and thus reduce the price of transactions to the detriment of the seller, unfavourable long term impact on the environment, etc.

Table no.2 Weight of number of companies with foreign equity investments and value of subscribed stock capital in Romania reflected in sub-periods between 1991 to 2011

	Total period 1991-2011	out of which per sub-periods:			
		1991-1994 pre- association	1995-1999 association to EU	2000-2006 pre- accession	2007-2011 post- accession
Number of companies	100.00	21.70	15.86	36.0	25.45
Subscribed stock capital calculated based on euro	100.00	6.97	6.82	33.47	52.74

Source: Calculations made based on data concerning Companies with foreign equity investments. Statistic synopsis of data offered by the Central Trade Register on 31 March 2012 (provisional data).

Although the number of companies with FDI in Romania may have a secondary relevance, it can be however noted that greatest number of such companies was registered in the pre-accession sub-period, when the negotiations for assumption of the *Acquis Communautaire* have represented a factor of attractiveness and security for foreign investors, the Romanian legislation being adjusted to the Community legislation.

Over 50% of the total stock of FDI in Romania was set up in the post-accession sub-period, from 2007 to 2011, when the largest state assets were privatised and the most important Greenfield investors came to Romania which had become a Member State of the European Union.

During the crisis of the period 2008-2011, data offered by the Trade Register reveal the following information on monthly and annual evolution of FDI in Romania:

- drastic drop of **subscribed stock capital into new companies** from 6.665 billion \$ in 2008 to 4.817 billion \$ in 2009 and to 40.854 million \$ in 2010 and 41.132 million \$ in 2011, revealing a severe reduction of foreign greenfield investments in Romania in the period 2010-2011;
- a significant reduction of number of new FDI companies has taken place in the period 2009-2011 as compared to 2008, fact which can be explained by the long-term effects of the crisis over the new FDI in Romania;
- a slight increase of the subscribed stock capital as well as of number of companies with FDI stock capital can be noted in 2011 as compared to 2010.

As far as country of origin is concerned, FDI in Romania (balance as of 31 December 2011) is grouped in following categories for the entire period 1990-2011:

- the group of EU-27 Member States, neighbouring Romania or in the close vicinity of the country (the Netherlands, Austria, Germany, France, Greece, Cyprus, Italy) which hold the greatest share – 69.0% of total FDI, having traditional economic relationships with Romania and being at the same time the main trade partners on whom Romanian exports and imports heavily rely on;
- the group of remaining EU Member States, with reduced share of FDI below 3.07% each, totalling together about 15.15% of the total volume of FDI;
- other countries outside EU - Panama 3.12%, Switzerland 2.95%, USA 2.33%, Turkey 1.29%, China 0.92%, Japan 0.44%, Lebanon 0.32%, etc.

EU-27 countries hold together about 84.15% of FDI stock in the period 1991-2011, a fact which is explained by Romania's membership of the European Union as well as the powerful influence of Romania's proximity to EU developed Member States in particular.

One of the issues of strategic significance for our country³⁰ in both theory and practice is the issue of optimum weight of FDI from EU Member States in total FDI in Romania taking in consideration the current existing opportunities in Romania for FDI coming from countries outside EU 27, under an increasingly higher globalisation and the need to eliminate a certain imbalance and asymmetry in economic and international relationships.

Experience of other EU Member States shows that weight of FDI coming from EU-27 countries in each Member State is situated at a "limit level" and definitely not at a level of 100%. The more developed a country is, the lowest this limit level is.

The analysis of the territorial distribution of FDI per counties in Romania, in accordance with share of each county in total volume of FDI, highlights the following issues:

- **23 counties with low share** (up to 1%) of FDI in total FDI, ranging from 0.06% (Gorj County) up to 1.02% (Suceava County) ; aggregate share of these counties in total FDI at national level represents 9.32%; these counties include the most poorly developed areas of Romania;
- 15 counties with shares between 1.02% (Suceava County) and 3.79% (Timis County) and referring to counties with higher economic-social development rates;
- Bucharest Municipality (51.6%) and Ilfov County (6.95%) with the highest share of FDI.

Distribution of FDI per counties reveals a **high discrepancy in value** between Bucharest Municipality and Ilfov County on one hand and remaining counties on the other. This discrepancy is explained by the fact that FDI have primarily searched locations in area with a high profit rate potential. Placement of counties in terms of economic-territorial development has not represented a major point of interest for foreign investors in Romania. The Sectoral Operational Programmes 2007-2013 and the Sectoral Operational Programme in particular have

³⁰ The strategic dimension has in view capitalisation of the similarities not only between the Romanian economy and the EU-27 countries but also with the international economy as a whole, based on the advantages of mutual competition, elimination of a concentration beyond the boundaries safeguarding equal opportunities and a relative independence for cooperation in an extended economic area, outside EU-27.

set as their primary objectives and goals the reduction of regional disparities, yet the insufficient absorption of structural funds proves a poor contribution to this effect;

The idea that the FDI have reduced the regional disparities of the economic-social development has not been statistically supported, at least not until now, and it is rather apparent that they have increased them, confirming S.Kuznets' theory on the development following a curve in shape of "J" in the first stages of economic growth.

As a result, given the relatively small volume of FDI in a number of 38 counties, it can be stated that the most important factor for the development of Romania is the local investment, FDI playing a more or less complementary role.

The economic crisis has further aggravated the regional disparities of FDI, part of foreign investors leaving many poor or averagely developed counties or putting a halt to their investment therein.

Distribution of FDI in Romania on main economic activities

Structure of FDI per economic sectors and industries has a special significance for future sustainable development of Romania and improvement of its performance of efficiency and competitiveness, innovation and technological progress.

For the purpose of this analysis and in order to reach the objectives of this research study, the national economic industries shall be classified in accordance with the following criteria:

- a) **technological levels**, with industries having **high** (high tech), **medium** (low tech) and **non-tradable** technological levels of goods and services;
- b) sectors with **tradable** and **non tradable** products and services;
- c) **primary**, **secondary** and **tertiary** sectors.

The scientific-intensive (high-tech level) industries have represented in the period 2007-2010 a share of about 4.5 % of the total volume of FDI, the highest share, over 43% being held by the non-tradable sectors, **financial brokerage services, insurance, trade, services supplied to companies, consultancy**, etc, which are in most part primarily speculative and provide relatively high profit rates with low stock capital input and no direct contribution to export.

The share of 31-32% of FDI of the manufacturing industry has remained relatively constant and concerned branches such as metallurgy, petroleum processing, chemicals, rubber and plastics, other industries belonging to **low and medium technological level** categories, with relatively low involvement and contribution to added value;

The lowest share of total FDI belonged to agriculture which presents no special attractiveness to foreign investors for the time being although aggravation of effects of the elementary crisis shall increase the interest for this sector where about 1 million hectares of arable land has been purchased by foreign investors.

Evolution of FDI during the economic and financial crisis of the period 2007-2010 started in 2008, powerfully reveals the negative impact of the crisis on FDI in 2009, with particular stress in the following sectors: metallurgy, food, beverages and tobacco, wood products, furniture included, computing, radio, TV, communication tools, textiles, clothing, leather goods, financial brokerage and agriculture. The highest decline was registered in 2010 with disparities from one year to another from start up of crisis in the construction and real estate sectors.

We would therefore like to stress as a final conclusion that most part of the DFI in Romania are concentrated in low technological level sectors and industries (low-tech)³¹, i.e. food processing industry, light industry, wood and wood products, cellulose, paper, publisher houses, printing, furniture, recovery and recycling of waste, as well as medium technological level (medium low-

³¹ The low technological level includes the following NACE divisions and groups: 15, 16, 17, 18, 19, 20, 21, 22, 36 and 37.

tech32): crude oil processing, coal coking, nuclear fuel treatment, rubber and plastic products, non-metal mineral products, metallurgy, steel structures and products (except machinery and equipments), construction and repair of ships. In most part of these industries Romania registers indeed higher indices of revealed comparative advantages (Zaman Gh., Vasile V., 2004-2008; Giurgiu A., 2008), which stresses an **inter-industry specialisation** of exports of Romanian products as against the **intra-industry specialisation** where the most relevant indices are the Grubel-Lloyd indices.

Exports of the two groups of industries, the low technological level and medium low technological level, prevail in Romanian exports in a percentage over 65% (Ciupagea et al., 2007; Iancu A., 2004), while products of **high technologies** (high-tech level) have a share of only about 4% of the total exports.

The group of **medium high technologies** (medium high-tech) industries refers to chemical products (excluding drugs), machinery and equipments, electrical machinery and devices, road vehicles, other transport means, construction and repair of aircraft. This group has a small share of Romanian exports, less than 30%, almost equal to the FDI structure.

As far as promotion of FDI is concerned government policies should concentrate in the future on the promotion of FDI as an instrument for increase of foreign trade profits, **by supporting sustainable development exports in the high-tech and medium high-tech sectors** (Mazilu A., 1999), so as to increase weight of exports with high added value. Current FDI structure in terms of economic activities is not as yet compatible with the aspiration for increased export competitiveness and sustainable development.

Foreign Direct Investments in Mergers and Company Acquisition and Development and Greenfield

Companies with FDI include the following categories: *greenfield*, *mergers and company acquisition and development*, each having specific characteristics and different impact on sustainable growth and competitiveness.

Greenfield investments are usually concentrated in developed countries in the high technological industries and enjoy the preferential protecting treatment granted to *infant industries*. These investments have registered a **very low level, of only 46 million euro** in Romania, the equivalent of merely **1.1%** of the equity investments in the companies with foreign direct investments. Investments in the category mergers and acquisitions (M&A), with 93 million euro (2.3% of total equity investments) are in a similar position.

The highest share of the equity investment flow in 2010 came to *company developments*, with a total amount of 3 928 million euro, 96.6% of equity investments respectively, these figures highlighting among other things a relative slow down of the process of diversification of exports during crisis periods, as well as a tendency to invest mainly in cost savings and improvement of manufacturing technologies.

Foreign direct investments in *Greenfield companies* were primarily targeted on the processing industry (13.9% of FDI balance). Other industries where these investments hold a significant share include: trade (10.2%), financial brokerage and insurance (6.8%), constructions and real estate (5.5%). A prevailing higher percentage of investments in the service sector (22.5%) in comparison with the processing industry is again apparent. Judging from the experience of other countries as well as Romania's, growth in absolute and relative terms of the service sector in parallel with reduction in absolute and relative terms of the processing industry **does not validate a sustainable evolution of economy**, being well known the fact that a significant part of services depends on the vulnerable and volatile sector of speculations and "pseudo-tertiary" process

³² The medium low technological level includes the following NACE divisions and groups: 23, 25, 26, 27, 28, 35; the high technological level includes NAVE groups: 24, 30, 32, 33 and 35; the medium high technological level includes NAVE groups: 24, 244, 29, 31, 34, 35 (except ship construction and repairs), 353.

having the highest crisis and pro-cyclic instability potential. Unfortunately, in the over two decades of transition to market economy we witnessed in Romania a strong reduction of absolute volume of production of greatest part of processing industries and in particular of high technological industries (pharmaceutics, fine synthesis chemistry, electronics, etc).

Most of foreign direct investments in *greenfield enterprises* are concentrated as all FDI in the area BUCHAREST-ILFOV (30% of FDI balance), followed by the CENTRAL Region with 5.3% and WESTERN and SOUTH MUNTENIA Regions with 3.9%, and 3.2% respectively. The concentration of regional allocation of *greenfield* FDI in several development regions of Romania may contribute, on a short and average perspective, to **increased inter- and intra-regional disparities** within the country which may generate significant internal and external migration of labour force. The most important investments in *Greenfield companies* come from Germany (8.5% of FDI balance), followed by the Netherlands (8.4%), Austria (5.6%) and Italy (4.2%).

Privatisations of Romanian state companies with strategic foreign investors have highlighted a series of deficiencies in terms of FDI volatility, change of business area or bankruptcy of certain enterprises, which contributed to the **dissolution and de-industrialization** of the domestic economy and reduced performance and efficiency thereof. Foreign investors have not met the post-privatisation investment commitments, unacceptably took advantage of their dominant position, only based on the capital subscribed to companies without also ensuring the paid-up capital, have changed the profile of the production, have purchased industrial enterprises not for their economic and technological recovery and maintaining their activity profile as originally committed, but for demolition and export of scrap originating from write off of machineries and equipments or for capitalisation of lands purchased at very low prices on a rising real estate market.

Worldwide, unlike Romania, the largest amount of FDI³³ in 2009 and 2010 was allocated to manufacturing industries, with a rising share from 37% to 48%, followed by services were, with a decreasing weight from 33% to 30%, the primary sector registering a decline of weight from 30% to 22%.

The financial sector, considered by most experts as the "epicentre" of the international economic crisis, has registered a decrease in absolute volume and share of FDI in developed countries, a trend expected to continue in the future. In Romania, however, the largest share of FDI is owned by the service sector, especially financial services and consulting, which generated "soap bubbles" infected by the external worldwide explosion.

Impact of Exports and Imports of Foreign Direct Investment Companies on the Trade Balance of Romania

The desiderate of an active trade balance, with associated advantages is unquestionable especially considering that countries with a powerful, competitive economies have such a trade balance. Romanian decision makers have unfortunately, both unsuccessfully and without judgement, embraced the theory according to which devaluation of the national currency would ipso facto encourage exports, neglecting that success of currency depreciation with subsequent stimulation of exports should meet the following requirements:

- devaluation must occur in **homeopathic doses** (very small) and on **short term**;
- **existence of** a needed and sufficient **foreign demand** for the export production of the subject country;
- possibility to increase the production capacities in the country to match the foreign demand for export;
- the import content of the exported production should not be relatively high, being known the fact that depreciation of the national currency has a negative impact on imports.

³³ See UNCTAD, *World Investment Report 2011*, p. 34 (<http://www.unctad-docs.org/files>).

Countries which have attempted to use the depreciation method (West Germany, USA) have quickly abandoned this policy, realizing that this policy would lead to total bankruptcy on the long term. China which increased its exports much faster than its imports without resorting to a drastic depreciation of the national currency stands as a relevant example to this effect.

The sectoral structure of FDI has a special significance for the foreign trade of the host-country in the sense that a too high FDI share in sectors such as brokerage and financial services as well as non-tradable goods may lead to strong trade imbalance. FDI prevailed in Romania in the "non-tradable" sector, which has spurred strong domestic demand, which led to an unprecedented increase in imports, so that trade balance and current account deficit became chronic, which has consequently increased the vulnerability of Romania during the worldwide economic crisis and financial crisis.

Experts (Kinoshita Yuko 2011, p. 4) specify that a relative high volume of investments in the financial sector, non-tradable goods and services **may stimulate the internal demand and imports, including the trade balance deficit**, having a detrimental influence on the current account difference and external debt "and FDI in the tradable product sector boost imports on short-term only". On the other hand, foreign investors in the "tradable" sector pay a higher importance to qualification and productivity of labour force as against mere lower cost of labour force, the latter having a secondary role as influence instrument.

FDI attractiveness for tradable goods and services sectors in the host country requires a good infrastructure, a large internal market, a high level of skilled labour and a stronger integration into internal and external business networks, proximity to developed countries, which means lower transportation costs and a number of other advantages, including a stimulating business environment, good corporate governance, less bureaucracy and corruption and a friendly business environment and permissive taxes.

Changing of direction of movement of FDI from the "non-tradable" to the "tradable" sector contributes on average and long term to a better insertion of the host country's economy into international value chains, to settlement of infrastructure shortcomings, as well as to improved human capital expertise. Such guidance can be also implemented by **control and monitoring of FDI**.

Experience of other countries with emerging economies has shown that control of stock capital investments such as inflows of FDI **does not alleviate foreign investors** (Ostry I.D. et al., 2010)³⁴ from the tradable sector. Conversely, lack of selectivity and relevant information on the specifics and the creditworthiness of strategic investors can lead to erroneous decisions, damaging to the host country's economy.

The predominant targeting of FDI to the financial sector, the sector of insurance companies, consulting firms, etc. resulted, in times of crisis, in a major and long term economic decline, accompanied by the danger not only of higher credit lines but also withdrawal of foreign bank branches which could no longer be persuaded to continue their activity in Romania, where they had formerly made consistent profits for extensive periods of time.

We basically agree with the quasi unanimous opinion according to which FDI improves the export performance of the host country by increasing internal capital, facilitates the transfer of new technology and products, offers best practices, expertise and managerial capabilities to local labour force, promotes employment growth particularly in case of *greenfield* companies etc. Positive worldwide experiences on the favourable impact of FDI on exports may be quoted for several countries, the most interesting case however remaining that of China, which promoted an export oriented growth, so that \$ 1 FDI stock accounted for 70 cents' worth increase of exports

³⁴ I.D. Ostry, A. Ghosh, K. Nahermeyen, M. Chamon, M.S. Qureshi and D.B.S. Reinhardt, 2010, *Capital inflows: The Role of Controls*, IMF Staff Position Note SPN/10/04 Washington, International Monetary Funds, February 19.

(Zhang, 2005).³⁵ These favourable contributions of FDI for the economy of the host country are noted:

- Current sustainable development of Romania largely depends on FDI companies, taking in consideration the fact that these companies control some 70% of the foreign trade and about 85% of the banking system. This impact can be approached:
- in **absolute terms**, as difference between exports and imports, to determine the favourable/unfavourable contribution of subject companies to the total amount of the trade balance of the country:
- in **relative terms**, as share of exports and imports performed by FDI companies in the total volume of the country's exports and imports, at various levels of aggregation;

In 2007 FDI in Romania have had a share of 70.8% out of the total amount of aggregate volume of country's exports and a share of 59.2% of total imports of the country which strongly highlights the powerful control FDI companies exercise on the Romanian foreign trade, but also the role they play in the development of the national economy. In 2008, FDI export and import losses increased as compared to 2007, after which they decreased in 2009 due to the negative impact of the crisis.

Given the size of the percentage contribution of exports and imports of FDI companies in the country's total exports and imports in 2007-2010, there are voices considering same a favourable situation in that that these firms have the highest share as compared to exporting companies with domestic capital. We believe however that in terms of trade balance, the **contribution** of FDI companies was **unfavourable** (negative), because their imports exceeded exports in value. In other words, FDI contribute to the current account trade imbalance and to payment balance of the country (N. Falk, 2009 E. Borensztein et al., 2005 Navaretti G. Barba, 2004).

Analysis of data in terms of volume and structure of exports and imports of FDI companies in Romania highlights the following issues for the period 2007-2009:

- the trade balance of the period analysed was negative which means that imports of the FDI companies exceed their exports and according to the forecast of the National Prognosis Commission this trade deficit will be perpetuated until 2016;
- the economic agents with foreign equity investments activating in the retail business represent the main trade deficit generating sector (-7,77 billion euro in 2007; -8,372 billion euro in 2008; -4,387 billion euro in 2009), followed by the sector of another activity with trade deficit of -1,5 billion euro in 2007 and -601 million euro in 2009.
- the industry has contributed with a **positive stock** to the Romanian trade balance in the years 2007 and 2009 and with a **negative stock** in 2008, which brings the conclusion that it is however the industry, in particular the manufacturing industry, which has the highest potential to overcome the crisis and reduce the negative stock of Romania's trade balance, based on exports exceeding the imports.

³⁵ K.H. Zhang, 2005, *How Does FDI affect a Host Country's Export Performance? The Case Study of China*, paper delivered at the OMC International Conference „China and Asian Economies”, III și XI, China, June, 25-26, 2005.

Disaggregated analysis of exports and imports of FDI companies in 2010 (table no. 3) highlights the following:

Table 3. Contribution of FDI companies to total Romanian exports and imports in 2010

million euro

	Exports (FOB)		Imports (CIF)		Stock of Trade balance (+/-)
	FDI Companies	% of FDI companies of total economy *	FDI Companies	% of FDI companies of total economy *	
TOTAL	25950	72.4	28181	62.5	-2231
Industry	22887	63.8	19923	44.2	+2964
Mining industry	582	1.6	696	1.6	-114
Manufacturing industry, including:	21934	61.2	18849	41.8	+3085
- food, beverages and tobacco	314	0.9	978	2.2	-661
- cement, glass, ceramics	139	0.4	265	0.6	-126
- fabrication of wood products, furniture included	1223	3.4	396	0.9	+827
- fabrication of computers, other electronic, optical and electrical products	3652	10.2	3426	7.6	+226
- machineries and equipments	1020	2.9	546	1.2	+474
- metallurgy	2725	7.6	1572	3.5	+1153
- transport products	6713	18.7	4820	10.7	+1893
- crude oil processing, chemical products, rubber and plastics	2947	8.2	4414	9.8	-1467
- textiles, clothing and leather products	2983	8.3	2095	4.6	+888
- other branches of manufacturing industry	218	0.6	337	0.7	-119
Electric energy, gases and water	371	1.0	378	0.8	-7
Professional, scientific, technical and administrative activities and support services	47	0.1	218	0.5	-171
Agriculture, forestry and fishing	334	0.9	91	0.2	+243
Trade	2495	7.0	7138	15.8	-4643
Constructions and real state	48	0.2	145	0.3	-97
Hotels and restaurants	3	0.0	13	0.0	-10
Information technology and communications	39	0.8	467	1.1	-428
Financial brokerage and insurance	66	0.2	71	0.2	-5
Transports	28	0.1	100	0.2	-72

	Exports (FOB)		Imports (CIF)		Stock of Trade balance (+/-)
	FDI Companies	% of FDI companies of total economy *	FDI Companies	% of FDI companies of total economy *	
Other activities	3	0.0	15	0.0	-12

* Does not include exports and imports associated with activities of NACE groups 84 – Public administration, 97/98 – Activities of population households and 99 – Extraterritorial activities.

Note: Exports and imports have been aggregated based on the main activity of the companies, in accordance with NACE Rev.2. Export and import of FDI companies are those related to exhaustively analysed (having more than 20 employees). Data concerning export and import within the economy as a whole considered for determination of relative figures are those reported by the economic agents who exceeded the reporting thresholds for 2010 established for the interstate statement purposes.

Source: Processing of data offered by the Romanian National Bank.

- **the manufacturing industry** is the main branch with **trade surplus** (3 085 million euro), this being mainly accountable to its *transport* sub-sectors (1 893 million euro surplus), *metallurgy* (1 153 million euro surplus) and *machinery and equipments* (474 million euro surplus);

- **agriculture, forestry and fishing**, although having relatively low inflows of FDI (2% of total FDI stock as of December 31, 2010), represent the second branch of the economy where FDI enterprises have registered an aggregate trade surplus (of 243 million euro), figure well below the real potential of Romanian agriculture and forestry

- branches having registered a deficit in the trade balance include: mining, food, beverages, tobacco, cement, glass, ceramics, crude oil processing, chemicals, rubber and plastics; other manufacturing industries; professional, scientific, technical and administration activities and support services; trade; construction, hotels, financial brokerage, transport, other activities; industries with negative stock of trade balance include some companies which enjoy some favourable production conditions in Romania and which were net exporters before 1989 (food, cement, glass, petrochemicals, plastics, etc.).

- in all other branches, FDI enterprises registered **trade deficits**, raising serious problems on promotion of exports and substitution of competitive imports in the future.

The main issue raised by the exports of the enterprises with foreign capital established in Romania is not the level of competitiveness³⁶, but the extent in which this level has a **direct and indirect positive propagation effect on the national economy** on short, medium and long term perspective (spillovers or positive externalities). From this point of view, if **profit is fully repatriated to the parent company** abroad, then the impact on the investments in Romania is very low or nonexistent, leaving as favourable effect thereof only the wage income of employees working in such foreign companies, income which may well be below the wage rates practiced by Romanian companies and a number of other benefits related to improvement of expertise and skills, use of resources such as raw materials, fuel and electric power, a greater confidence in observance of environment standards.

Consolidation of the relationship between sustainable development and FDI should not neglect some aspects related to **impoverishment or poverty exports** (Bhagwati J., 1958, Blomstrom M., Kokko A., 1998), which, due to the low value added and high share of export of natural capital, may generate significant medium and long term environmental and economic damages.

Another major strategic challenge for the sustainable development of the national economy, involving FDI as growth factor concerns the increasingly chronic character and the

³⁶ We have seen that FDI are not concentrated in high technological industries, having high added value and competitiveness.

increasing trend of Romania's trade deficit, as shown by recent versions of official medium term (2012 - 2015) and long term (up to 2020) forecasts.

**Table 4. Deficit of Stock of Romanian Trade Balance,
as foreseen for the Periods 2012-2015-2020**

	Years				
	2012	2013	2014	2015	2020*
Deficit of stock of trade balance, billions euro	-10,58	-10,96	-13,51	-15,35	-17,1

* 2009 estimation of the National Prognosis Commission for long term forecasts

Forecasts of the National Prognosis Commission forecasts on the trend of increasing trade deficit of Romania until 2020, highlight that trend projections coincide with the projections of the Country Report of IMF³⁷ of 2011, in which, for 2012, which provide for 2012 a deficit (export FOB-import FOB) of -8.4 billion euro and -8.4 billion. euro in 2013, -9.1 billion euro in 2014 and -9.3 billion euro in 2015.

It is our opinion that development and implementation of programmes and strategies intended to reduce this tendency toward increase of negative stock of trade balance for some groups of products and services is imperatively required at least on following grounds:

- FDI should increase its contribution to Romania's foreign currency earnings from exports which show current or future comparative and competitive advantages, and not from exports made at "any price", which, some of them at least, may have unfavourable effects on the economy;

- FDI import policies should be discouraged by local products and services to replace some of the competitive imports, including by increase of absorption of EU structural funds for 2007-2013, which is currently very low (in late September 2011, absorption was 3.7% per overall sectoral operational programmes - POS, of which 7.3% - POR, 2.49% - SOP Transport, 1.89% - SOP Environment; 2.96% - HRD, 4.60% - POSCCE, 4.13% - PODCA, 6.85% OPTA.

- general restriction of unnecessary imports, having a negative impact on the environment and sustainable development, in compliance with EU regulations;

- stimulation by specific policies of exports of goods and services from creative-cultural industries which hold a significant share of the GDP in some countries, employment and foreign trade.

It is also worth mentioning on the other hand that change of vision on exports as growth factor "under any circumstances" also results from the fact that according to the National Prognosis Commission, **the percentage contribution of net exports (exports-imports) to growth of real used GDP was negative** in 2009, by -28.6% (value-priced 2008), of -30.3% (value-priced 2009) and, in 2010, by -31.5% (value-priced 2009) and -27.7% (value-priced 2010). Even higher negative contributions of net exports are estimated for the years 2012-2015.

FDI Exports: Reinvested and Repatriated Profit

One of the major FDI companies-related strategic challenges for the host country refers to the profitability and revenues made by the foreign capital in terms of internal and external economic and social impact, and the benefits made by participants to this profit (stakeholders).

Although status of subsidiaries of multinational corporations or other foreign investors is similar to the corporate standing of domestic investors (enterprises), there are still a number of peculiarities in the level of profitability compared to domestic producers, on the one hand, as well

³⁷ Vezi: *International Monetary Fund*, 2011, January 2011, IMF, Country Report No. 11/20 (<http://www.imf.org/external/pubs/ft>).

as the manner to obtain profit and use profit or revenues in the host-country, by **re-investment** or **repatriation** into the country of origin on the other hand, which differentiate them from local companies.

The latest UNCTAD data confirm that the repatriated profits of FDI companies are usually **higher** than reinvested profits in the host country's economy, which shows a greater advantage for foreign investors than for the national economies where the subsidiaries of multinational corporations are located (MNC), (A. Burnstein, 2005; Durham KB, 2004 E. Borensztein, 1998).

Table 5. Share of worldwide aggregate value of reinvested and repatriated revenues of foreign capital companies in the period 2005-2010

	Years					
	2005	2006	2007	2008	2009	2010
Reinvested revenues (% of total revenues)	24.7	30.8	40.3	23.4	24.4	40.0
Repatriated revenues (% of total revenues)	75.2	69.1	59.7	76.5	75.5	60.0

Source: Own estimative calculations based on the data offered by *World Investment Report 2011*.

Details offered in Table 5 as well as other analyses of revenues of MNC subsidiaries highlight following important issues:

- a) global earnings reinvested in the "host" countries are usually smaller by 1 to 3 times than those returned in the country of origin, which shows that MNCs are profitable, in general, and that they legitimately follow their own interests, their volatility in the host country being determined not as much by bankruptcy or insolvency, as by the emergence of new opportunities for profit in other host countries, where they can obtain better competitive advantages;
- b) the decision on the amount of reinvested profit is made by the parent company for its subsidiaries, subject to their expansion objectives, the level of operational costs in case of start up companies or upgrades;
- c) **reinvested revenues** (Lundan S., 2006) does not mean only additional costs to increase production capacity of MNC subsidiaries in the host country, but also the establishment of contingency reserve funds to be used under unforeseen circumstances or for favourable foreign exchanges, so that contribution thereof to gross fixed capital formation does not equal the entire reinvested profit;
- d) in the crisis years 2008 and 2009 the share of repatriated earnings was relatively higher than weight of reinvested revenues due to the general decrease of the overall value of the total earnings of multinational corporations;
- e) even if foreign investors accept loss situation in the first years of operation of MNC subsidiaries, low profitability or total reinvestment of earnings, recovery of losses, of investments and search of profit throughout the entire operational lifetime of the investment remain a sine qua non requirement.

We have attempted based on official data provided by the Romanian National Bank and the National Institute of Statistics to determine extent of profit reinvested and repatriated by FDI companies operating in Romania.

Given the importance of FDI for the Romanian economy, we understand the major concern of certain representatives of Romanian governmental institutions on issues related to losses registered by banks or other subsidiaries of parent companies. It is less

understandable however their lack of equal concern for the cumulated profit repatriated by foreign investors and for the critical condition of Romanian economic agents, SMEs in particular.

If the profit repatriated as dividends granted to foreign shareholders for the host country represents an issue aggravating problems related to financing of new investment programmes, the profit reinvested in the host country is a financing source of investors even if such investments represent assets belonging to the foreign capital company.

The prevailing idea according to which FDI stand at all times as a beneficial instrument for the sustainable development of Romania should be in our opinion adequately and finely adjusted to each particular case and issues, based on real analyses facts and solid arguments.

Romanian DFI companies have repatriated in the years 2003 – 2010 a total amount in distributed dividends equal to 11.730 billion euro, augmented by an additional amount of 2.382 billion euro in net interest income, i.e. **a total repatriated profit of 14.112 billion euro** for a stock capital of about 52 billion euro in 2010. The equivalent of such an index of „Return On Investment” (ROI) of 27% highlights a high profitability of FDI in Romania for the period under analysis.

**Table 6. Revenues of FDI in Romania, reinvested and repatriated profit
in the period 2003 – 2010**

- million euro -

Years	Revenues made by FDI	Revenues	Repatriated profit (distributed dividends)
2003	1047	29	446
2004	2083	66	568
2005	2352	87	1101
2006	3313	61	584
2007	4350	266	2757
2008	6412*	634	2696
2009	4496*	475	1608
2010	4222*	764	1970

* Total loss registered by FDI in the subject years was not considered.

Source: Romanian National Bank and National Institute of Statistics data based on the exhaustive research of 6473 enterprises with foreign direct investments, including enterprises with at least 20 employees (6242 entities), all foreign capital credit institutions (40 entities), all foreign capital insurance companies (34 entities), as well as atypical companies, all enterprises with foreign direct investments having a turnover of the stock capital over 30 million RON (157 entities). Representation at regional level of development and NACE division is provided by the foreign direct investment enterprises analysed exhaustively holding a 87.3% share of total FDI stock. The number of enterprises with foreign direct investments which has not been covered in this exhaustive statistical survey (about 36,900) is represented by the sample consisting of 1050 entities. The total number of entities investigated (exhaustively plus sample) was 7523. The degree of error of the results of the statistical survey on foreign direct investments in Romania (flows and stocks) is $\pm 3\%$, is guaranteed with a probability of 97%.

Dividends distributed by FDI companies in the crisis years 2008-2010 in Romania were lower than in 2007, and net interest income experienced a general growth trend, with larger and smaller fluctuations from one year to another .

World Bank data (<http://businessday.ro/12/2010>) show that during 2005-2009, TNC subsidiaries in Romania repatriated profits of about \$ 19 billion (14 billion Euro) , their value reaching \$ 1.54 billion in 2009, lower by 65% compared to 2008, data which is close to our estimates (Table 12).

As far as reinvested earnings are concerned, we had more reliable data only for the period 2003-2007 when the aggregate amount thereof was 7.188 billion euro. In 2008-2010, due to losses registered and changes in methodology of calculation it was no longer possible to rigorously determine the size of reinvested profit. We estimate however that **profits repatriated** by FDI companies in Romania were about twice as large as profits reinvested in Romania, which is close to the average situation worldwide. The extent to which such a ratio is favourable or not for Romania would gain consistency and credibility if it were the subject of a complex survey, based on real cases of foreign investors.

Ratio between reinvested and repatriated profits of foreign companies in Romania differs from one sector to another and from one company to another, making it difficult to establish standard benchmarks for profitability and distribution of invested and repatriated profit. It is important though to apply the **principle of cost-benefit analysis** and integral economic efficiency for each involved party (Manoilescu M., 1986), in order to allow establishment of ratio between results/costs in the broad and not only financial sense, which would imply that a number of **negative and / or positive discounted externalities** are added to direct financial costs and benefits. In other words it is necessary to determine RIRF³⁸ (Financial Internal Rate of Return) and RIRE³⁹ (Economic Internal Rate of Return), using updating techniques and choosing a suitable discount rate (AE Boardman et al, 2004; guide analysis cost-benefit, 2004, M. Florio, S. Vignette, 2003).

The cost-benefit analysis allows to determine the size of the benefit accruing to a unit cost to each party and to avoid unacceptable efficiency gaps (A. Lehman, A. Mody, 2003) between partners beyond reasonable confidence limits. It is unquestionable that such an approach does not ignore the role and benefits of FDI for the host country, but is rather an invitation to avoid unilateralism, generalizations that can blur particular different or totally opposite situations, advocating for greater objectivity, scientific integrity and professionalism.

Final Remarks

This survey concerning correlation between FDI and the requirements for a sustainable development of Romania has highlighted that in addition to their favourable effects, FDI may also have some adverse effects on the trade balance, current account and balance of payments of the host country.

Given that FDI companies have the largest share of the Romanian economy, we consider it is absolutely necessary to promote policies intended not only to attract them at any cost in the country but also to verify their creditworthiness, to monitor to what extent they represent stimulant for an increased efficiency and welfare of Romania, for the improvement of Romania's position in international rankings of competitiveness. The fact that many foreign investors realized in Romania profit rates much higher than in their country of origin must be analyzed and compared with the intake, the beneficial propagation effect these investments have on the national economy, according to the requirement of the win-win criterion, in terms of equivalence and mutual, reasonable fairness.

This research represents only a first step in the comprehensive analysis of the role of FDI for the Romanian economy. A series of issues concerning transfer pricing and barter relations between subsidiary and parent company, relevant aspects, tax facilities and incentives, volatility, observance of commitments in the post-privatisation contracts, the comparison between vertical and horizontal FDI benefits, parallel loans from companies, etc. remain to be further investigated.

³⁸ RIRF – Financial Internal Rate of Return

³⁹ RIRE – Economic Internal Rate of Return

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THE ORGANIZATIONAL STRUCTURE OF THE BODY SHOPS CONNECTED TO GENERAL MOTOR'S COLLISION PARTS

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The selling of collision parts represents 28% of General Motor's business. The main customers of collision parts on the market are the international dealership and the independent Body Shops. The successes of these shops have a direct relation with the sale collision parts through the dealership Parts Department. For optimize the collision parts sales it's important that the operations of the dealership Parts Department meet the needs of both internal and external Body Shops. It is important to know the organizational structure of the body shops and the main factors which influence the activities such as: shop volume, expense budget, available skills, facility size, and production methods. The Collision Parts Marketing Group of General Motor's made an independent market research related to survey dealership and independent Body Shops. This research provided insight to General Motor's as to how and why decisions are made to purchase collision replacement parts.

Key words: body shops, satisfaction, collision parts

M: Business Administration and Business Economics; Marketing; Accounting

M11: Production Management

1. INTRODUCTION

Organizational structure of the Body Shops must be based on the presume that all the revenues are resulted from labor. It is fain to say that when the labor is produced, part sales, point and material sales and sublet sales will follow.

Two groups of employees are involved in production of labor.

- The technicians who perform the labor operations on vehicles and makes up the production staff.
- The managers, administrative and maintenance personal make up the support staff.

The objective for a staffing ratio is one support person for each three production employees. The organizational structure of support and production staff and collaboration may be different from shop to shop. The factors which influence the staff's structure are:

- shop volume;
- expense budget;
- available skills;
- facility size;
- methods of production.

This study lists job positions commonly found in production and support staffs. Production and compensations methods on different types of shops are included.

2. THE INVESTIGATION OF ORGANIZATIONAL STRUCTURE

2.1. Production Staff

Production staff is made from professional technicians in different disciplines. These range from basic skills like prepare the vehicles through technical skills like paint spaying on frame straightening. Many shops are stopped with technicians passing a range of disciplines.

Paint technicians – usually has experience in all the phases of the refinishing process. His or her skills range from vehicles preparation, to paint mixing, to color matching, to paint spraying and blending.

Detailer – has experience in cleaning the vehicle or recondition process. These include inside and outside cleaning, buffing, polishing and paint touch up.

Paint Prepare Technician – have experience in prepare painting like cleaning, sanding, taping, mashing. This is sometimes an entry level or apprentice position.

Metal Technician – has experience in damage car. These include disassembly, component replacement, and sheet metal alignment, cutting and welding.

Frame Technician – has experience in frame and chassis damage repair. They can use specialized frame straightening equipment and measuring equipment.

All technicians are named qualified persons and can perform several different tasks.

2.2. Support Staff

Support staff performs management tasks, administrative tasks and other miscellaneous tasks in support of the production staff.

Manager is responsible for Marketing, Sales, Production, and costs control and customer satisfaction. Duties that are exclusively performed by managers include: marketing strategy development, inspect quality of workmanship, review actual sales, gross and profits to forecast, set goals.

Estimator is responsible for preparing and writing the estimates of repairs and securing the customer's approval to perform repairs. Knowing the process of repair is obligatory and communications and selling skills.

Dispatcher coordinates the flow of work in shop and serves as a liaison between estimators and technicians. His primary responsibility is to assign jobs to technicians in coordination with receipt of parts and support services. He can possess strong organizational skills.

Shop Foreman serves as a liaison between technicians and support staff through coordination the work flow and providing technical support to technicians and estimators. He assigns jobs to technicians, recommends repair processes to technicians, assists them, identify training needs, substitute for Dispatcher.

Secretary (clerical) Receptionist supports both and communicates information to clients, estimators and insurance companies.

3. ORGANIZATIONAL STRUCTURE

Sample body shop manager description

Position Profile. Responsible for the profitable operation of the body shop.

Objective of Position. Will carry responsibility by operating the shop at maximum production while controlling cost, setting and obtaining profit objectives, and insuring customer satisfaction through quality workmanship. Minimum performance standards include maintaining and estimate shop closing ratio of 70% or higher, and maintaining a minimum net profit level of 8%.

Overview of duties & responsibilities. Allocate work to the body and paint staff. Prepare estimates on all work. Work with insurance adjusters. Schedule work on daily basis. Flag all work. Maintain payroll and productivity records. Handle expenses. Hire and train necessary manpower. Complete perform tracking.

Reports to. Service director/dealer/general manager

Schedule for Task Completion:

Daily

- Maintain body shop appearance to company standards.
- Review work in progress.
- Inspect quality of workmanship.

Weekly

- Review individual productivity to forecast.
- Review actual sales, gross and profits to forecast.

- Check parts on backorder.
- Review work completed and compare to work scheduled.

Monthly

- Forecast sales, gross, controllable expenses and profits.
- Review work in progress.
- Perform routine shop equipment maintenance.

Sample estimator job description

Position Profile. The Estimator functions as the communications liaison between the customer, insurance companies, technicians and management.

Objective of Position. Satisfying the insurance company, the employees, and the customers. Minimum performance standards include an estimate closing ratio of 70%, average estimate sold equaling \$1,500, supplement 80% of all estimates sold, and 90% customer satisfaction.

Overview of duties & responsibilities. Responsible for insuring each of the person's needs are communicated clearly to each other. Duties include writing estimates, repair orders, supplements, making appointments and answering phones.

Reports to. Body Shop manager/owner

Schedule for Task Completion:

Daily

- Write estimates
- Write repair orders
- Follow-up on job promises

Weekly

- Update next week's appointment log
- Follow-up on open supplements

Monthly

- Prepare open repair order list for management.

Sample lead technician (Team system) job description

Position Profile. Diagnoses and repairs vehicles

Objective of Position. Serves as a liaison to the estimator for 3 – 5 technicians. Assists estimator and assistant manager in maintaining proficiency levels and CSI. Minimum performance standards include achieving profit level for group of 90 – 110% while maintaining CSI level of 93% or better.

Overview of duties & responsibilities. Supervise activities of the team, distribute work, and coordinate activities with Assistant Collision Center Manager. Insure quality control standards are met.

Reports to. Assistant Collision Center Manager/Collision Center Manager

Schedule for Task Completion:

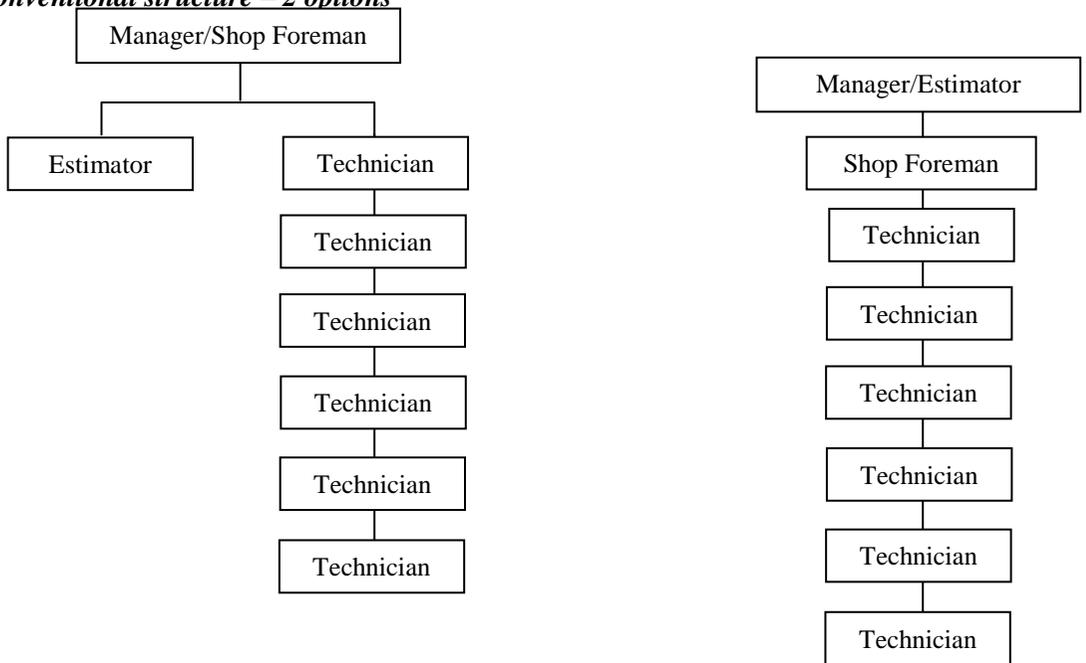
Daily

- Report daily activities to assistant Collision Center Manager
- Assign individual job to team members and assure satisfactory completion
- Assist and train team members as required
- Punch in and out the time clock, morning, noon and night.

Organizational charts

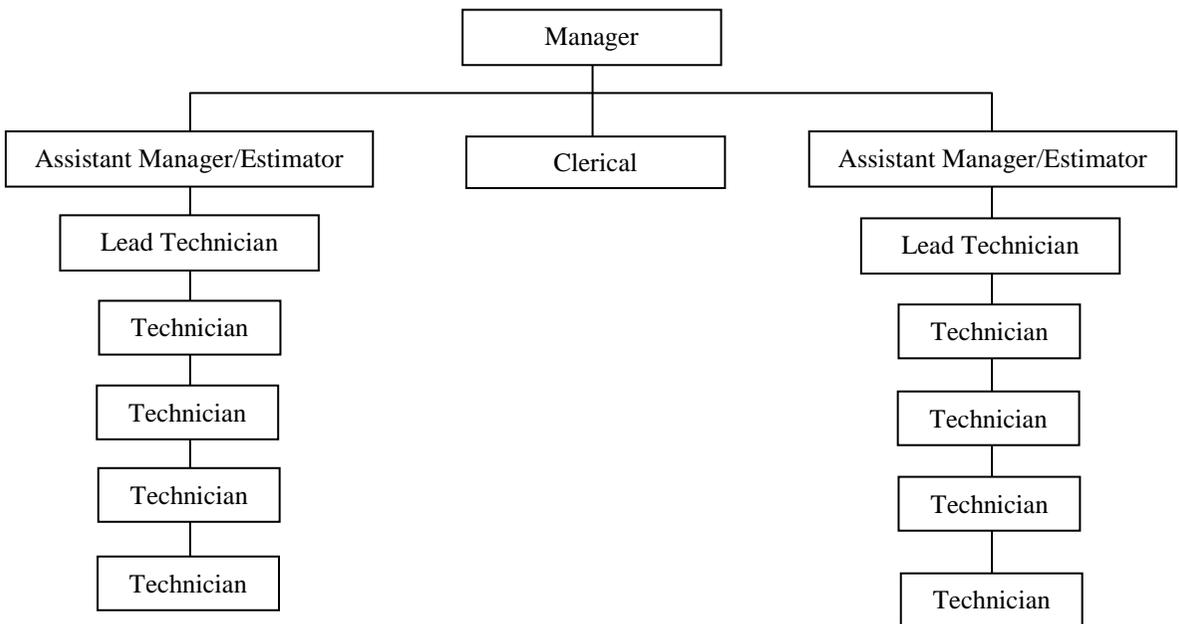
The structure of the organization is usually based on the number of technicians employed. Technician staffing requirements for the Body Shop are dictated by many factors, including: facility size; technicians capability; expense structure; market size; sales and profit goals

3.1. Conventional structure – 2 options



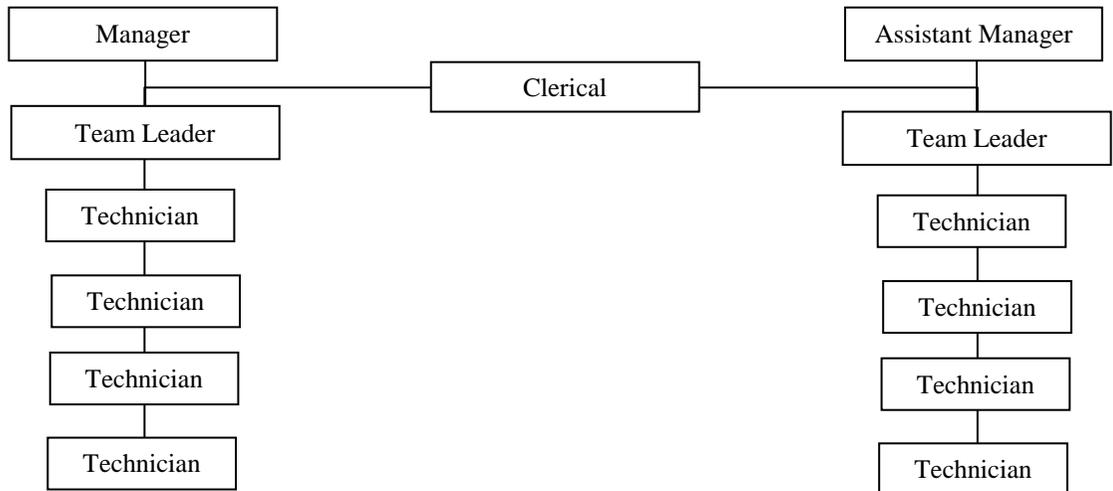
- Best applied in a 5 to 7 Technician shop
- Two person support staff
- Manager performs Estimator or Shop Foreman tasks
- Multiple options for Technician pay plans

3.2. Lateral support group structure



- Technician pay based on individual performance
- Assistant Manager perform Estimator and Dispatcher tasks
- Clerical support both groups

3.3. Team structure – Smaller shop



- Best applied to a 8 to 10 Technician shop
- Manager and Assistant Manager each perform the Estimator and Dispatch tasks for their teams
- Clerical support both teams
- Technician pay plans are based on overall team production

Production Methods

Methods of production are directly related to the various categories of labor performed in the process of collision repair. General labor categories most frequently performed are metal, paint, frame, and mechanical. These categories can be further divided into more specific disciplines such as tear-down, re-assembly, paint preparation, frame straightening, trim work, and glass installation. The two most commonly found production methods are the Combination Method and the Specialized Department Method.

Combination Method

This method requires that each Technician perform all categories of labor on an assigned vehicle, beginning with disassembly and ending with final paint spraying.

Advantages

Quality is usually very good; Performance is easily tracked; Responsibility is specific; Vehicle movement within the shop is minimal

Disadvantages

Rate of profit is usually low; Technicians must be qualified in all disciplines; Equipment requirements are higher

Specialized department method

This method requires that each Technician perform only certain categories of labor. The first level of category separation occurs between paint labor and metal labor. A shop using this

method employs specialized Paint Technicians and specialized Metal Technicians working in assigned areas.

A second level of specialization occurs when the labor categories are even more specifically divided. The following Technician Organizational Charts illustrate two levels of specialized shop.

4. Conclusions

Organizational structure is relevant even for compensation methods within the Body Shop industry include a variety of pay plans for both production and support personnel. Pay plans should be designed to motivate maximum production while maintaining high quality. They must be structured to meet financial benchmarks and achieve customer satisfaction. Evaluation of the Body Shop's financial performance is necessary in order to develop an effective business strategy. The operating report of financial statement, along with the repair order and estimate data, may be used to analyze performance. Specific performance indicators may be compared to industry benchmarks. These comparisons identify areas of opportunity and assist management with goal setting. Consistent goal setting in conjunction with routine performance tracking and feedback are effective techniques to improve overall financial performance.

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SUB-SECTION: BUSINESS ADMINISTRATION

PERFORMANCE MEASUREMENT THROUGH NON-FINANCIAL INDICATORS

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The information about a company's performance is necessary in order to evaluate the potential modifications of the economic resources that the entity will be able to control in the future, to anticipate the ability to generate treasury fluxes with the available resources, and to establish the efficiency with which it can employ and make use of new resources. In current practice, the information regarding financial performance are mainly given by "the profit and loss account", respectively "the budgetary execution account", but things are not so simple as to reduce them to the synthetic data in a certain periodic report form since it would be a pity to ignore the real - time information given by the account itself.

In our paper we have tried to resume the most important non-financial indicators, through which the performance of a company is measured.

Keywords: performance, profitability, financial indicators, non-financial indicators, performance indicators.

JEL Classification: M21, G30.

1. Introduction

Measuring the companies' performance seemed to be until relatively recently the exclusive appanage of the financial analysis and its own criteria, namely: traditional financial-accounting criteria, criteria derived from the theory of creating value for shareholders (Economic Value Added, Market Value Added), cash-flow –based criteria, stock criteria, etc. (Mironiuc, m. Et al, 2007: 1-22).

Financial market pressures have undoubtedly led to the communication privilege in terms of financial value.

But, the many phenomena that have marked the global economy in the past few decades (the internationalization and the delocalisation of business, the crisis and the turmoil in financial markets, the change of the consumer profile through the emergence of consumer segment sensitive to ecological theme, dematerialisation of the economy) have triggered a new outlook on the economic development at planetary level and have exposed the companies to the critical eye of a company more and more attentive to the ethical values.

The communication exigencies occurring amid such changes require that the measurement of the company's performance be carried out in a comprehensive manner, through financial and non-financial criteria (extra-financial).

2. Measuring the company's performance using non-financial criteria

Lately, the companies use multiple non-financial criteria for assessing the company's performance and are closely related to corporate governance practices (V. Robu, C. Vasilescu,

2004: 181, FASB Report, 2001). The FASB report in 2001 on the Financial Reporting in the context of the new economy shows, in Chapter 3, the new non-financial performance measurement indicators. Among the examples cited are the balanced scorecard (Kaplan, 1992), the innovative reports on the intellectual capital of the Swedish company Skandia, the Karl-Erik Sveiby matrix etc.

The balanced scorecard "translates the organization's mission in a complete set of performance measures that creates the framework for a strategic system of measurement and management" (Kaplan, 1996). This type of dashboard takes into account four balanced perspectives (in the sense that it is not given disproportionate importance to any of them, much less to the financial one): the financial perspective, the customer-focused approach, the internal perspective and the innovation and lifelong learning perspective.

These indicators can be grouped according to the purpose for which they are used:

- evaluation indicators of the quality management: the degree of implementation of the company's strategy, the quality of the company's strategy, the managerial experience, the quality of the leadership vision, organiyational style of the management;
- evaluation indicators of corporate culture: the ability to attract and retain talented people, the quality of workforce, the quality of the granting incentives system, the staff training programmes' quality, the social and environmental policies, the use of teamwork;
- evaluation indicators of the effectiveness of the policies for the executive board remuneration: the harmonization of the management enhancement policy and the interests of shareholders, pay policy based on appropriate criteria of performance, the ratio between the executive board remuneration and the workforce remuneration;
- evaluation indicators of the quality of Shareholders Communication System: management credibility, management accessibility, effectiveness of the Shareholder Relations Department, the quality of the published materials;
- evaluation indicators from the clients' perspective: the number of contracts, the number of customers, customer satisfaction index, the accessibility by phone (%), savings/contract, the number of individual policies, points of sale;
- evaluation indicators from the perspective of human resource capital: number of employees in full time employment, the number of women managers, the human capital index, employee rotation, employee/ training costs, average age, average number of employees, the number of days of training, the percentage of employees with secondary and higher education, the percentage of employees with more than three years' experience;
- evaluation indicators from the perspective of the processes: number of contracts/employee, the occupancy rate measured as area (%), the percentage of employees in IT (%), computerization expenditure/ total administrative expenses (%), the result of exploitation per square meter, costs per square metre;
- the evaluation indicators from the perspective of development and innovation: percentage of new customers in 12 months (%), number of contracts per the employee (%), funds accessed through Telelink (%), percentage of the insurance premiums in the new launched products (%), development expenditure/total administrative expenses (%), number of registered ideas documented with Idea IdeaGroup, change and development.

The main criticism of these types of reports are the lack of relevance of some indicators, the opacity of the instruments used (which are not always explained by the authors) and the lack of continuity from one year to another, which may suggest hiding certain bad events.

3. The analysis of and reporting the non-financial information

The sustainable development needs a measurement, evaluation and decision system which intercepts the relationship between the economy, society and the setting, which reveals the

"invisible intangible resources" dynamics so that the results recorded in the financial circumstances and the company's value may not be distorted.

Amid changes in the global economy, the analysis methodology evolves. Thus, the financial analysis should integrate in a complementary and progressive manner the nonfinancial component analysis. This is based on a Stakeholders Approach. It quantifies the non-financial (extra-financial) performances derived from the company's social responsibility and from promoting the immaterial capital which concentrates a great deal of of the company's growth and development opportunities. Together these two types of analysis will respond to the financial community regarding: the economic impact of the environmental and social aspects; the risk factors, the social and environmental opportunities; the causes of deviation between the market value and the company's economic value.

The literature discusses several approaches to non-financial analysis, depending on the investors' expectations, namely: the non-financial analysis in an "exclusionary approach" which is based on the use of the exclusion criteria of investments in controversial sectors of activity (tobacco, weapons, alcohol, gambling, nuclear, etc.) or non-responsible sectors (exploit minors, perform tests on animals, use pesticides etc.); the non-financial analysis in a "performance approach" is made starting with defining the positive selection criteria of the investments ("best in class") and has as its objective the identification of the sources of financial superperformance over the medium- to long-term, by developing in companies the best practices regarding: human resources management, ensuring the working conditions, remuneration policy; environmental risks management; product quality compliance; innovative capacity; politics of patronage etc.; the non-financial analysis in a "risk-opportunity approach" is to provide those who manage investment funds with a full view of the risks and non-financial opportunities which the companies who hold titles present. The non-financial performance analysis is very linked to the emergence of the socially responsible investments market ("ethical investment"), a niche market, which has a growing number of international institutional investors, of which a large part are Europeans, convinced that, investing in companies and in the countries that comply with the environmental and social standards, will have an active role in the process of sustainable development and the return on their investments and the volatility of securities will bear positive influences.

In reality, the elaboration of measurement systems of non-financial performance and the guarantee of the information quality of this nature is difficult to accomplish.

The difficulty arises from the fact that the reporting of the sustainable development (stakeholder's report) remains a voluntary approach, the non-financial indicators are very little normalized, the international regulations are missing in socially responsible investments, there is no homogeneous practice/methodology in the domain of non-financial analysis. In addition, the costs involved in the organisation of a recording system of the economic, social and environmental information may represent an obstacle for the companies that would like to communicate the sustainable development performances. At the same time, the communication of the sustainable development performances may prove harmful to the companies when elements of their strategy are disclosed, which are the source of some competitive advantages in relation to competitors. Because of these issues, yet there is no consensus at international level in relation to the contents of the report and the standard indicators for the overall assessment of the progress of the sustainable development. Experts believe that the consensus is difficult to achieve because of the variety of natural conditions, of the different levels of economic, social and cultural development of the countries of the world. The choice of performance indicators for the sustainable development, which must meet the requirements of the external communication and the internal control management, continue to be subjective, consistent with the goals of the companies, with the stakeholders' expectations involved in the design and reception of information relating to the sustainable development performance (Janicot, I., 2007: 49).

The most advanced initiative towards the elaboration of a credible system for reporting on the sustainable development is the Global Reporting Initiative (GRI). The initiative was launched in 1997 by the U.S. non-governmental organization "Coalition for Environmentally Responsible Economies" and the United Nations Environment Programme (Reynaud, 2006, p. 139) and benefited from the support of multi-stakeholders coalition for whom the transparency for the sustainable development of the organisations is of interest.

Its objective is to improve the quality of reporting on sustainable development, to elevate it to a level of rigour, comparability and reliability equivalent to that they have met in their financial reports. Most of the principles specific to the international standards of financial reporting are taken by GRI and adapted to analyze the companies' sustainable development performances. The success enjoyed by GRI, including among the small and medium-sized enterprises, is explained by the fact that it proposes an international, structured and flexible framework of indicators of sustainable development, as opposed to the initiatives promoted by other bodies which relate to a particular sector of activity or to particular social issues.

The performance indicators elaborated by GRI are subdivided into:

- the economic performance indicators reflect the economic dimension of the sustainable development, the company's impact on the economic condition of its own stakeholders and on the economic systems at local, national and global level.

These indicators describe the capital flows between the various stakeholders (the economic value generated and distributed directly, the employees remuneration, the ratio between the average wage and the minimum local wage, the undistributed profit, the donors and the State remuneration, the company's opportunities caused by climate change, the funding received from the public administration, expenditure on local suppliers, ways of making the staff more responsible etc.) and the main implications of the organization on the society (donations and other community investments, investments in infrastructure and public utilities, the analysis and the description of the indirect economic impacts considered externalities generated, the share of the managers with responsibilities in the local community etc.).

- environmental performance indicators refer to the size of the sustainable development ambient and to the organization impact on the natural systems (ecosystem, air and water), via inputs (raw materials, energy, water etc.), outputs (products, services, emissions, waste) and investments in the environment. The information necessary for the assessment of the environmental performances have to be relative to the significant environmental aspects, environmental policy, environmental nonconformities, responsibility of the environmental issues management, training the personnel in the field of the environment, monitoring the environmental issues with significant impact, corrective and preventive actions in the environment, certifying and controlling the ambient management system of the organization, success, deficiencies, environmental risk, environmental strategy, etc.

- social performance indicators reflect the organization's impact on the social systems in which they work and are subdivided into:

- performance indicators of the practices and working conditions: the occupational aspect, the health and safety at work aspect, training and education aspect; the performance indicators of human rights: non-discriminative aspect, free association aspect, work of minors aspect, the rights of the indigenous population;

- performance indicators of society: the community aspect, the corruption aspect, the political contributions aspect, the conformity aspect;

- performance indicators of the product responsibility: consumer's health and safety aspect, products labelling aspect, marketing-communication aspect, the conformity aspect (Mironiuc, m., 2008: 220).

Despite the limited information possibilities for the financial communication, the financial-accounting performance indicators are the most present in the analyzed subjects' practice and the

most often communicated in relation to non-financial criteria: the social initiatives (creation of jobs and occupational safety, the involvement in community life, sponsorships, etc.), the company's image, management team prestige which are the least disclosed and used to reflect the performance, mainly in the small and medium-sized enterprises.

4. Conclusions

In order to ensure competitiveness in the long term, today's companies cannot ignore a number of external factors, such as: the changes in regulations, the media pressures, the stakeholders' suggestions, rating agencies' pressures etc. Companies have to integrate into their development strategy responsibilities that cover areas of: ethics in business, reducing the environmental impact, relationships with partners, human resources management, growth and innovation. These issues, which is likely to generate financial risks tend to represent new benchmarks in assessing the company's sustainable performance that are part of a logic that cannot be exclusively financial-accounting.

The multiplication of the extra-financial rating agencies is the expression of the fact that organizations are today exposed to the critical eye of society in terms of their civic behaviour and that they must take account of the views of a public increasingly attentive to the ethical values, which reacts against the excesses, of social and environmental externalities.

The partnership concept of "governance" of the sustainable company makes the ways of analyzing and quantifying the performance incapable of existing as a result of the new realities. Thus, the financial analysis integrates in a complementary and progressive manner the non-financial component analysis.

This is based on a stakeholder approach, it quantifies the non-financial performances (extra-financial) derived from the company's social responsibility and from promoting the immaterial capital that concentrates a great deal of opportunities for company's growth and development. Together these two types of analysis will respond to the financial community: the economic impact of the environmental and social aspects; risk factors, social and environmental opportunities; the causes of deviation between the market value and the company's economic value. The difficulty of making the non-financial analysis derives primarily from the fact that the reporting system of the sustainable development remains a voluntary approach, there is no homogeneous practice/methodology in the non-financial analysis domain and from the lack of practice uniformity in this field. Due to these difficulties, as well as lack of normalization of the non-financial indicators, the practical side of this research will be focused primarily on the financial information and financial indicators respectively.

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THE CONSTRUCTION OF IMPORTANCE-PERFORMANCE GRID IN TOURIST SERVICES RESEARCH WITHOUT THE DIRECT DETERMINATION OF THE ATTRIBUTES IMPORTANCE

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The importance-performance grid is a marketing instrument used to make decisions regarding the growth of the consumers' satisfaction, by optimizing the attributes of products. This grid is a useful instrument, as it is shown in the paper, to the extent to which the importance and performance of the attributes are correctly recorded. Another idea underlined in the paper is that regarding the difficulty to directly determine the importance of attributes or in the same stage with the determination of the service performance, according to these attributes.

The objectives of this paper are to analyze the importance-performance grid (suggested by Martilla and amended by Abalo), through an empirical study in the field of tourist services used and to test the conditions to carry out this grid taking into account the hypothetical case of indirectly determining the importance of the quality attributes.

The literature in the field regarding the importance-performance analysis is analysed and the subsequent amendments to the previous grid suggested by Martilla and James in 1977.

The present paper is a continuation of several studies on the same subject, in which the following research methods were used: direct survey by questionnaire, the Spearman correlation coefficient, and the entropy calculus. A comparative analysis of the importance-performance grid if directly recording the importance of attributes (through survey by questionnaire) and of the indirect determination of the importance of the attributes (through the Spearman coefficient and entropy calculus) is being suggested. The results indicate possible uses of methods, yet it raises a series of collateral problems regarding their application.

The contribution of this paper is given by the suggestion of two methods to indirectly determine the importance of attributes, which take into account the data measurement scale used and the collinearity among attributes and which lead to pertinent results when we use the IPA grid amended by Abalo as a decision instrument.

Keywords- Importance-Performance Analysis(IPA), IPA Abalo, applications, Spearman coefficient, entropy calculus

L15, M31, M11, C81, C83

1. Introduction

Two major instruments have been developed in time in order to analyze the concept of consumer satisfaction and they are: Importance-Performance Analysis (IPA) and SERVQUAL.

The roots of current measurement methods of consumer satisfaction are to be found in the first efforts to investigate the consumer's decision making process (Churchman and Ackoff 1954:172-187). Other efforts were concentrated in constructing models to determine the consumer's attitude (Fishbein 1963: 233-9; Rosenberg, 1956:367-72), followed by complex models of consumer's satisfaction (Oliver 1996; Tse and Wilton, 1988). Among these, is situated the use of the conjoint analysis (Green and Rao 1971:355-63; Luce and Tuckey, 1964).

Approaches regarding the perception of the quality of services and the identification of the evaluation attributes is to be found in many studies and empirical researches (1994; Parasuraman et. al. 1988: 12-37; 1993: 1-12). Kano (1984:38-48) developed a model which distinguishes different types of quality attributes. Kano's model divides the quality attributes of products and

services into five distinct categories (attractive, one-dimensional, must-be, indifference and reverse) each influencing differently the consumer’s satisfaction. Other studies regarding the consumer’s satisfaction suggests that the quality attributes can be perceived by using three categories: basic factors, performance factors, stimulation factors. Levitt suggests two categories of attributes: core attributes and facilitator attributes (Levitt 1983). We can see the correspondences among the three models. The basic factors are indispensable, their below average level creating dissatisfaction, yet their presence at an average level does not create satisfaction.

Starting with the previous researches regarding consumer satisfaction, Martilla and James opened up a new research direction by creating the Importance-Performance Analysis grid - IPA:

1. In 1977, J.A. Martilla and J.C. James launched the Importance-Performance Analysis grid (IPA)(Figure 1); According to the method suggested for the chosen product, service, or destination the attributes considered important by the target audience are established through the focus-group method. Regarding the sources used to determine the attributes considered important, the literature mentions the proposals of the managers in the field. The attributes identified are placed on a Likert scale and the respondents are asked to establish and evaluate the performance for a given product, service, or destination. According to the initial variant, any attribute placed in the grid with a higher score than the performance is a candidate for improvement efforts. The higher the discrepancy between importance and performance, the more improvement efforts are required because a high discrepancy means high satisfaction. IPA was applied in different fields, such as: health services (Cunningham and Gaeth 1989: 584-586), education and banking services (Ennew, Reed, and Binks 1993: 59-70), industry, quality of services and tourism (Bush and Ortinau 1986: 281-85; Lin et al.2005: 84-87). In the field of tourism, IPA was applied in order to determine the selection factors of a hotel in order to establish the critical attributes of the tourism guide performance to identify the competitiveness factors of destinations or to draw up different strategies (Deng 2007: 1274-1284). After the applications, several problems have been identified and the improvement variants have targeted changes regarding the way in which the importance and performance are measured.

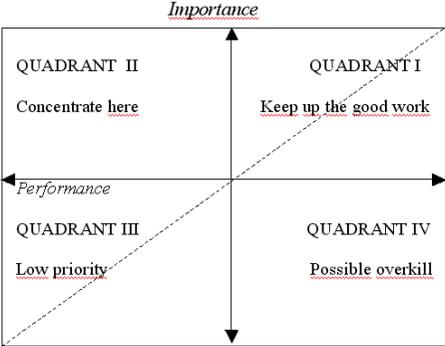


Figure 1 Importance-Performance grid by Martilla & James (Martilla & James, 1977, p. 78)

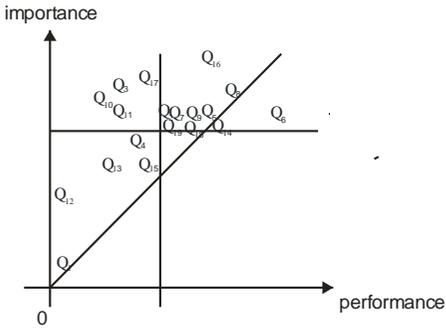


Figure 2 Importance-Performance grid obtained through direct research

2. IPA alternatives were created suggesting improvements, examples, (Abalo et. al 2006:115-121; Bacon 2003:55-71; Oh 2001: 617-627). The most interesting are those emphasising the difference between importance and performance by drawing a diagonal given by the equality points between importance and performance. In the IPA grid, suggested by Abalo, the left superior part is enlarged and it includes quadrant II, ½ of quadrant I and ½ of quadrant III and the attributes in this area are candidates for improvement. The part under the diagonal in the graph

maintains the interpretation of Martilla and James' IPA. The difference is that everything with a higher score for importance than for performance, situated on the left superior part is regarded as a candidate for improvement.

Constructing the importance-performance grid has as a critical point the accurate determination of the importance and performance of the attributes of the researched product/service.

2. The literature on the determination of the importance of attributes for the construction of IPA

The measurement of the importance of the attributes in the IPA importance-performance grid can be done:

- directly, through Likert or metric scale; The disadvantages are: it hinders data gathering, it increases the duration of answer recording, the scores have a very low inter-item variation, the answers being uniformly high, therefore useless (Bacon, 2003: 55-71), many times the answers are not honest. A possible cause of problems could be that fact that in the method suggested by Martilla and James, before the application of the questionnaire, the most important attributes are already selected through the focus-group. Thus, using Likert scale there is a natural tendency to confer high values to each attribute. The most serious problem is that the absolute measurement is used not the relative, competitive one. Yet, there is still the best method due to the problems raised by indirect methods. (Abalo, Varela and Manzano 2007_115-121)

- indirectly, by measuring the importance of the attributes through a composite average of median scores and of Pearson correlation coefficient (O'Leary and Adams 1982) or by using the Spearman coefficient (Crompton and Duray 1985: 69-80).

- indirectly, through regression coefficients and the multivariate regression (Dolinsky and Caputo, 1991:61-79); By using these methods, the global satisfaction is correlated with the performance given to each attribute in order to find out the importance given to each attribute. This method's major disadvantages are: the collinearity among attributes (Bacon 2003:55-71) which leads to very poor results, inconsideration of a non-linear relation between the global performance and that of each attribute. There are studies showing that the negative effect of a product's low performance in the total evaluation of satisfaction is higher than the positive effect of an above the average performance (Abalo, Varela and Manzano 2007: 115-121). Yet, the Spearman coefficient has the advantage, that is can be used for non-parametric data.

- by conjoint analysis; This very useful method becomes unfeasible when it implies more than several attributes, a situation often encountered.

There were other measurement methods, yet they contradict one another and give different results for the same case. (Crompton and Duray 1985:69-80; Oh, 2001: 617-27)

3. Methodology

The research took place in three stages:

- In the first stage, we carried out a survey through questionnaire which recorded the importance given by the respondents to quality attributes and which evaluated the performance of tourist services from the perspective of quality attributes.
- In the second stage, we tested the extent to which the indirect determination of the importance of quality attributes leads to acceptable results (by comparing them with the results obtained directly).
- In the third stage, which makes the object of current paper, we constructed the three grides afferent to the information obtained in these three ways and we compared the three grides according to the marketing decisions.

Work hypothesis: using Abalo's IPA grid, the results obtained by direct investigation of the attributes are comparable to those obtained indirectly, in order to make marketing decisions. The market research ad implicitly the construction of the IPA Grid can be simplified by eliminating

the questions related to the importance of attributes and the determination of the importance of attributes through mathematical methods.

During March-April, 2010 a survey was conducted among the population of Oradea, Romania (Ban and Popa 2010: 378-384). The sample was composed of a total of 1,060 people, sampling method chosen was the stratification method (margin of error of 3%). The segmentation criterion used was age. The respondents were persons who received accommodation services in Romania at least once since 2007 till 2010.

The research goal was to investigate the level of Oradea inhabitants' satisfaction, with the quality of tourism services and the performance of service staff. The research instrument was a questionnaire with 21 questions, plus some questions related to socio-demographic aspects.

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. A scale with five steps was used in this research, from "unimportant" to "very important".

The results obtained indicated a hierarchy of the attributes from the point of view of the importance and a hierarchy of the attributes from the point of view of the perceived performance with regard to the tourism staff in Romania. (Table 1, column 1 and column 4)

Excluding the direct responses referring to the attributes' importance, we have tried by two mathematical methods to indirectly determine this, by checking the correlation between the perceived performance and the global satisfaction.

Mathematical methods used in correspondence with the type of scale used in the survey applied, that is multivariate ordinal scales and these are: the calculus of entropy and the calculus of the Spearman coefficient (through SPSS). (Tabel 1 Ban, 2012: 348-354.)

Table 1

Attributes according to their importance in the survey		Attributes according to the importance inferred through the Spearman coefficient ($\times 10^{-2}$)	Attributes according to their importance determined through entropy calculus ($\times 10^{-2}$)	Attributes according to their performance in the survey
Q8.16 Kindness	4.62	0.134	5.3768	3.2
Q8.17 Responsibility	4.58	0.133	5.2493	3.14
Q8.8 Communication	4.53	0.141	4.8369	3.25
Q.8.3 Promptitude	4.53	0.098	5.1144	3.12
Q8.10 Responsiveness to problems	4.5	0.121	5.6693	3.06
Q8.11 Conscientiously	4.46	0.127	5.3018	3.09
Q8.7 Ability to solve problems	4.46	0.098	4.6869	3.17
Q8.2 Attention	4.46	0.069	4.6119	3.16
Q8.5 Availability	4.45	0.113	4.7394	3.2
Q8.9 Oral Expression	4.45	0.137	5.1144	3.18
Q8.6 Physical Appearance	4.43	0.131	3.982	3.38
Q8.18 Sociability	4.42	0.133	5.1969	3.19
Q8.14 Skills	4.41	0.096	4.5444	3.23
Q8.19 Self-control	4.4	0.128	5.2943	3.16
Q8.4 Professional knowledge	4.38	0.117	4.8519	3.09

Q8.13 Flexibility	4.26	0.089	5.6393	3.05
Q8.15 Elegance	4.25	0.108	5.2193	3.13
Q8.12 Enthusiasm	4.17	0.133	9.0814	2.95
Q8.1 Anticipate desires	3.82	0.111	5.4893	2.96
Medium	4.3989	0.1166	5.263	2.9868

Based on the information obtained directly, we constructed the importance-performance grid (Figure 2).

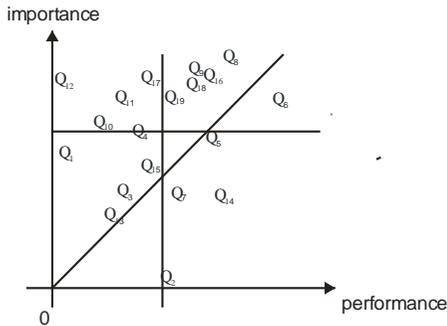


Figure 3 Importance-Performance grid obtained by determining the importance of attributes through the Spearman coefficient

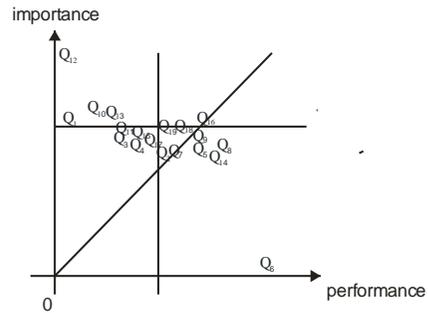


Figure 4 Importance-Performance grid obtained by determining the importance of attributes through the entropy calculus

If we take into consideration the IPA grid amended by Abalo, in the exterior of the diagonal there are two attributes left (*Q6* and *Q14*) at *keep up the good work*, the rest requiring improvements, meaning the concentration of efforts.

Based on the indirect determination of the importance of attributes, through the Spearman coefficient, in the exterior of the diagonal there are two attributes left at *keep up the good work* (*Q5* and *Q6*) and two attributes at *low priority* (*Q7* and *Q2*) and one attribute at *possible overkill* (*Q14*). (Figure 3)

Based on the indirect determination of the importance of attributes through the entropy calculus, under Abalo's diagonal, there are four attributes suggested for *keep up the good work* (*Q9*, *Q5*, *Q8* and *Q14*) and one attribute proposed for elimination (*Q6*). (Figure 4)

4. Results, limits and conclusions

Results:

- the IP grid constructed from the attributes evaluated directly as importance and performance, shows a concentration of 17 attributes (out of 19 attributes) in quadrant II and only two attributes in quadrant I (*Q6* and *Q14*) which actually means the continuation of the efforts and their concentration on all the attributes analysed;
- the analysis of the IP grid constructed from the direct evaluation of the performance of services from the perspective of attributes and of the importance of attributes indirectly determined through the Spearman coefficient, shows a concentration of 14 attributes in quadrant II, of two attributes in quadrant I (*Q6* and *Q5*) and two attributes in quadrant III (*Q7* and *Q2*) and one attribute in quadrant IV (*Q14*);
- the analysis of the IP grid constructed from the direct evaluation of the performance of services from the perspective of attributes and of the importance of attributes indirectly determined

through the entropy calculus shows a concentration of 14 attributes in quadrant II, four in quadrant I (Q9, Q5, Q8 and Q14) and one attribute in quadrant IV (Q6);

- the comparative analysis of the three grids presented above, each grid analysed in accordance to the grid constructed from direct research, shows a similar positioning for 15 out of the 19 attributes analysed, which maintains the utility of the Spearman coefficient and of the entropy calculus in order to indirectly determine the importance of attributes;

Limits:

-for Q14 (skills), the verdict is elimination when the Spearman coefficient is used while for other two situations, it is a completely reverse verdict, that of effort continuation;

-for Q6 (Physical Appearance), the verdict is elimination when the entropy calculus is used while for the other two situations, it is a completely reverse verdict, that of effort continuation;

-it is possible that these results are valid only in the case of the proposed empirical study and they might not test for other concrete situations;

-we didn't take in consideration different category of quality attributes, like Kano's category or Levitt's category that sustain the asymmetrical relation between attributes and global satisfaction.

Conclusions:

The hypothesis has been confirmed with the above mentioned reserves.

The discussions regarding the improvement of the usefulness of the importance-performance grid are being carried out in relation to the asymmetrical connection between attributes and global satisfaction (Slevitch and Oh 2010: 559-569), which supports the classification of attributes into categories according to their impact on global satisfaction.

We have to make another survey on the same population with attributes category distribution and indirect importance determination of attributes.

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TOURISM INDUSTRY IN ROMANIA AND THE NEEDS OF PEOPLE WITH DISABILITIES

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Internationally, elaborated research about the tourism of people with disabilities are rather limited, and they focus more on the lack of physical access to certain services in hotels. But very few studies have been published on the issue of tourism and people with disabilities. In this context, this paper draws attention to the issue of the tourism of people with disabilities in Romania. The aging population is a growing phenomenon worldwide and it leads to the shaping of a new market segment with a visible and complex dynamic, namely that of persons with disabilities. The purpose of this study is to identify other potential external barriers related to the development of tourism of people with disabilities in Romania, such as hotel infrastructure. At the same time it has been tested the degree to which managers of these hotels are aware of the phenomenon itself and their opinions on the development of this area.

Keywords: tourism, people with disabilities, consumer profile

Cod JEL: M20, M21

- **People with disabilities a new market segment for tourism and hospitality industry**

The percentage of people with disabilities (impairment) in the world, according to UN documents and statistics is on average 10%. In the USA it is estimated that the number of these people represent 20% of the population, and in the European countries there are 37 million people with disabilities - which means that a family out of four has a disabled person. The percentage of these people in the UK is of 15%, in Spain, Germany and Poland of 9-10%. According to the official data, Romania has a percentage below 10% of the population, which requires a serious analysis of this aspect (Babaita, 2008).

There are enough reasons for that segment of people with disabilities to require special attention from both the service providers of any kind, and the researchers in management, marketing, tourism, law, computer science, etc. The most important thing is the fact that this phenomenon is more and more present, and should be given special attention.

To identify this market, we have to use the classification of the **World Health Organization** (WHO), which defines disability as “*any restriction or lack of ability to perform an activity in a way that is considered normal for a human being*”.

The first classification was made by the International Classification of Impairments, Disabilities and Handicaps (ICIDH), established by Philippe Woods, an English rheumatologist. This classification was revised in 2002, when it became the International Classification of ICIDH -2. Disability can mean impaired, hearing, mobility, intelligence or mental health. Physical disability may mean inability to work or move freely and may extend to the inability to perform normal movements in a timely manner at a reasonable level (Ozturk, Y, Yayli, A, and Yesiltas, M., 2008).

According to the **European Commission** (1996), a physical disability often involves reduced mobility, disabled people often using wheelchairs, canes, crutches or other means of mobility. In a study conducted by Daniel Rodgers and Wiggins (2005), it has been stated that it is necessary to include patients with diabetes in the category of persons with physical disabilities, as this condition can affect patients' mobility.

In Romania, analyzing the official terminology frequently used, Law. 519/2002 suggests the following **definition** in Article 1: *Persons with disabilities are people whose social environment, inappropriate for their physical, sensorial and mental deficiencies, prevent them totally or limit their access to equal opportunities to social life, according to their age, gender, material factors, social and cultural ones, requiring special protection measures to support their social and professional integration.*

The official definition emphasizes **the social barriers raised for people with disabilities**. The emphasis is still on the presence of failures and less on the need to change the environment according to the needs of these persons or the right to an independent living, which must provide free access to exercise the citizen rights and eliminate the current situation in which many people with disabilities are considered “*passive recipients of services and benefits*” (statement made by the signatories of the *Country Report on Disability in Romania*, 2011)

The European Year of People with Disabilities - 2003 - boosted in Romania too the movement towards unity and cohesion of organizations of disabled people to increase the level of consultation with organizations of such persons. In the spring of that year, with the initiative and financial support of the **European Disability Forum (EDF)**, seven national organizations have joined their forces setting up The INITIATIVE GROUP FOR SETTING UP THE NATIONAL COUNCIL OF DISABILITY IN ROMANIA (GIC-NDRC) and drew up a document called ***The Manifest of disabilities***. This is a document through which people with disabilities, organizations and representatives of their interests, communicate their problems and expectations to public authorities, other organizations, society in general. In this document, the signatories are trying to define disability in several ways, such as: disability (impairment) is a legal issue, about human and citizen rights, it is a matter of ethics, part of human experience, affecting one or more essential functions of the human being, such as to diminish freedom of expression or action of it. In case of people with disabilities, the exercise of human rights should lead to full elimination or reduction of the incidence of disability, according to its nature and extent of work undertaken on this topic etc. Humans are moral beings, free and responsible, thus having the power to overcome their disability.

According to Article 2, para. (1), Chapter I, of **Law 448/2006 on protection and promotion of disabled persons**, disabled persons are those persons whose social environment, inappropriate to their physical, sensorial and mental deficiencies and / or associated to, entirely prevent or limit their access to equal opportunities in society, requiring protective measures in support of integration and social inclusion.

It is certain that, so far, within tourism literature it has not been set up a social model of people with disabilities. The natural question is whether tourism can meet the needs of such persons. However, it is important to note that a number of researchers have realized that this phenomenon is a global one, but focused very much on the definition of disability and less on finding real solutions to support this segment of consumers.

For tourism and hospitality industry (if we refer to it in a broader sense) a correct definition of disability is very important because it helps shaping a profile of the consumer with disabilities, which the tourism industry, and others must take into account when they have to adjust their offer to the demand of the tourists with disabilities. Among all the industries, tourism is perhaps the one that should respond more quickly to the needs of consumers of this segment. By the nature of tourism products designed, it may even improve health conditions or disabilities that limit their access to daily activities and achieve social inclusion.

Taking as a starting point the analysis of this research findings on the issue of disabled people in the tourism and hospitality industry internationally, in our opinion **the profile of customer with disabilities** can be outlined as follows:

- *he/she is a person who has specific consumer needs according to the the type of disease (permanent or temporary), the type of disability which gives a certain limit or prevent performing*

certain activities) or the type of disability that limited him to perform an activity in a manner or range considered normal for a human being;

- he/ she is a person who has a lower income limit but if the offer is adapted to their needs he/she can become a loyal consumer of these products and services;

- very loyal to places (hotels, motels, restaurants) and destinations that prove to be sensitive to their needs so that they can have access to tourism and healthcare services.

- **The objectives of this research**

Trying to meet these challenges, we have focused on the following research objectives: to learn if the infrastructure of the hotels is adapted to this market segment, to conduct a research in the hotels in Timisoara and Arad., to analyze the opinions of these hotel managers on travel opportunities for people with disabilities (impairment); to analyze managers opinions about hiring persons with disabilities (impairment) in the tourism industry.

- **The research method used**

To reach our target, we have used as a research tool the telephone survey based on questionnaires. The sample under investigation was determined randomly and was made up of managers of 60 hotels in Timisoara and Arad (Romania). We have to underline the fact that we encountered a number of impediments in the process of data gathering. Firstly, questionnaires were distributed to hotels in Timisoara which helped us to evaluate in details the facilities (ramps size, room size, the facilities, etc.) But, these were not filled in, people answering that “we don not know what to write” , “we are not allowed to provide information”, “we do not know how the rooms for these people are supposed to look like”, etc.

4 Interpretation of results

The sample was structured according to the classification of the hotels: 2 ** 7 hotels, 42 hotels 3 *** , and 11 hotels 4 ****(Table 1).

Table 1.

Hotels according to their classification

Hotels in Timișoara			Hotels in Arad		
Category	Frequenc y	%	Category	Frecuenc y	Percentage (%)
2 **	5	11,90	2 **	2	11,11
3 ***	28	66,67	3 ***	14	77,78
4 ****	9	21,43	4 ****	2	11,11
Total	42	100	Total	18	100

The managers were asked if they provided services to customers with disabilities and what kind of disability those people had. Analyzing the centralized data, one can see that the majority (88%) answered negatively and furthermore that they had no database of those persons. Among those who answered YES, have indicated for 2010, a total of about 53 people with disabilities who were provided services in the hotels , out of which 58, 40% were physically disabled, 18, 86% with hearing loss, 11, 32% with deaf-blindness. Because there were not found any databases, we can say that the managers of the hotel were not aware of that market segment and that they must adapt their services according to the needs of these persons.

To determine the reasons of reduced travel opportunities for people with disabilities, there were interviewed managers of these hotels on: the quality of infrastructure, environmental conditions,

the training of the staff office, the interest shown by the organizations involved (governmental and non-governmental) and hotel architecture, at least for travelers with physical disabilities. Analyzing the data on managers' opinions, presented in Table 2, we draw the following conclusions: the sample under research shows that 75% of the managers of these hotels are not aware of the existence of this market and 78.33% believe that staff is not well prepared for this market segment. On the other hand, they feel that reception facilities are ready in terms of tourism infrastructure (61, 66%) and hotels architecture is prepared (88, 33%) for the access of people with physical disabilities. What is remarkable is the fact that 55% of these managers consider that governmental and nongovernmental organizations are not concerned enough with these persons, and on the other hand 65% of them consider that local governments are involved in some way in solving problems of this market segment.

To find out if these hotels are equipped for people with physical disabilities, managers were interviewed on the existence / lack of facilities at the receptions entrances, lifts, stairs, parking, reception, rooms, bathrooms, toilets, restaurants, bars, pools and saunas. By analyzing the answers, one can notice that the proportion of 93.33% hotels have marked special parking places for disabled persons, 88.33% have entrance ramps, 71.67% said that place in their restaurants is large enough for wheelchairs, and 63 managers, 33% said that elevators are large enough to allow transport to higher levels. There are areas where the facilities is very low as: stairs (100%), rooms and bathrooms (76.66%), reception (71.66%) and toilets (53.33%).

Table 2.

Opinions of the managers of hotels in Timisoara and Arad on identifying barriers to people with physical disabilities in tourism

Opinions	Answer	Frecquency	Percentage %
1.The tourism infrastructure is suitable for people with physical disabilities	YES	37	61,66
	NO	23	38,67
2.Environmental elements are suitable for people with physical disabilities	YES	18	30,00
	NO	42	70,00
3.The management of tourist enterprises are fully aware of this market	YES	15	25,00
	NO	45	75,00
4.Hotels architecture is suitable for the access of persons with physical disabilities	YES	53	88,33
	NO	7	11,67
5.The staff is is well prepared to serve such customers	YES	13	21,66
	NO	47	78,33
6.Governmental and non-governmental associations in this area work effectively	YES	5	8,33
	NO	55	91,66
7.Local administrations are involved in solving the problems of these people	YES	39	65,00
	NO	21	35,00

The opinions of the hotel managers on improving the conditions for people with disabilities in the tourism industry were tested and evaluated using Likert Scale, also called the aggregate scale, which is classified by type ordinal scales, leading to information of nonparametric nature. Thus, a set of 10 sentences was designed (Table 3), positive a

nd negative statements.

Table3.

Managers' opinions on improving the conditions of disabled people in tourism

Opinions		1	2	3	4	5	\bar{X}
1.Tourist facilities should not do anything in this respect	F	22	14	11	4	9	2,40
	%	36,66	23,33	18,33	6,67	15,01	100
2.Tourist facilities should adapt	F	7	7	11	25	10	3,40
	%	11,66	11,66	18,33	41,67	16,68	100
3. Access infrastructure should be improved	F	1	3	12	13	31	4,16
	%	1,66	5,00	20,00	21,67	51,67	100
4. Authorities should become more involved	F	0	0	9	15	36	4,45
	%	0	0	15,00	25,00	60,00	100
5. Hotels must have a qualified staff	F	1	9	17	24	9	3,52
	%	1,66	15,00	28,33	40,00	15,01	100
6. Non-profit organizations should become more involved	F	0	3	5	10	42	4,52
	%	0	5,00	8,33	16,67	70,00	100
7. Local administration should be more involved	F	2	2	8	21	27	4,15
	%	3,33	3,33	13,33	35,00	45,01	100
8. These issues should be advertised more	F	0	1	2	19	38	4,57
	%	0	1,66	3,33	31,67	63,34	100
9.The segment of people with disabilities should be ignored	F	32	15	11	2	0	1,72
	%	53,33	25,00	18,34	3,33	0,00	100
10.There is no legislation in this respect	F	0	2	3	17	38	4,52
	%	0,00	3,33	5,00	28,33	63,34	100

Respondents were given to possibility to choose one of the five scaling (1-5), depending on their agreement or disagreement with the statement in the sentence. After calculating the average assessments, one can conclude that most managers have a positive opinion regarding this market, and I think we should have done something to improve the conditions offered to those customers with special needs.

• **Conclusions on the extent to which the tourism industry is ready to meet the needs of people with disabilities**

By the undertaken research, we have tried to support business environment in the tourism industry in Romania to find the best solutions to meet the consumption needs of this new and dynamic market segment, by improving accommodation, transport, food, recreation and adapting the services provided. It seeks to help policy makers, managers of travel companies, local governments, nonprofit organizations, foundations, associations of disabled people (handicapped), etc. take on real solutions to meet the needs of this market segment, even if the tourism industry in Timisoara and Arad is not adequately prepared for this market, having a of a lot **weaknesses**.

Firstly, governmental and non-governmental organizations do not seem to work effectively to help people with disabilities. Secondly, the facilities in terms of transport, is a very important problem in carrying out tourism for the disabled people. Inappropriate environmental conditions, quality of staff training within the industry and architecture of hotels is another very important issue, areas such as entrances, car parks, halls and receptions are equipped to some extent for this

group, while other areas of stairs, rooms and bathrooms, reception and toilets, most of the managers believe that this market has potential.

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PUBLIC SERVICES AND THE EURO-REGIONAL COOPERATION

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Besides the goods and private services, covering the specific needs of individual or groups based on specific mechanisms of demand and supply, human needs can be addressed also through public services. They are designed to meet the general interests of members of a community or society at large and established by public authorities, subject to certain fundamental principles of organization and operation, such as: the principle of efficiency, the principle of equity, the principle of continuity, the principle of movability and the principle of decentralization. In the same time, public services involve in many areas of economic and social life is not just a national issue, but also have characteristics and provision ways at international, regional and euro-regional level. This paper underlines the main areas of euro-regional co-operation interest in the public services sectors, such as: the sectors of environment, agriculture and territorial planning, the sectors of transportation, security and telecommunication, the sector of the economy and labour force, the sector of cross-border populations: social protection and public health, the sectors of education, research and culture.

Key words: public service, euro-region, cross-Border Cooperation

JEL Code: R11

1. Short conceptual insight

Human needs can be accomplished through private services, which cover the specific needs of individual or groups based on specific mechanisms of demand and supply, and public services designed to meet the general interests of members of a community or society at large. Establishment of a public service is made by public authorities, while a private service is established by a private decision, and as long as there is demand. It is worth mentioning that although the initial provision of public services was achieved by public authorities, gradually, from the postwar period, there is a continuing trend, although mixed, to transfer a large number of public services to private operators, expression of the impossible cover of all services required by public authorities, central or local.

Complex and fundamental notion of the administrative law, the concept of public service has seen significant changes over time; the doctrine took shape until now three definitions coexisting and included in community law.

1. The classic definition, accepted the early twentieth century, believes that the public interest is the activity performed only by a public figure
2. The definition emerged between the two world wars appeared as a necessity imposed by the new economic and social realities that characterized the mid-twentieth century, and requiring various public services, and operational flexibility. According to it, "The public interest is the general interest work, performed by a private person with public power prerogatives of government control" (Grigoruță-Bedrule, 2007: 13-15)
3. The current definition has emerged in the late 80s by the evolution of democracy, recognition of civil rights and government accountability to the communities they represent. They have cleared up the problem of delegation of public powers, recognizing that some public services performed by private persons should not necessarily enjoy the prerogatives of public power, whereas a number of social public services, such as health,

culture, education, etc.. is done by private persons, but without public power prerogatives.

Today, finding a public service requires taking into consideration of three elements:

a) material element: public service is primarily an activity of general interest. Public service is not viewed as a public body, but especially as an activity that achieves the general interest, which may possibly be provided by a private person; any activity of interest is a public service;

b) voluntarist element, i.e. intent of public. The public service exists if public authorities (national or local authorities) have indicated their intention to take (directly or indirectly) an activity of interest. There is, therefore, public services "by nature", public service is a subjective term and evolving and is identified by:

-Activity - is subsumed to a mission of general interest;

-The organization must have real public powers;

-Organization (private or not) must be subject of the control by public authority.

c) formal element. The rules normally applicable to public service activities originate from the legal system that is subject to interest activity concerned. If the service is provided by a private person, the reference to the administrative law has only a value if criterion for identifying public service.

The term public service is used both in organizational sense, the social organism, and in the functional sense, of activity of this body. Public service can be defined as a set of activities organized and authorized by the government to meet social needs in the public interest (Costea 1999). Other authors define public service as "any entity of state or local government, established by the competent authorities to ensure the requirements of the society members needs, under administrative law or civil law enforcement process" (Alexandru 2001).

The authors working in the field of administrative law consider public service "an administrative body created by state, county or village, with competence and decisive power, purchased with funds from the general assets of the administration, publicly available to meet regularly and continuous need of a general nature which private initiative could give satisfaction only intermittent and incomplete" (Alexandru and Matei, 2000).

Instead, the authors from the sphere of public economics relate the concept of public public service with the concept of public good. Public goods are defined by Paul Samuelson as "the consumption by each individual of such goods does not lead to any reduction in the consumption of the good by another individual" (Samuelson 1954: 387-389).

Public goods are those goods and services that cannot be provided through the market because of its failure, so they are provided by the state government. In the case of public goods, their provision in the private system is inefficient and therefore less desirable. Public goods are goods consumed in common: peace and security, national defence, justice, pollution control, fire protection, street lighting, weather forecast, television.

It should be noted that Samuelson's definition focuses only on the quantitative dimension, ignoring the qualitative one: the greater is the consumer public good, its quality decreases. Group size as a decision variable is taking under discussion by the club theory (Buchanan 1965, Wiseman 1957).

Pure public goods are characterized by two features: the impossibility of excluding third parties, and non-competitive use. If for purely private property the set of property rights defines the owner, the owner, the only one who can enjoy the good utility and who can, in addition, to exclude all others from consuming the good, in the case of pure public goods this possibility of exclusion disappears. For example, in the case of national defence, it is extremely difficult to exclude anyone who lives in that country from the protection provided, but in addition, there exists in the case of public goods a feature of impossibility of denial, rejection of that good: an inhabitant of the country enjoys the services of national defence whether he or she likes or not.

A second feature is the non-competition in consumption: a good is non-rival in consumption if the marginal cost of adding a consumer is zero. Examples of such goods are a coach or a bus not full, an underused computer.

Feature exclusion of third parties from consumption generates also the impossibility of providing public goods through market. There is no temptation for a manufacturer, presumably to maximize profit, to provide these goods, if it cannot exclude anyone from their consumption and, therefore, cannot claim any price. Providing this can be achieved only by the government, which has the power to compel members of society to contribute to the cost of their production through the tax system (Badulescu 2005: 469-470).

Public services are currently associated with the term "public enterprise", considered part of the public sector providing public services or public utility. "Public company is defined as state-owned (wholly or partly) organization, controlled by the Government and operating as an economic enterprise" (Plumb, Androniceanu și Ábaluta 2007: 24). Services offered are: electricity supply, water supply, sewerage, rail transportation, air transportation, maritime transportation, urban public transportation, telecommunications, gas supply etc.

Public services shares common characteristics with the general services (immateriality, impossibility to get stocked, intangibility, indivisibility, inseparability etc., but they also have specific features:

- The fundamental purpose of meeting a social need;
- There is a permanent legal relationship with the public administration which settled it and manages it;
- Satisfy the interests of a group or society in general;
- Exposure to a legal system, governed by principles of public law which differentiate it from those of a private enterprise;
- It is settled and stopped by an administrative decision;
- It is performed by public institutions;
- Public service gratuity or existence of a minimum price that must ensure recovery of costs and ensure a minimum profit.

Establishment of public services, regardless of their nature and management, is subject to certain fundamental principles of organization and operation, such as: the principle of efficiency, the principle of equity, the principle of continuity, the principle of movability and the principle of decentralization.

2. Public services - domain of euro-regional co-operation

Public services in many areas of economic and social life is not just a national issue, but also describes characteristics and providing ways at international, regional and euro-regional level, this last point making the object of our investigation.

2.1. The sectors of environment, agriculture and territorial planning

Environmental, agriculture and land-use planning sector is a difficult exam of the numerous cross-border obstacles that can cause, is often conditioned by what we call "national territory". In some approaches to cross-border cooperation in Europe, it is sometimes preferred to speak of a "right of interference" necessary in the environment (Anon. 2006).

Even if geography and political science have long developed the idea of national border, cross-border co-operation, touching the environmental domain, discovers the spatial continuity of cross-border areas, and therefore needs to manage the common border areas to face and properly address to the problems of pollution, degradation and optimum utilization soil.

Therefore, there can be undertaken the following actions:

- studies on pollution and treatment of residuals of different types and making the networking of facilities to treat these wastes

- protection programs and management programs for the natural environment and life support system, harmonization of working methods of the stations of observation of the environment;
- raising awareness of environmental issues, joint interventions in some cases, information on risks or possible risk, for example chemical, along the borders;
- organizing a plan of mutual assistance in case of disaster with use of airborne;
- establishment of common information databases concerning the fauna and flora of the region or settlement of programs for knowledge and studying the groundwater mapping, interregional and transnational composition of major infrastructure;
- annual event for youth environmental awareness;
- establishment of cross-border parks, joint initiatives on water quality of rivers, lakes.

Regarding nuclear energy, institutionalized cross-border cooperation can be in front of a taboo subject, energy issues, especially nuclear, belonging solely to the responsibility of national sovereignties. This can be overcome through more effective cooperation across borders and institutions to better articulation of national projects dam or control in border areas (Council of Europe 2006).

Also in the case of there are some cross-border co-operation initiatives, in an area that seemed so far reserved exclusively for national competence, such as joint actions, especially conciliation commission on cross-border exploitation of land, joint programmes against excessive multiplication of animal or insect control, the origin of agricultural products, culinary tourism, etc.

Linked to agriculture and environment sectors, multi-border activity of mountain populations (agriculture, handicrafts, white tourism, green tourism) is about to become one of the socio-economic issues of border areas in these areas.

In spatial planning, the first challenge is agreeing on a definition of this term. It is about, in a narrow concept of simply using soil, and in a global perspective, all terms of spatialized human activity, both in economic and social or cultural level.

The main actions that can be developed in the field of spatial planning are:

- implementation of concerted policy on border management of soil and harmonize employment plans on both sides of the border;
- global studies on the socioeconomic structure and urban framework of the border area and, in parallel studies in sectoral projects such as construction joint bi-national industrial areas;
- creating a dynamic atlas, encompassing inter alia, joint projects of major cross-border infrastructure, in transport, telecommunications, health, training.

It is known that, in many cross-border institutions, spatial planning approach tends to embrace other sectoral approach. Some initiatives could appear in one or other of these three activities mentioned above, for example, for studies on regional climate, for developing glossary for technical terms used by specialists of environmental protection and by specialists in planning in general (Del Bianco 2010).

2.2. The sectors of transportation, security and telecommunication

By their very vocation, these sectors are undoubtedly among the main types taking into consideration in cross-border cooperation (Anon. 2006). There is a large number of actions developed in this area: studies on the common needs of transport in general and cross-border transport in particular, the systematic exchange of information agreements, joint interventions and studies on how to optimize the operation of railway lines or of public transport, studies on interregional air traffic (transport and communications) and the construction of transport infrastructure, studied or employed by each side of the border and looking the other hand, to achieve "economies echelon", opening or closing the border posts, etc. . In the sphere of security

(Council of Europe 2006) we speak about: the adoption of recommendations and measures to ensure the safety and free flow of cross-border road and rail; study issues relating to security (business risk, civil security, natural hazards), the development of procedures to alert border, where border can support emergency services (fire brigade, civil protection), and in telecommunications about: negotiations and the establishment of preferential telephone tariffs and specific indication for the whole border region, distributing courier border without through major national centers, common PBX specific regional information, development of computer-border bodies and their articulation of national systems, etc.

2.3. The sector of the economy and labour force

In this important sector of cross border co-operation we can distinguish the following areas:

- economic aggregates (Keynesian theory) in a cross-border vision: production and income, consumption, investment, savings, import, export;
- economic flows: free movement of goods, services, capital, people;
- economic actors, public and private, especially networks of small and medium-sized enterprises, sources of job creation and equivalence "training - jobs."

Among the many cross-border actions related to the economy and labour force sectors we can mention (Anon. 2006): coordination and regular exchange of information on socio-economic statistics, setting common statistics and diagnostics, joint economic publications, joint meetings, training and employment policy, cross-border labour assistance and relations between business and technology research centers, technology transfers, joint exploitation of resources, creation of joint tourism products, harmonization of infrastructure (investment and training): arrangement of stadiums (water fittings), coordinated policy in show business etc.

2.4. The sector of cross-border populations: social protection and public health

This section concerns social protection of the border population in general, frontier workers and health infrastructure.

Among the actions we mention: editing guides on social services for populations on both sides of the border, border disease tracking, mutual administrative assistance in fighting against drugs, improving the social security of frontier workers, simplifying and speeding up border crossings for border formalities, editing practical guidelines for the use of frontier workers, mutual assistance plans in case of disaster; maps of hospitals and medical institutions, exchange of staff and / or paramedic personnel.

2.5 The sectors of education, research and culture

Finally, the education-research-culture is characterized by a considerable advance cooperation activities with all the variety that defines these sectors (Council of Europe 2006), such as: sharing responsibilities for education, organization of exhibitions presenting training opportunities and bridge between them, each side of the border, inter-university cooperation, aid for cross-border projects and research training, organizing programs to improve language learning and neighboring border population, mutual recognition of diplomas either global or sectoral, recognizing years or semesters of study (the "credit transfers"), including cultural guides active bodies, libraries, directories cultural "export" of cultural exhibitions, organizing cultural exchanges, joint concerts, co-production of various performances, interregional tours of musical ensembles bi-or tri-national cultural bands, cultural awards, music-graphical and ethnographical studies, exhibitions and publications on the issue of minorities in border regional space, development of bilingual cultural routes, bilingualism and bilingual support associations, publishing books, guides and atlases border, making "cultural passports" that allow access to many cultural institutions belonging to regions separated by cross-border exchanges in the arts, theatres, music, cross-border associative relationship on the occasion of popular and folkloric

holidays, cross-border schools or institutions for the training in mass-media professions, media networking and making radio broadcasting modules interregional and joint promotion of regional sport events etc.

Cultural distances imposed in the past by certain political nationalist may gradually fade, to be intertwined and cause a border profile that distinguishes these populations from those in the "inside" and provide a positive real border culture. The latter one would be sediment border areas about regional micro-integration (Anon. 2006).

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ARE SMES MORE CONFORTABLE WITH SMALL DOMESTIC LENDERS? (I – THE LITERATURE)

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Small and medium enterprises (SMEs) are recognized having an important role in economic development, but this recognition doesn't resolve the essential problems of the SME sector. We found that one of these are the problems of insufficient or inadequate funding, the lack of availability of financial institutions or private equity investors to meet the SMEs financing requirements. The need for financing of SMEs is predominantly covered by bank loans, but it is difficult to say if this demand finds an appropriate offer, in amount and structure. Thus, it is important to understand if the role of lending techniques and organizational structures of the banks, types and origin of the owners (state, private, domestic or foreign) or the size and the market power (large, small, local, or niche banks) individualizes the banks offer and if the banks know the best way to mitigate the demand and supply constraint. Even though the traditional view explains the strategic predisposition of large banks to finance their clients (by default large clients, corporations) through transactional lending and, and local/domestic banks use the relationship lending- suitable to small customers (SMEs), however, the more recent opinions show that the large international banks use a combination of methods and techniques to gain favorable position on SMEs segments.

Keywords: SMEs lending, large banks, foreign banks

JEL Code: G21

Introduction

There is an evidence that small and medium enterprises (SMEs) have an important role in economic development of any country, demonstrated by the large number of practical and theoretical approaches, however, this unanimous recognition doesn't resolve the essential problems of the SME sector, among them are the problems of insufficient or inadequate funding, the lack of availability of financial institutions or private equity investors to meet the SMEs financing requirements.

The objective of this work consists in the understanding how SMEs are affected and how they perceive the bank involvement in financing SMEs needs, in terms of the nature and characteristics of organizational structure of these lenders. Based on an generous literature, we quickly review the issues of supply and demand constraints in SMEs financing, the favorite place of bank loan financing the SME needs, and then we have focused on the nature and particularity of lenders that may affect the quantity and adequacy of funds lent to SMEs: the role of lending techniques and organizational structures of the banks, types and origin of the owners (state, private, domestic or foreign) or the size and the market power (large, small, local, or niche banks). The main findings we have corroborated and tested with our recent research results, where we have investigated the SMEs perception about the link between specificity and nature of lenders and their involvement in SMEs lending. We considered necessary to update the main finding from literature and our research with the recent events and decisions took by the large international European banks, regarding their presence and involvements in the Central and Eastern European market, including Romania.

The overall study is organized as follows: I. Introduction, II. The importance of the bank finance and the main difficulties of SMEs lending, III. Bank features and SMEs lending, IV. Our research. Methodology, data and content and assumptions, V. Discussion and results, VI. Conclusion. The present paper focuses on chapters I-III.

1. The importance of the bank finance and the main difficulties of SMEs lending

Based on Flash Euro barometer Access to finance No 271/2009 (European Central Bank and European Commission 2009), one of the most pressing concern of SME managers from EU is access to financing, adding more than 16% from answers (after *finding customers*, but far away of *the competition* or *availability of skilled staff*). Regarding the profile of companies we notice that the “access to finance” was more often selected as the most pressing problem by managers of companies with a turnover of less than €10 million (16%-17% vs. 8%-10% for companies with a turnover above €10 million), established between two and nine years ago (20%-21%), in the construction sector, or that have introduced innovation in at least one area – products or services, marketing, production and management (18% vs. 14% in non-innovative companies). According to the same survey, the most popular source of debt financing was a bank: 30% of companies had used bank overdraft facilities or a credit line and 26% had used a bank loan. Other alternative to financing were: public source (10% of respondents), a friend or family member (as named “other loans” with 7%) and a very few managers (1%) said they had used a subordinated loan, participation loan or similar financing structures.

Other financing forms as leasing, factoring were preferred by 23% from managers and 16% said they had used trade credit as a source of short-term financing. Regarding debt securities issuing, in the past six months, the majority of managers considered this type of financing not to be relevant for their needs. Equity issuance or external equity investments were mentioned by 2% of managers as one of the sources of external financing they had used in the past six months (European Central Bank and European Commission 2009).

Where are the place of bank loan in the future, what expectations have the SMEs managers from banks, and what are the anticipated obstacles accessing bank finance? Around 59% from SMEs managers considered that their SMEs would be able to obtain the desired result after talking to banks about financing, and around 27% are skeptics. It was noted that confidence to talk about future financing with banks was the highest in Slovenia (93%), Belgium, Slovakia or the Czech Republic (between 85% and 90%). Romania - together with Lithuania, Croatia and Estonia - shows a moderate confidence (between 56% and 69%). Overall on UE, the confidence to talk about future financing with banks was highest among managers of companies with at least 10 employees, that had combined internal and external financing in the past six months (65%), or that reported growth in turnover in the past three years (64%-65%), or had seen their financial situation improve in the past six months (72%), (European Central Bank and European Commission 2009).

Bank loans were also the most preferred type of financing for future needs: 64% of managers who expected their company to grow in the coming years answered that they would prefer to apply for a bank loan to realize this growth. Regarding the countries rank, we notice that the loans option is dominant in Malta (86%), Finland (79%) and Luxemburg (78%) and register the lowest position in Latvia (36%) and Estonia (29%). Romania has rather a skeptic position (49%), under European average of 64%.

The Euro barometer offers interesting information regarding perceived obstacles for future development of their business related to bank loan. For example 27% from SMEs managers who would prefer a loan from a bank considers that there would be no obstacles while a similar proportion (26%), however, thought that insufficient collateral (or guarantee) would be the main limiting factor to stop them receiving the required financing, and 24% mentioned interest rates and a price that would be seen as being “too high”. Countries situation is more interesting, on the

first places is Germany, where SMEs managers saw the importance of loan barriers no more than 47% of options, and on the last place is Romania, where all kind of obstacles cumulate 92% of answers! For Romanian SMEs managers the most frequent obstacles are: high interest rates and a price (46%) and insufficient collateral (European Central Bank and European Commission 2009). However, dominant opinion in each country was that the willingness of banks to provide financing would remain the same. Furthermore, in all countries surveyed, not more than a fifth of managers expected that access to bank loans would improve in the next six months. With all this imperative need for financing and the clear identification of banks as favorite lenders, the banks are reluctant to lend to SMEs. The scholars (OECD 2000, Cressy and Olofsson 1997) often divide the reasons of unsatisfactory financing in two large categories: the demand and the supply constraints of SMEs financing, including the following:

- the information asymmetry that arises from small businesses' lack of financial information, the bank's limited knowledge about the borrower company (Badulescu and Badulescu 2010), lack of relevant financial and commercial track records. The second issue is the moral hazard: once the loan granted, the control of its use according to the original application (the risk and opportunity analysis) could face serious difficulties, the loan could be used for other purpose.

- high failure rates, low capitalization and vulnerability to market risks. The limited power in market, considerable share of intangible assets, insufficient circulating assets or tangible fixed assets tends to create a higher risk profile of SMEs for potential investors (OECD 2004, Lin and Sun 2006, Toivanen and Cresy 2000, OECD 2000).

- Insufficient collaterals to meet the lenders' request in order to overcome the risks associated to moral hazard is probably the most claimed cause of the difficulties in accessing a credit by a SME.

- the banks are unable to determine whether the borrower possesses the technical, managerial and marketing skills to generate adequate cash flows and service the loan

- in developing countries, the risk profile is supplementary marked by the unstable legislative and competitive environment, with negative consequences on the transactions security.

The problems of inadequate funding of SMEs may come also from the supply (*supply side constraints*), and in particular to the way in which financial institutions work (Beck et. al. 2010):

- overlapping between the state institutions and banks (private or not) regarding the SME financing, distorting the market mechanisms and influencing competition;

- excessive collateral requirements could result from conservative methods in the assets valuation and risk weighting (Badulescu 2010, RAM Consultancy Services 2005);

- Insufficient ability of loan officers to understand and analyze the SME sector, seen as less attractive because "the banks would occur substantial amount of cost to process the loan, while the absolute dollar returns are much smaller compared to large corporate loan. Applying the same techniques of large corporate evaluation to SME obviously results in many SME not being able to meet bank lending criteria" (RAM Consultancy Services 2005);

- complicated procedures, expensive and sometimes unnecessary (detailed business plans, documentation and risk scenarios, commitments in legal forms) together with long credit approval period but shorter repayment period for the loans. Finally, the overall costs (financial and time) to obtain a credit can be substantial, and deter SME from banking financing;

- structural problems – unclear definition of SME, insufficient financing alternatives to bank loans, lack of comprehensive and easy to use SME databases, fragmented banking systems (RAM Consultancy Services 2005).

2. Bank features and SMEs lending

While SMEs consider bank financing very important for their development, it is important to understand what are the most important bank features, which optimize the bank-SME relation. In other words, what are the better types of bank for SME lending, analyzing ownership, dimension, structure, the origin of owner, technique and internal organization use in the lending process, etc.

The analysis of SME financing, various theoretical studies or empirical evidence provides a considerable quantity of information regarding the relation between the structures of the financial institution, technologies, management. Moreover, recent researches (Berger and Udell 2004, Beck et al. 2010) try to show some distinction between transaction technologies versus relationship lending to understand the very different transactions technologies, focusing on the comparative advantages of different types of financial institutions in using transactions (Berger and Udell 1996, 2004).

According to Berger and Udell, "transaction lending technologies are primarily based on "hard" quantitative data that may be observed and verified at about the time of the credit origination" (Berger and Udell 2004). This kind of information comes, *ex limited*, from the financial indicators calculated on the basis of financial statements; information provided by credit bureaus, the national database of payments incidents – as cheques, promissory notes, the Central Credit Registers, collateral registration, valuation reports etc. The main feature of this type of information: are relatively easy to observe and checked and can serve as a basis for future decisions. Standardized and disseminated through internal channels of communication inside the financial institution, are used for conceptualizing and standardization of the credit policies, in line with corporate strategies, being a reliable element in the management of the networks of the large international banks.

On the other hand, the relationship lending "is based significantly on "soft" qualitative information gathered through contact over time with the SME and often with its owner and members of the local community [...] may include the character and reliability of the SME's owner based on direct contact over time by the institution's loan officer" (Berger and Udell 2004). To these are added the information stored in the records of the credit institution (frequency of transactions, payment behavior, the number of additional operations carried out by the shareholder or manager in own name - deposits, credit cards) or from variables, intuitive interactions with employees, clients or the suppliers, or with other entities. Unlike transactional lending, authors insist on the fact that, more often, the credit officer is the holder of such information, proprietary in nature, and this information can be hardly standardized and sent through official channels within the financial institution, difficult to be verified by other experts, located in head offices, separate by the customer interaction.

On the first sight, foreign-owned institutions may have comparative advantages in transaction technologies lending and domestically-owned institutions may have comparative advantages in relationship lending (de Haas and Naaborg 2005, Berger and Udell 2004). This assumption can be explained by the following reasons:

- Foreign-owned institutions are part of large organizations, have advantages in transaction lending to some SMEs due to a better access at information technologies for collecting and assessing hard information, cheap funds or greater expertise, even training for loan officer and risk managers in their headquarters

- Foreign bank has often difficulties in processing and transmitting soft information inside their network, with various managerial layers. But the advantage of a great expertise and experience with multiple and different economic, cultural, language, and regulatory conditions, could easily transform into a weakness point. Often SMEs acting on local markets are little impressed by the cosmopolitan image of the large banks.

- Domestic banks are more suitable to finance SMEs because they are better engaged in "relationship lending", a type of financing based on "soft" information collected by the

loan officer having continuous, personalized, direct contacts with SMEs, with their owners and managers, and the local community

A recent paper (Beck et al. 2010), shows significant differences across ownership types in lending technologies and organizational structures: foreign banks are more likely to use hard information relative to private domestic banks, and the share of secured SME loans is lower among domestic banks than foreign banks, these foreign banks n banks use different lending techniques and organizational structures to reach out to SMEs. (Beck et al. 2010)

Regarding the ownership (state vs. private) we noticed that state-owned banks may have comparative advantages in transactions lending comparing with privately-owned institutions, but these cannot always transform in an advantage.

Referring on scale economies, and the differences between large banks compared with small, niche banks we can say that the large bank could take advantage from hard information processing, but are disadvantaged in processing soft information because there are difficulties to quantify and transmit this kind of data through long communication channels. This may give comparative advantages in relationship lending to small institutions with lower administration costs, a less distinctive separation between ownership and management and fewer levels of management (Stein 2002, Berger and Udell 2002).

The empirical literature on this topic usually based the conclusions from the characteristics of the SME borrowers and contract terms on credits contract between SMEs and banks of different sizes (Berger, Rosen, and Udell 2003):

- Large bank institutions are found to lend to larger, older, more financially secure SMEs, they based their SME credit decisions more on strong financial ratios than on relationships

- Large banks often promote lower interest rates and obtain lower yields on SME loan contracts comparing with small institution, which have to compensate the higher costs with flexibility, non-bureaucratic procedures in credit assessment (Berger, Rosen, and Udell 2003, Berger 2004)

- Small banks have more longer, privileged and personal relationships with their SME customers, comparing with larger banks, based on long distance, impersonal and short terms relation with customers, appreciated as weaker (Petersen and Rajan 1997, Stein 2002) and often unsatisfactory for a better loan decision.

In spite of all these different approaches, the results show that different lending techniques and organizational structures lead at similar results in terms of SME lending, the researchers find no evidence that foreign banks tend to lend less to SMEs than other banks, i.e. that different bank types, applying different lending technologies and organizational structures can play an important role in financing SMEs, in developing economies.

Conclusions

The present paper has sought to put into question, theoretically and then, practically, how different types of financial institution could influence the availability for SME lending. We started from the E.C and E.C.B researches and surveys amongst SMEs, which showed that the issue of financing is of prime importance for SME and banking lending is, and will be, the preferred way by SMEs in order to fulfill their objectives. It was mentioned the main opinion of the literature relating to the manner in which various kinds of banks build the lending relationship with SMEs, being underlined two approaches: transactional lending and relational lending. We have identified the main guidelines and characteristics of the lenders in relation with borrowers. Foreign banks and large (private) banks are focused mainly on transactional lending (“hard” data, scorings, national databases, internal channels, decision and risk centers, certain types of collaterals etc.) and this approach seems more appropriate for the large firms. On the other hand, there are small, niche banks, local, domestic, that offsetting the effectiveness of the large banks

techniques by a greater proximity to the client, processing “soft” data, recover the close relationship with the customer, asking fewer or various collaterals, but their small power cannot support the whole need for funding of the SMEs sector. We found recent opinions who stated that large banks use both transactional and relational lending, and SMEs are not an exclusive area of domestic/niche banks.

The theoretical conclusions, far from being unanimous, show, however, a few directions: although the large banks build their expanding policies (territorial, market share, profitability, technological) on behalf of large clients, are also interested by the SMEs sector. Foreign banks have not proved, at least until the onset of the crisis, as acting pro-cyclic for their subsidiaries countries; on the contrary, these banks have increased their involvement in economies, including the SMEs sectors. Finally, as we stated in other paper, we consider that a well-balanced structure of banking sector, a real knowledge of SME needs, a relationship banking based on mutual trust can exploit all opportunities, creating a large base for meeting SME financing requirements.

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THE IMPACTS OF TOURISM ON SOCIETY

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Tourism is one of the most important components of the global economy. It generates billions of dollars in revenues and millions of jobs worldwide. It is considered by many communities, especially in emerging countries the only tool for development, and the only chance for increasing the quality of life. Thus the tourism industry has stretched from seaside to mountain resorts and from small villages to big metropolises. But at the same time, tourism started to show its uglier side. Both the actions of investors and of tourists are having negative impacts on the socio-cultural values and environmental assets of host communities all over the world. In the present paper we are trying to observe the impacts of tourism on society from three perspectives: economic, social and cultural, and environmental. From the economic perspective, tourism generates wealth and jobs, but the wealth leaks from the community and the jobs are mainly low-income. From the socio-cultural perspective, tourism brings together people from different backgrounds, cultures and traditions and promotes peace. But at the same time, due to globalization, many communities have lost their cultural identity and gave way to a Disneyfication of their village or town. Last but not least, tourism helped create national parks and protected areas, where unique examples of flora and fauna can be found. But tourists have been proven to be a problem, because of the pollution they generate. Tourist entrepreneurs can also be blamed for a total disrespect to local traditions and the environment. The main problem from these negative impacts is that the local community is the only side that picks up the check for all the damages on the culture, tradition and, most importantly on the environment.

Keywords: tourism, globalization, environment, sustainability

JEL Codes: Q52, Q57

Introduction

Since the second half of the twentieth century, tourism has been gaining momentum and in 2011 total revenues from tourism activities have reached 1000 billion dollars (UNWTO, 2012). So we can firmly say that tourism: 1. compared to other industries, it has a superior capacity to distribute wealth and promote regional development, 2. it has a high multiplier effect, 3. it generates a varying consumption of goods and services.

But a series of scholars and researchers have found a growing number of examples of negative impacts of tourism in the host regions. In the present paper we are trying to present a series of positive and negative impacts of tourism from three points of view: economic, socio-cultural and environmental.

Tourism activities take place in a natural and manmade environment, which is extremely complex. The manmade environment consists of economic, social and cultural processes and factors, and the natural environment is made up of the natural landscape, climate, flora and fauna present in a certain space. Mason (2003: 27-28) argues that there can be made a clear delimitation between the two environments, which is necessary when we talk about tourism's impacts.

1. The economic impact of tourism

In the '60s and '70s the first studies regarding the impact tourism could have on regions or destinations have been focused on economics. This singular point of focus was based on two

facts: 1. the economic impact was easier to quantify and 2. there was a general optimism regarding the benefits that tourism generates. But tourism in its nature is drawn by unique and fragile destinations, and it became clear that in some cases the economic benefits can be shadowed by the negative consequences on the community and the environment, which were never estimated in the past (Dwyer et al. 2004: 307 – 308; Archer et al. 2005: 79-80)

The benefits and costs generated by the tourism activity should be viewed from three sides: tourists, local community and authorities. On one side we have the tourists, who pay to enjoy a certain form of tourism. On another side, we have the local community who enjoy the benefits (mainly financial) from the tourism activity. At the same time, they are the ones who have to face the hidden costs tourists leave behind. Last but not least, we have the government and the local authorities. For them, tourism generates revenues through taxes, the creation of jobs and contribution to the balance of payments (Goeldner and Ritchie, 2012:24, Lickorish and Jenkins, 1997:65-66; Saarinen, 2007:42).

If we go further into details, we can talk about a fourth side: investors. From their perspective, the benefits are solely financial, based on the incomes of the businesses they have set up in the host-region. Regarding the costs, investors are immune to any other cost, than the financial one.

The tourism industry seems to be the most efficient branch of the economy in generating jobs and income in less developed, peripheral countries / regions, where development opportunities are limited. In these regions, the economic impact of tourism is felt most strongly. People from these regions are generally farmers or fishermen and the involvement in tourism activity can substantially increase their household income. Also an increase in the local tourism industry can provide an incentive for related activities (agricultural products or souvenirs that could be used for the accommodation and catering). According to some authors (Archer et. al., 2005:81-82), the introduction of tourism industry in these regions may have a greater effect on the welfare of the resident population, compared to a more developed region in the same country. For such a development of tourism in an emerging country or region the following are need: basic infrastructure (access roads, drinking water etc.), lodging (hotels, pensions, etc.) and other facilities and services necessary for tourism (catering, transport, etc.).

Archer et. al. (2005:83) believes that some of these utilities are indivisible in the sense that they are provided the tourism industry, and at the same time they are used by local people. Thus, in many emerging countries, motorways and airports built for tourism, now offer easier access to more distant markets for many local products. Unfortunately, the local population enjoys little benefits from this development. This is essentially a problem of distribution, both physical and economic.

The market does not ensure that development will keep up with demand. It is imperative that realistic and accurate planning is made and the enforcement of rules and laws to reduce conflicts and, where appropriate, preserve and protect the unique features of the nature tourists and residents can enjoy. This is a lesson that was learned quite recently by emerging countries. At a superficial level, the economic benefits of tourism seem obvious."In recent years an increasing number of authors have expressed reservations about the nature and extent of the benefits of tourism and expressed skepticism about the potential of tourism as a catalyst for growth and development as a means of maximizing the welfare of local people" (Archer et al., 2005:82-83). In a study conducted in Turkey (Tosun et. al. 2003:155-159), it was noted that although tourism – as an economic development strategy - increased the rate of economic growth and created inequalities between regions and social classes. The inequalities were caused by economic incentives for coastal tourism development at the expense of rural areas. In essence, this is a problem of allocating resources and whether the developing of the tourism industry represents the optimal use of available resources - natural, human, etc.

Rural areas are generally lacking economic diversity and adequate infrastructure, and are based on a limited number of economic activities, and have a less educated population. All this

contributes to the limitation of the rural population to secure jobs, promote investment, etc.. Also, in these regions there is some lack of planning, management and monitoring of economic activities – including tourism. In terms of jobs the ones supplied by tourism they are to some extent seasonal, with low wages and limited opportunities for promotion. If we compare it with other industries, tourism requires employees with a low level of specialization, which determines the relatively low salary (Mathieson and Wall, 1982, Lickorish and Jenkins, 1997:73, Muller and Jansson, 2007:4).

In conclusion, from an economic perspective, the objective of the local community should be to obtain higher results than the costs they have to pay.

2. The socio-cultural impact of tourism

Tourism has often been associated with the contact between cultures, behaviors, values and traditions. Tourism is considered a framework where hosts and tourists can learn better about from each other, through direct interaction. Also, tourism requires host communities to be more responsive and educated to provide quality services to tourists. In addition, interactions between locals and tourists generates the emergence of new ideas, values and motivations for social and economic progress (Brown 1998: 237-238; Bersales 2005:239; Nyaupane et al. 2006: 1373). Tourism can revitalize a community's cultural life, as art and traditions are an attraction for foreign visitors (Mason 2003:43).

The attitude of local people on tourism crosses four stages, as they were defined by Doxley (quoted by Fennel 2007:47-48):

- euphoria – tourists are welcomed by the community, without control or planning;
- apathy – tourists are considered a given by the community, and the tourists – locals relationship becomes formal and commercial;
- discomfort – reaching saturation with the tourism industry, the community starts to change its attitude towards tourism. Decision makers further develop infrastructure instead of limiting growth;
- antagonism – locals show their irritation with tourism and tourists. Planning should be the remedy, but increased promotional activity is contracted to change the deteriorating image and reputation of the village.

We cannot talk about the socio-cultural impact of tourism without talking about globalization and its effects on local cultures. One result of globalization is consumerism. It is defined as an increase in demand for consumption in an increasing variety of products and services. Consumerism affects tourists, who are a part of the consumer-oriented society, characterized by: modern urban lifestyle, expectations for high-level services and an attitude characterized by the expression: "everything is for sale"(Reisinger 2009:11-13).

There are authors (Reisinger) who argue that consumerism destroys culture and generates environmental and social problems: traffic congestion and queues at natural and man-made attractions. An example of this is Venice, which is overwhelmed by tourists, generating an increasing number of environmental and social issues. "Venice is full of tourists. The invasion of tourists in San Marco Basilica caused damages to the frescoes due to the condensation created by the breath of the visitors. Also, the stone floor was constantly eroded by the river of travelers. Unfortunately, this type of problem is often accepted by tourists as an important part of the personal experience. "(Richards, quoted by Reisinger, 2009:20)

Globalization is accused of destroying the socio-cultural identity of the local communities and indigenous values, traditions and lifestyle (Macleod 2004:15; Reisinger 2009:21). Cities visited by tourists in developing countries are not authentic, but rather disinfected and McDonaldized (Paramo La Haine 2008). Diversity gives way to efficiency and local culture to global culture. A small village, which is facing many economic problems can succeed a change of 180 degrees, by capitalizing on several features: beautiful scenery, tranquility and lack of congestion.

Unfortunately, for many communities the change equals with the loss of local traditions and values by replacing them with a false rural culture (Hester, 1990:5).

In rural areas, land and coastal areas are purchased by developers / investors, who transform farming and fishing communities in tourist resorts, replacing farms and forests with apartments or shopping centers. Modern hotels, highways and recreation centers have no local charm. All the resources that have attracted tourists in the beginning - the beauty of the landscape, peace and tranquility – are continuously eroded by tourism development and the rapidly increasing pace of life. For this reason, the meaning of local culture might dilute and dissolve (MacLeod, 2004:16). Today, tourists experience fishing on "authentic boats", while fishermen work in supermarkets. This situation causes a fracture between the locals and the socio-cultural environment. Also contributing to the fracture are the growing number of tourists and the new technology and modern life.

Also, the need for "authentic" has tarnished to some extent the traditions of certain civilizations. The Keechak dance, interpreted by the Hindu community in Bali on some special occasions, was shortened, and performed out of the religious context, daily for the foreign tourist groups. In theory, tourists may feel cheated by such non - authentic events, but that would require a good knowledge of the cultural traditions of the area visited by foreign tourists (Mason, 2003:46). In the cities and urban concentrations, the response to consumerism is the emergence of a growing number of stores or shopping centers in central areas. The transformation of spaces into tourist attractions was called by Paramo - La Haine *Disney-fication*. "Through this process, a general feeling of security was created with an excessive control combined with increased attention. Security cameras are installed, alarm systems are engaged and security services are hired, to ensure that tourists are not bothered by the negative realities such as poverty, begging, social issues or ecosystem degradation. The less beautiful face of the world has no place in this controlled environment (Paramo, Le Haine, 2008).

Liu (2003:468) states that tourism is not the main culprit for the loss of cultural identity and traditions: "The globalization and homogenization of culture, often referred to as Coca-colaisation, Hollywoodisation or McDonaldisation may not be caused only by tourism. The media, by means of modern communication and information technology often play a more important role in shaping the values, opinions, lifestyle and fashion of the world."

3. The environmental impact of tourism

If the positive impact of tourism can be observed most easily on the economy, then surely, that the negative impact on the environment is the most evident. Compared with the economic impact of tourism, the environment has become a theme for studies and research recently, joining in the ecologist stream at the end of the '80s and early '90s (Holden, 2003:94).

For an accurate overview of the relationship between tourism and the environment we must take into account a large number of actors involved in tourism activity (Holden, 2009:17): authorities (local and central), private sector (local and external contractors), non-governmental organizations, with the focus on tourism activity, local community, tourists/visitors.

"The common denominator of these actors is the man. Consequently, when we talk about the relationship between tourism and the natural environment it is necessary to consider that this relationship is the expression of human interaction with nature ... [so] to determine the effect of tourism on the natural environment we should take into account the following: the price we attach nature, cultural stereotypes about nature and the ethical relationship of man with nature." (Holden, 2009:17)

Sharpley (2006:22) believes that the environment is a fundamental element of the tourists' experience. Tourists are looking for attractive natural resources, different and special, allowing specific tourism activities. At the same time, the development of tourism consumes resources,

creates waste and requires a certain degree of infrastructure development, which in some cases can lead to the degradation and destruction of the environment.

The relationship between tourism and the environment crossed four stages over time (Sharpley 2006:122):

- coexistence in the beginning of tourism activities, the impact was minimal;
- conflict: mass tourism was seen as a destroyer of nature;
- idealism: symbiosis possible by developing "green" tourism;
- realism: different approaches to development that put in balance the needs of the tourists, the locals and the environment.

Sharpley (2006:121) argues that there is a high degree of difficulty to pinpoint the negative impacts that tourism can have on the environment because:

- it's not always clear if the environmental degradation is caused by tourist activity or other human activities;
- the impact of tourism on the environment is rarely visible immediately; tourism development may cause an indirect impact that is felt in some cases in other regions;
- often we lack references to measure the consequences of tourism on the environment.

On one hand, Swarbrooke (1999) and Holden (2009:22) believe that the natural environment has benefited from tourism, through the conservation actions and protection of nature (natural and national parks, protected areas etc.). Also, tourism causes a deeper appreciation of the nature of the tourists and the local population. Tourism is considered a "friendly" alternative to other industries that could benefit the locals.

On the other hand, tourism has direct negative effects on the natural environment and it puts a high pressure on the carrying capacity of host regions and indirect, from development of tourist facilities (Ioannides, 1995:583).

It becomes obvious that the environment consisting of the countryside will suffer from the construction of hotels, parks, shopping malls or amusement parks. Most common consequences of tourism on the environment are:

- changing the structure of flora and fauna (ski slopes);
- pollution of water, air and soil, etc.;
- soil erosion (landslides or disappearance of beaches);
- depletion of natural resources;
- traffic congestion and public transport;
- visual impact (anarchic/chaotic urbanization of seaside and mountain resorts).

Unfortunately, the local population is one that has to "pay" the costs of the resulting environment degradation from tourist exploitation and the degradation is most of time observed or felt only after a period of time (Beeton 2006:19; Holden 2009:19).

Conclusions

We can conclude that tourism has various consequences, which are influenced by a large number of factors, especially the ability and willingness of the community to accept changes (Beeton, 2006:21). For some communities, tourism is one of the few options for economic survival. For others tourism is a combination of positive and negative factors (the most common situation). Finally, there are communities where tourism has generated a large number of negative externalities, for which the population was not ready. To avoid these unpleasant situations planning and strict control by the community and authorities are needed (Statzu and Strazzera, 2011:58; Roberts and Hall 2001:55). Goeldner and Ritchie (2012:25) believe that the challenge for the tourism industry is obtaining benefits that will outweigh the costs, and taking measures to

mitigate negative effects. "Tourism development should be part of an economic development and must be done in a manner that is sustainable."

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MODELS OF TOURIST DEVELOPMENT IN THE CONTEXT OF REGIONAL DEVELOPMENT

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Third year PhD candidate at the University of Oradea, under the guidance of Professor Mrs. Alina Bădulescu in the doctoral research project entitled: "Doctoral studies and Ph.D. candidates for competitive research on a knowledge based society", a co-financed project by the European Social Fund through the Sectoral Operational Program for Human Resources Development 2007 - 2013, Priority Axis 1. "Education and training in support for growth and development of a knowledge based society" I chose to present this subject in order to demonstrate the connection that exists between tourism and regional development. Having as research topic "Tourism and development in the Euro regional context" I felt it would be appropriate to devote a subchapter in presenting the impact of tourism in regional development. Thus I have analysed a number of specialised papers found at national and international level in order to achieve a synthesis on the approached topic. Authors such as Williams and Shaw (1991), Sharma (2004), Keskin and Cansiz (2010) were concerned with presenting the positive aspects of tourism in regional development. Condes (2004) presents on one hand the secrets regarding success in matter of tourist development, and on the other side he presents the possible risks that follow the development of tourism in a country / region (Condes 2004). Following the gathered information we found that indeed tourism plays an important role in regional development.

The used research methodology consisted in using specialised literature in order to identify some models that illustrate the potential success of tourism in regional development.

The space-temporal development model of tourism proposed by Opperman (1993), although it was developed at national level represents a useful tool in illustrating the potential success of tourism in regional development. Miossec's model (Sharma 2004:300) describes the structural evolution of touristic regions in time and space. Butler (1980) develops a more complex model than the one of Miossec regarding the hypothetical development of a tourist area. There are a number of studies on the role of regional clusters in increasing regional competitiveness of an industry (Porter, 2000; Rocha, 2004) paying a special attention to clusters in tourism.

Keywords: tourist development, regional development, models of tourist development, clusters in tourism

JEL codes: O16

1.Introduction

The theory of tourism as a means of achieving economic development embraces two distinct subjects (Sharma 2004:262):

- on one hand, tourism is seen as a vehicle for regional development in a developed country, that contributes in eliminating regional disparities, especially between metropolitan centres and peripheral areas.
- on the other hand, the developing role of tourism is analysed in the context of a divided world between developed and less developed countries, the assumption is that the gap between the two can be reduced by tourism development projects in less developed countries.

Keskin, Cansiz (2010:24) also present some positive aspects regarding the development of the tourist activity that leads to maintaining peace in the world, educating the nations, environmental

protection, protection of historical and traditional structures. In addition, tourism contributes to (Keskin, Cansiz 2010: 24):

- the growth employment, while accelerating socio-economic development;
- the increase of living standards, thus stopping the migration;
- the improvement of national and international law;
- the development of national conscience etc.

WTO (2009:6) includes all these aspects in one sentence: *tourism means jobs, infrastructure, trade and development*. The purpose of WTO is primarily related to the contribution of tourism to development in the less developed countries of the world. In this context, tourism is seen not only as a catalyst for development, but also as a political and economic change. That is, international tourism is seen as a means to achieve "development, social and economic progress" and the reward with wealth and power are, as some claim, required for such development. (Sharpley and Telfer 2002:13; and Sharma 2004:149)

2. Tourism - a factor of regional development.

Using a rich specialised literature, Sharma (2004:297) states that tourism has been used as a strategy for promoting regional development (Oppermann, 1992) both in urban areas (Beauregard, 1998) and in rural areas (Sharpley, 1997).

Higgins and Savoie (1988) - presented the *main reasons for which it is important to pay a particular attention to regional structure of the national economy* (Sharma 2004:286):

- Regional disparities create social and political issues that have to be addressed in any political society, especially in countries where "the gap between regions" is due to states or provinces;
- Accelerating growth of a country as a whole requires eliminating the problems of less developed regions;
- All countries face increasingly complex urban problems. The interaction between various cities and regions is a fundamental aspect of these urban problems, but also of the social and economic problems at regional or national level.

Williams and Shaw (1991) show the potential that tourism has in bringing development in neglected regions of European countries. Peppelenblosch and Tempelman (1973) suggest that infrastructure requirements for tourism could act as tools for regional development (Sharma 2004:297).

Through tourism can be capitalized a series of natural and human resources such as topography, landscape, climate, thermal waters, vegetation, cultural landmarks, elements that cannot be exploited in other domains. Taking as reference points these elements (which attract most tourists) there can be created real resorts, in different parts of a region that will lead to economic and cultural development of that area, and, therefore, in creating better life conditions.

The important point here is that the attention is most often focused on the role as developer of tourism in less developed or peripheral countries.

From Condes's (2004) point of view regarding success in tourism development, in the case of poor or emerging countries, he focuses on at least three main ideas:

- *the training of professionals and of the local populations for tourist flows* (by maintaining cultural and gastronomic traditions, sustained learning of foreign languages as well as that of foreign cultures in order to create natural tourist – host relationships etc.)
- *facilitating their access to capitals and financing* (in recent years national groups have emerged, even in poor countries: Abou Nawas hotel groups Tunisia, Camino Real Mexico or Dusit Thani Thailand);

- *knowing tourists' expectations in order to adapt supply to demand* (a risk of poor or emerging countries is also to their "panic" due to tourist manna, by developing projects that fail tourists' expectations or that are too bold, oversized).

In Condes's opinion, reorienting the economy of the countries with and obvious touristic potential carries at least three risks:

- *Excessive dependence on tourism* – in this way countries that offer only one type of tourism or limited forms are more exposed to risks. We could also add the case of poor tropical countries, where an increased reliance on weather conditions and natural disasters had been reported and that are real obstacles to destinations like South East Asia or the Caribbean. For example, in 1999, Antigua-Barbuda (where the incomes from tourism represent 70% of GDP) was ravaged by four hurricanes that seriously unbalanced the tourist sector and the economic one.
- *short-term management and limited local gains*. The impact of tourist development on the natural and cultural environment may be, in time, disastrous, as well as an uncontrolled influx of tourists. The destruction or degradation of the fragile natural patrimony (e.g. Galapagos Islands) has serious consequences, evidenced by a rapid and irreversible decline of this destination, especially when this natural heritage is precisely the attraction of the area.
- *The "Folklorization" of cultures and prostitution*. Economically speaking, the main risk for poor and emerging countries is that the income that tourism generates is only very modest (especially in the case of fixed price travels), tourist performance being controlled by foreign operators tourism (namely tourism complexes are rather as "implants" and the staff belongs in most cases, to the issuing country). " Over 65% of the revenues from tourism in the Mediterranean countries, unfortunately go into the accounts of a number of about ten companies from the tourists emitting countries that have air transport companies, tour operators and hotel structures "(Cazelais, 2004).

Another equally major risk is that of sex tourism, against which developed countries take legal actions, but at the same time also organise awareness and prevention programs of this true scourge.

Tourism has traditionally favoured the poorer regions, but recent changes on tourism markets have favoured markets and investments of rich countries and regions (Williams and Shaw, 1998:13), i.e. the rapid expansion of new forms of tourism, such as urban tourism, cultural tourism, historical tourism, and theme parks, which favour those destinations that are relatively affordable in large metropolitan areas. This phenomenon was observed in Great Britain, especially in London and southern countries and in Austria, where a major change in tourism demand turned to rich regions (Sharma 2004:266 after Zimmerman, 1998:30).

3. Models illustrating tourism's potential success in regional development - theoretical approach

The relationship between tourism and regional development was realised by highlighting some models outlined in tourism literature.

The space-temporal development of tourism proposed by *Opperman* (1993), although it was developed at national level, represents a useful tool in illustrating tourism's potential success in regional development. This model supports the economy of developing countries and it is composed of two separate sectors (formal and informal tourism sectors) that although co-exist side by side, they have very few links.

- *Formal tourism sector* is characterized by things such as international hotel standard, investment costs with high capital, high leakages as profit transfers, imported food and construction materials and a very limited integration into the local economy.

The governments of developing countries often take into account only this way for developing tourism.

– *The informal sector* consists of the stall vendors brotherhood, minibus and accommodation operations of private individuals. This sector implies an intensive labour with a very limited capital. Although small, they can generate large profits per unit and the money increase the multiplier effect for the local economy. The importance of this model is that a destination needs to decide what form of tourism it will address. While formal and informal sectors can interact, the formal sector can be closely associated with mass tourism. If the strategy behind regional development is to generate economic benefits, then governments must calculate which type of tourism will bring more benefits to local communities.

Miossec's model (Sharma 2004:300) describes the structural evolution in time and space of tourist regions. He identifies five distinct phases regarding the changes that occur in the provision of facilities (the resorts and of transport system) and in the behaviour and attitude of tourists, of local decision-factors and the host population.

Table no. 1. Miossec's model of tourism development

Phases	Resorts	Transportation	Tourists' behaviour	The attitude of the local decision factors and of the host population
0	The area is unknown to tourists	The area is isolated, transportation network is missing	Lack of interest and of knowledge	Oscillates between mirage and refusal
1.	In the area appear a first resort (trailblazing resort)	Opening the connections to other areas	Vague local perception	Observation
2.	Multiplying resorts	The development of the transportation network between resorts	Progress in the perception of the places and itinerary	The preoccupation for improving the infrastructure that serves the resorts
3.	Organising of vacation spaces in each resort; the beginning of the hierarchization and specialisation	Trips – different tourist circuits	Competition regarding space and segregation	Demonstrating the dualist effect of segregation
4.	Hierarchic specialisation's saturation	Diverse system of connections	The disintegration of the space of perception; populating the area; saturation and crisis	Total tourism; planned development; measures for ecologic protection

Source: adapted from Miossec (1976).

Miossec's model presents several useful aspects. First it includes a dynamic element, namely the development of the region in time and space. The notion of space / time evolution is very important both in the analysis of past processes as well as in future planning of the development. Secondly this development is seen as a whole; changes in the behaviour of tourists and local people are closely related to the increased number of resorts and to the expansion of the transport network. The key factor is the relationship between effect and development. Other aspects of the development process are less explicit, although it could have been included in the model. For example: who builds resorts? how? why?. These are questions to be asked and addressed. Also, there must be identified the factors that determine the choosing the resorts' location. In other words, the context in which this development takes place is neglected in this model.

Other models highlight a few untouched points by Miossec, regarding the expansion of the local/non-local participation in the development process and the changes intervened in the structure and volume of the tourist traffic over time.

Butler (1980) develops a more complex model than the one of Miossec on the hypothetical evolution of tourist areas. But in the evolutionary sequence imagined by Butler, based on the concept of product life cycle, are presented six major stages: exploration, involvement, development, consolidation, stagnation and decline or rejuvenation (Condes 2004:282). In the first stage, there aren't specific facilities for tourists; the facilities from the involvement stage are provided by the inhabitants of the area; in the development stage, locals' involvement decreases rapidly, the control being taken by external organizations, particularly the accommodation of tourists. The consolidation phase is represented by the important chains of companies in the tourism industry. Local involvement will increase again only in the decline stage, when there will exist the possibility of providing facilities at lower prices in order to revive the industry (Murphy 1985:86; Butler 2011:6).

There are a number of studies regarding the role of regional clusters in increasing regional competitiveness of an industry (Porter, 2000; Rocha, 2004) paying a special attention to clusters in the tourism domain. What is a cluster? Porter (2000) defines the cluster as "a group of interconnected companies, suppliers, service providers and associated institutions in a particular field, linked by analogy and complementarity". (Estêvão and Ferreira, 2009:4).

Estêvão and Ferreira (2009:4-6) devote a special attention to clusters from the tourism domain realising a expansion of this concept with the help of specialists concerned with the meaning and role of clusters in tourism (Beni, 2003, Capone, 2004; Costa, 2005; Novel are et all. 2006).

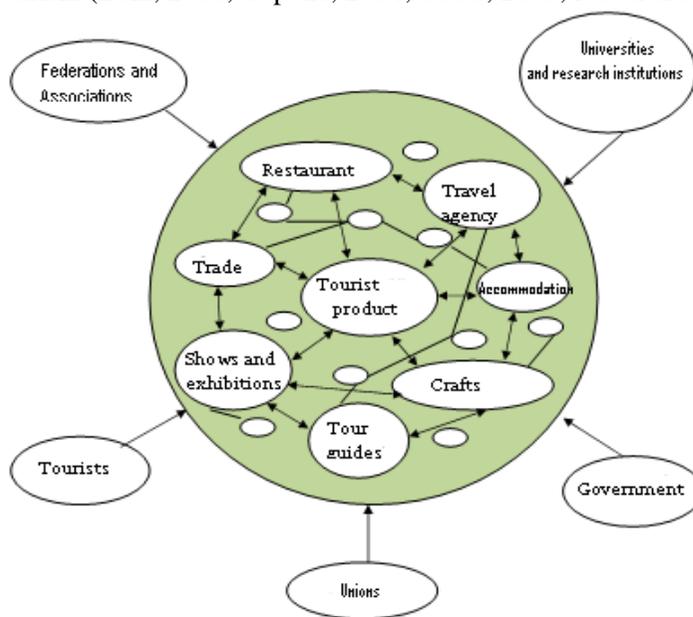


Figure no. 1. The representation of a tourism cluster

Source: adapted from the model developed by Da Cunha Sieglinde Kindl and Joao Carlos Da Cunha (2005:52).

4. Conclusions

Tourism has positive effects on revenues and employment, but let's not ignore that, besides these beneficial effects, there are negative consequences for the receiving communities: the degradation of the natural environment, of life's quality and that of the cultural and social heritage due to overexploitation and excessive concentration of tourist flows to certain destinations. Mono-development, predominantly based on a single industry such as tourism, is very risky from an economic perspective. Thus, countries that depend exclusively on tourism are

considered fragile environments and any external event that negatively influences tourism (those mentioned above), can have devastating effects on them.

The multitude of models encountered in the specialised literature in fact represents specialists' concern in highlighting the connection between tourism and regional development. The most common model in current literature, which presents the potential success of tourism in regional development, is the cluster. The phenomenon of cluster can be found not only in developed countries (U.S.A., Germany, England, France etc.), but also in developing countries that have a developed potential of the regional tourism, based on one or more tourist resources: balneal, cultural, agritourism cluster etc.. (Iordache et al, 2010:11).

A tourist cluster's objective is to mobilize companies that generally work alone in creating, capitalising and promoting successfully a tourist product in a region (Scarpino 2010:12).

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COOPERATION BETWEEN INSTITUTIONS OF PUBLIC ORDER AND SAFETY FROM BIHOR (ROMANIA) AND HAJDU-BIHAR (HUNGARY): A CASE STUDY

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The forms and degree of cooperation between public order and safety on both sides of the border took on different forms from country to country, from one region to another. Some countries have a very extensive inter-institutional cooperation and substantial, while in other countries relations are characterized by a deep division, competition and lack of communication. To understand existing forms of cooperation, and how best practices can be transferred to some Member States it is necessary to understand the existing diversity across the European Union. This paper focuses on presenting several cooperation projects with direct reference to public order and safety activities implemented in Bihor - Hajdu-Bihar euroregion, within the CBC Programme Hungary-Romania 2004 and especially the project "Mirror network for operative and operational data transfer", a joint project of cooperation in the public order and safety in Bihor - Hajdu-Bihar Euroregion.

This paper is part of the doctoral thesis on Integrate perspective on companies sector, coordinated by professor Ph.D. Alina Bădulescu from University of Oradea, Faculty of Economics.

Key words: public order and safety, euro-region, Bihor – Hajdu-Bihar

JEL Code: R11

1.Introduction

This paper is part of the doctoral thesis on Integrate perspective on companies sector, coordinated by professor Ph.D. Alina Bădulescu from University of Oradea, Faculty of Economics.

Despite the extensive development of management standards common problems of the EU border regions, forms and degree of cooperation between public order and safety on both sides of the border took on different forms from country to country, from one region to another. Some countries have a very extensive inter-institutional cooperation and substantial, while in other countries relations are characterized by a deep division, competition and lack of communication. To understand existing forms of cooperation, which are the best practices and the extent to which they can be transferred to some Member States is necessary to understand the existing diversity across the European Union. Three characteristics that best describe and explain the diversity and intensity of the phenomenon of cooperation forms (CSD 2011):

1. Organizational diversity: in addition to specific duties border police or customs authorities in some Member States, the police or gendarmerie units may have skills in the border area and in others may be involved tax police;
2. Degree of competence: in some EU Member States, public order and safety authorities, customs and border police have no jurisdiction to investigate, in others not even patrol outside powers / crossing point border;
3. The legislative basis should also be considered in order to cooperation: while in some EU countries there is comprehensive legislation, in others there are only local decisions or agreements of cooperation, or even just informal cooperation but requires their transformation agreements with legal support.

CBC main areas that can be done in this area (CSD 2011) are:

- Strategic planning
- Communication and exchange of information
- Workflow coordination
- Risk analysis
- Criminal investigations
- Joint operations
- Mobile units
- Emergency and calamity situations
- Joint use of equipment and infrastructure
- Training and human resources management.

2. Accomplished actions within the Cross-border Cooperation Program Hungary-Romania 2004-2006, in the field of order and public safety (selection) (VÁTI)

In the Bihar - Hajdu-Bihar euroregion, within the CBC Programme Hungary-Romania 2004 may be mentioned several cooperation projects with direct reference to public order and safety activities.

Thus, we refer to the "Training for a Healthy Lifestyle and for spending one's free time properly, drug prevention in Cooperation with the police", ID: HUROSCG0501/018/I/2.3/HU. Beneficiary of the project was Taltos Foundation Program, Békéscsaba County Békés place in Hungary and implementation grant amount being 3,347,228 HUF. The project aimed to create a suitable environment for young people, characterized by a philosophy of joyful, constructive, instead of dependency and self-destructive behaviors. Strategy project sought to replace the problem of drug addiction through various activities, formalized, leisure. During activities focused on the knowledge skills to young people, awareness of the harmful effects of drugs so that they are able to make the right decisions, to learn to say "no" to the pressures of others, to understand that such a decision would cause problems to discuss and develop skills to use logical arguments, in order to convey a positive effect on friends and groups they belong.

A second project that was "Development of transport infrastructure at EU borders in a Hungarian-Romanian project in the Mirror", ID: HUROSCG0501/019/M/1.1/HU. Beneficiary of the project was public road company, Budapest, where the implementation Békés County, Hungary, and financing amounted to HUF 114,934,800. The rationale of the project based on the fact that acceleration and multiplication of public road and rail traffic is accompanied by a deterioration of the quality of the roads. Their maintenance and repair roads and building new transport routes, have become requirements not only for transport within Hungary, but in the international transit of goods and people, the project aimed at developing transport facilities in the border area. Project funding was directed to link road sections leading to border crossing points from Elek (Hungary) - Guard (Romania), Dombegyház (Hungary)-Variasu-Small (Romania), and Lokösháza (Hungary) - Court (Romania).

Finally, a third project to be mentioned is that entitled "For effective cooperation with police Bihar county (Romania)", ID: HURO0602/117/M/2.3/HU. Beneficiary of the project was police (police captain) of Hajdú-Bihar County, Debrecen, Hungary, instead of implementing the Hajdú-Bihar, Hungary, and the amount of funding amounted to 13,937,668 HUF.

Project financing was used to equip a training hall for producing a publication in several languages, crime prevention and strengthening public safety, to conduct a training project manager, crime prevention workshops and public safety, with the participation of police officers in the counties of Szabolcs-Szatmár-Bereg, Jász-Nagykun-Szolnok, Hungary and that Bihar County, Romania. Programs were conducted at extremely high standards is very useful effects already seen in labor relations further.

3. Case Study: "Mirror network for operative and operational data transfer" - a joint project of cooperation in the public order and safety in Bihor - Hajdu-Bihar Euroregion

Bihor County Police Inspectorate won, first in the country, European funding for a mirror project in the border with Hajdu-Bihar County (Hungary) on creating a network to transfer operative and operational data. As indicated to the Chief Commissioner Liviu Popa, Bihor Chief Inspector of Police Inspectorate (at the time) and project manager, in the press conference of 14.09.2007: "... the idea of this project was born from the desire to stand in future structural changes will occur with Romania's integration into the Schengen Area. the abolition of border police, the fact is that police will return a very important role in monitoring trafficking in persons and goods on the border with Hungary "(ziare.com).

The project called " Mirror network for operative and operational data transfer " was located in the North Region - West, Bihor county, Oradea, Romania, and the applicant was Bihor County Police Inspectorate.

Coordinates of the project are:

Priority 2 - Promoting cross-border cooperation initiatives

Measure 2.3 - Encourage cooperation between institutions and communities (projects "people to people", financed by the Small Projects) Phare CBC 2005 /

Contract: EN 2005/017-536.01.01.02.17 (mdrl.ro)

The project proposed improved collaboration between police captain IPJ Hajdu Bihar and Bihar, under the cooperation protocol between the two organizations by developing a system to enable the development of data exchange in real time so that you can coordination of the crisis involving the two institutions (prefecturabihor.ro).

3.1. Premises and framework

The project was founded on the existence of a cooperation protocol between the master and IPJ Hajdu Bihar Bihar dating from 2001. Partnership, which is also currently takes place mainly in combating organized crime, cross border crime and exchange of experience in forensics. This cooperation is carried out through meetings taking place at the border or through the exchange of experience took place in Oradea and Debrecen. This type of collaboration is costly and time, hitting the weights and the border.

The project was established as a natural continuation of direct contacts between the partners involved - IPJ Hajdu Bihar and Bihar police captain and a bilateral partnership agreement concluded, as I said, in 2001. Visits, exchanges of techniques and experience, operational exchanges, solving concrete cases of common crime is continuing actions that took place over 15 years and could improve. The cross-border cooperation in this field can find common solutions to harmonize legislation and to prevent victimization of citizens in communities partners in Bihor - Hajdu Bihar.

3.2. Objectives of the project

The overall objective was to develop a European-style institutions in the Bihor County Police, based on internal policy and transfer of knowledge and expertise in European integration, the Hungarian partners.

In the cooperation that has developed with the police captain of Hajdu-Bihar County, Bihor County Police sought to improve information and communication infrastructure, and to increase training for its staff, using successful experiences in the field of partner, already familiar with European integration issues. The overall objective was based on clear need time resulting from failure to respond to increasing pressures of crime generated by the free flow of movement.

Specific project objectives were:

1. Accelerate information exchange inter-institutional between police inspectorates in the Bihor - Hajdu Bihar Euroregion. Under this objective, we have developed two activities:

-introduction of audio-visual system via internet, purchase computer equipment and communicational equipment that facilitate the development of a network consisting of 6 local users for the county of Bihor able to collect data of operative interest, with possibly for processing in the center of the network (Oradea, Bihor County Police Inspectorate, IPJ). This network is connected with the network existing in Hajdu Bihar Police Captainhood;

-joint publication of materials for the prevention of committing crimes. With the European experience of the partner, Bihor County Police edited documents to prevent victimization addressed mainly to citizens, especially printing of a necessary support materials to form an harmonized way of operating in the two institutions.

2. Specializations and training of the staff with activities in the field of preventing and combating crime and in the field of information exchange related to cross-border cooperation. Under this objective, we have developed two activities:

-managerial training, in order to transfer managerial experience between partners, with the final objective of improving skills of the institutional staff in terms of on-site investigation, criminal investigation, transfer of information, operations in network

-seminars on crime prevention focused on mutual knowledge - harmonized methods of operation, training and information system in operation with audio – visual equipment, partnership among institutions with responsibilities in preventing victimization and skills development on accessing European funds.

The target group consisted of six municipal and city police offices from the proposed network in Bihor county, institutions with adjacent responsibilities in preventing and combating crime and the final beneficiaries were communities in Bihor and Hajdu-Bihar and staff of institutions involved in the training and specialization, given that the publications were made available for a number of about 20,000 people, and in the training and specialization activities were involved a total of about 50 workers.

The accession process requires the institutional development related to EU requirements. Among these requirements is the increase of the climate of public safety and prevention of victimization. Hence there is a need to improve the operational infrastructure and institutions involved in this field skills, and optimize cross-border cooperation.

Experience organization was determined by two approaches: involvement in similar projects accessed by the General Inspectorate of Romanian Police and the Institute for Crime Prevention and Research, but managed locally by the working group IPJ Bihor (MATRA project "Preventing and combating violence in family", "Preventing and combating street violence", "Institutional capacity building in combating cybercrime", "Patterns of inter-institutional cooperation in countering smuggling in the area of organized crime", "Prevention of juvenile delinquency in schools") and hiring of professionals with proven expertise in project management. The latter come from local institutions with activities in public participation and community development (project OMAT - "Planning traffic in Oradea metropolitan area") and the Hungarian partner, the Police captainhood of Hajdu Bihar County (4 projects TAIEX (Technical Assistance Information Exchange Unit) of European Commission - "Methods of checking the traffic of cars and trucks used in the EU", "The police role in crime analysis", "Current and future role of police and judicial cooperation development in the EU", "Police Cooperation in the organized crime").

3.3. Description of the cooperation actions achieved

Activities undertaken have had as main objective *speeding up the inter-institutional information exchange within the two police inspectorate of the constituent counties of Bihar Euroregion - Hajdu-Bihar.*

Based on the urgent need of effective communication, a first objective of accelerating activity subsumed under inter-institutional information exchange police inspectorates Bihar - Hajdu Bihar was the *introduction of audio-visual system* via the Internet, by purchasing information and communication equipment to enable the development of a local network of six users from Bihar county, able to collect the operative, with the possibility of processing the hub (Oradea, Bihar County Police) and the existing network connection to the Police Captainhood of Hajdu Bihar.

This work has started, like any project, with specific administrative actions: establish the organizational and team work tasks, related to the management plan, listing contact persons and addresses, making newsletters on the project goals and objectives target groups, implementation of project presentation brochures, letters, invitations to target groups, organization and holding a conference to launch the project, with partners in Hungary. On this occasion, the launch took place and a first working meeting of those involved in the project on both sides of the border: the implementation team, representatives of Hungarian, representatives of profile institutions and volunteers.

Then there were a series of meetings of the Working Group on the local information network operators to identify data exchange and establishing networking arrangements, the Working Group meetings with local operators to implement data exchange system.

Note that these activities were organized and implemented by IPJ Bihar, with its own contribution of specialists in IT and media relations and acquisitions, and with the participation of Hungarian.

Later to the acquisition of equipment necessary to implement audio visual system for data exchange (drafting of specifications and tender equipment, identify potential suppliers of advertisements in newspapers, by sending requests to offer specialized companies for goods purchased) was carried out the activation and enabling the communication network and users. This involved: computer work stations connection to the Internet, common training workstation users, establish, jointly with the partner system passwords and computer network security and data exchange protocols work. This time, work was organized and implemented by IPJ Bihar mirror with Hungarian partner, a police captain Hajdu-Bihar County.

The information required for operationalization to realize a common data network. This was achieved by exchanging data from existing databases, the types of crime, Hungarian and Romanian partners, setting out how it actually - the steps for registration, filing or data exchange network, implementation of regular (at least once a week) to the data summaries of the target groups, by type of crime, and communication between the Romanian and Hungarian partners to base decisions on crime prevention, field trips, 10 days per month, to capture the realities of the surrounding areas target groups and recording crime situation.

In case of serious offenses, and making trips have agreed on the spot, capture and storage, electronic, images, and other such evidence incriminating details that will help solve the case and thus to improve security the community. Filling the database with suggestions received from the target groups was carried out by each partner, and Captain Hajdu Bihar Bihar County Police, partners and each providing the necessary data.

Data processing was done by updating the databases created daily, weekly preparation for studying the synthesis of values, data processing decisions based crime prevention in the Euroregion, the returns of each partner to the other end. The work was done by each institution by users.

A second activity subsumed under the same primary objective was the joint publication of books on crime prevention commission. With the European experience of the partner, Bihor County Police took and edited documents that prevention of victimization addressed primarily citizens by printing an appropriate substrate to form a harmonized way of operating in the two institutions.

Made jointly by both partners, this action resulted in the publication, in Romanian and Hungarian theme of preventive educational materials, namely printing of about 5,000 leaflets, 200 posters, 200 brochures and realization of audio 3 spots in Romanian and Hungarian.

These preventive and educational materials were distributed in border crossing points, public institutions, the means of transport, schools, travel agencies, train stations, airports, coordinated action by IPJ Bihor (for its area) and included data summaries provided by the Hungarian partner, which acted similar to the area.

The second objective - *Specialization and training staff with responsibilities in preventing and combating crime in the area related to information exchange and cross-border cooperation* has been achieved through staff training activities.

Thus, management training course was conducted by specialization whose aim was to transfer managerial experience between partners, with the ultimate aim to improve staff skills in terms of research institutions on the ground, concrete actions criminal investigation, information transfer, network operation. This work was prepared in terms of logistics to drive the best results, resulted in final the training of 20 participants for 3 days with intake of 4 lecturers.

An important activity in effective cooperation in the field officers of the Euroregion Bihor - Hajdu-Bihar have set up a seminar on prevention of crimes committed.

This work has been carefully prepared, establishing prevention issues presented by the operational situation, making the media training course maps, logistics etc. The actual work involved produce a series of six seminars, two in Romania, four in Hungary, focusing on mutual knowledge - harmonized methods of operation, training in computer operation system audio - visual, partnership between institutions with responsibilities in preventing victimization and develop skills for accessing funds. Participants were 30 in number, trained by four lecturers in the 6 seminars of two days each. Also, a number of five people participated in the Romanian partner in a series of four seminars organized by the Hungarian partner.

3.4. The impact made on beneficiaries AND T II common

The proposed project aimed to increase the level of safety in communities of the Euroregion, direct meetings of those attracted to the project presentations at the launch of the project, evaluation and finalization, and especially promotion activities in each project, helping to identify communities project and, therefore, to develop new complementarities.

The project was an initiative for the first time in Romania, with the effect of "model" is estimated at that time that could be implemented successfully by other police inspectorates, located in border areas.

The project has attracted other institutions, both in Bihor county, and in Hajdu Bihar: institutions of local government (County Council, Local Councils and Mayors of towns involved), the relevant institutions and the General Inspectorate of Border Police Directorate Customs, Department of Finance, school, University of Oradea, which, as their ultimate beneficiaries, receiving and issuing information or data, participated in conferences launch and completion of the project, promoted and disseminated project results.

The role and contribution of partners, Bihor Police Inspectorate and Hajdu Bihar Police Captainhood were similar, each being effectively involved in the project by introducing system audio - visual collection and exchange of information, the monitoring of crime in their sector to substantiate joint publication of books on crime prevention commission and the election of current topics, drawn from practice, to organize seminars on crime prevention commission.

The activities proposed, the project aimed to improve inter-institutional collaboration as follows:

- gave an overview of on developing the system to prevent and combat the cross-border crime, identifying concrete ways to undertake in this field;
- promoted the diversification of working methods in regional framework;
- contributed to the improvement of the cross-border co-operation;
- led to improving the information exchange between the components of the target groups;
- generated the development of the infrastructure and services in preventing and combating crime, with emphasis on preventing victimization of national citizens;
- facilitated the harmonization of the relationship between community and institutions responsible to prevent victimization.

In concrete terms, it is estimated that, after the project implementation, in a horizon of 3-5 years, the number of people informed about the commission of illegal acts of any kind in the region increased by about 50%. The project also has generated the possibility of extending the network to institutions with similar concerns.

The project aimed to abandon the perception of competition between border regions and to promote common strategies between institutions involved in promoting, developing and strengthening existing relationships.

The results of the project aimed at increasing prevention and safety in the border area, resulting stability able to determine an important influence on economic growth.

The project proposed and succeeded creating the possibility of a quick resolution for difficult police cases up to that time, setting types in solving such casuistry, creating models of effective cross-border and inter-institutional partnerships for other institutions in the public sector.

The development and cooperation will influence policy decisions at euroregional level and can generate an attitude of support from the part of local authorities for the harmonious development of the safety and public order system.

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COGNITION AND INTELLIGENT ENTREPRENEURSHIP.

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The aim of the paper is to study how it's possible to enhance the cognitive enterprise model by the theory of autopoietic systems. I propose a model that considers the organization as a closed system in which all cognitive activity is necessary to develop coherent operations needed to adapt the firm to environmental perturbations. The central issue of the work consists in the presentation and description of the “chain thinking-action” as a cognitive basis that builds models from which derive the actions that characterize the transformation of a business enterprise in order to maintain the viability over time. A “winning” entrepreneurial thinking is able to give a direction (objectives-strategy) always aimed at improving the organization's vital parameters. The role of entrepreneurship and management, therefore, is to create the conditions to encourage a continuous development of cognitive models in organizations, in order to maintain the conditions of survival and to lead the company in a situation of evolution and improvement.

Keywords: cognitive system, cognitive models, autopoiesis, organizational behavior, intelligent firm.

JEL Code: L21, L26, M10.

1. Introduction

“Every man from the birth builds models” (Laborit 1979: 60).

“The knowledge that guides human behavior is made up of symbolic mental representations and cognitive activity consists in the handling of these symbols” (Edelman 1991: 33).

This study is based on the belief that organizations, and firms, can be understood as cognitive systems which develop a learning process in order to survive in a changing environment, as it has been authoritatively demonstrated by Stafford Beer (1989).

In observing enterprises I have chosen a model of cognitive system that comes from the representationalist view of cognition, typical of the cybernetics and cognitive theory (Wiener 1961; Ashby 1956; Conway and Siegelman 2005; Maturana and Varela 1980).

According to this conception, cognitive systems must create inside them a representation of the external world, by building coherent and sensible models, selecting through their sense organs, environmental cues, and transforming them into information necessary to update these representations on which they form the basis of decisions making which are translated into behaviors in order to preserve their existence.

The representationalist hypothesis is denied by Herbertho Maturana and Francisco Varela who state: “in every interaction, is the structure of the nervous system that determines which perturbations are possible and what changes they may cause in its dynamics of states. it would be wrong, therefore, define the nervous system as something that has inputs and outputs in the traditional sense” (Maturana and Varela 1987: 149).

In this paper I demonstrate how it's possible to enhance the cognitive enterprise model by the theory of autopoietic systems. The model I propose considers the organization as an operationally closed system, structurally coupled to the environment, in which all cognitive activity is necessary to develop coherent operations needed to adapt the firm to environmental perturbations.

According to this approach, knowledge consists of a modeling system that the organization builds and fits through a continuous structural adaptation between the firm and the environment, in a perspective of maintenance of its homeostasis (Maturana and Varela 1987).

In this work I share the enactive approach, according to which cognition derives from the construction of the world by a cognitive subject through the mind-body interactions. Indeed, we read in Varela, Thompson and Rosch that "the fundamental intuition of the enactive approach is that you can see our activities as reflections of a structure (nervous system), without losing sight of the immediacy of our experience" (Varela, Thompson and Rosch 1992: 33).

The central issue of the work consists in the presentation and description of the model called "thinking-action chain" as a cognitive basis that builds models from which derive the actions that characterize the transformation of a business enterprise (Mella 1991) in order to maintain the viability over time (Beer 1989). The theoretical basis built in this study allowed us to reach a definition of the necessary conditions that a firm must comply in order to be considered an intelligent system.

2. Firms as cognitive systems

To represent enterprises as cognitive systems should be necessary, first of all, define and highlight the characteristics of cognitive systems, in order to build up a model adaptable to firms. A cognitive system can be described, in a concise form - by an external observer (Maturana and Varela 1980), as an autonomous system, an "individual", able to process information, to structure them in knowledge and preferences in order to develop interactive behaviors with the environment and in the environment with the purpose of survival, maintaining its identity, even in the evolution, sometimes, of its own structure (Mella 1997).

According to autopoietic theory, a cognitive system appears to act in a "world" (environment) only to the eyes of an observer outside the system. This has no chance of "come out of himself": all that it can "know" are the changes in its cognitive basis - built by its physical structure - which it can control partly through the activity that took place through effectors (1), as theorized by von Foerster (2003) the father of second order cybernetics.

According to the model of Maturana and Varela (1987), organizations are "closed" autopoietic systems able to maintain their unity continuously producing relationships that make up their own organization. These systems operate in circular mode, in the sense that self-components of the system produce the same parts, while maintaining a stable interconnections between vital processes, in a cycle of continuous production and re-production. They are able to generate throughout their own organization, even under conditions of continuous perturbations from the environment (Maturana and Varela 1980). The system is autopoietic since it produces itself.

The organization, as cognitive system, through its management, consumes value for the re-production of value, in order to survive into the environment, maintaining its identity and revealing a teleonomic project, or objective of survival (Mella 1991). The firm maintains its identity and remains viable, if it can maintain vital parameters to levels that prevent its disintegration, showing a behavior typical of homeostatic autopoietic systems (Beer 1989).

The firm, appearing as a system able to self-produce its own organization through business operation (Vicari 1991; von Krogh and Vicari 1993; von Krogh and Roos 1995) and as a system in which the internal states - organizational, economic and procedural - should assume conformations compatible with the structure itself, and with the variability of the environment that perturbs the homeostatic balance, becomes a viable system as defined by Stafford Beer in his well-known model (Beer 1989).

In this context, the environment, with its variability, is only an "activator" of the cognitive activity, which appears restricted to the field of internal cognitive processes (Vicari and Troilo 2003). The cognitive process has an organization which appears, therefore, closed and circular and this aspect is typical of all living organisms and all cognitive systems.

To an external observer, any cognitive system can be represented, in first approximation (Figure 1), as a transformation system (Mella 1991), i.e. as a black box that transforms stimulation into actions (interaction with the environment) in order to maintain its structure and maintain its identity in a changing environment. From the system itself point of view, it appears as a closed system, in which knowledge is constructed internally to react to environmental variety. The environment contains no information that the system can detect. The environment is only a source of triggers and perturbations by which the system builds its own information.

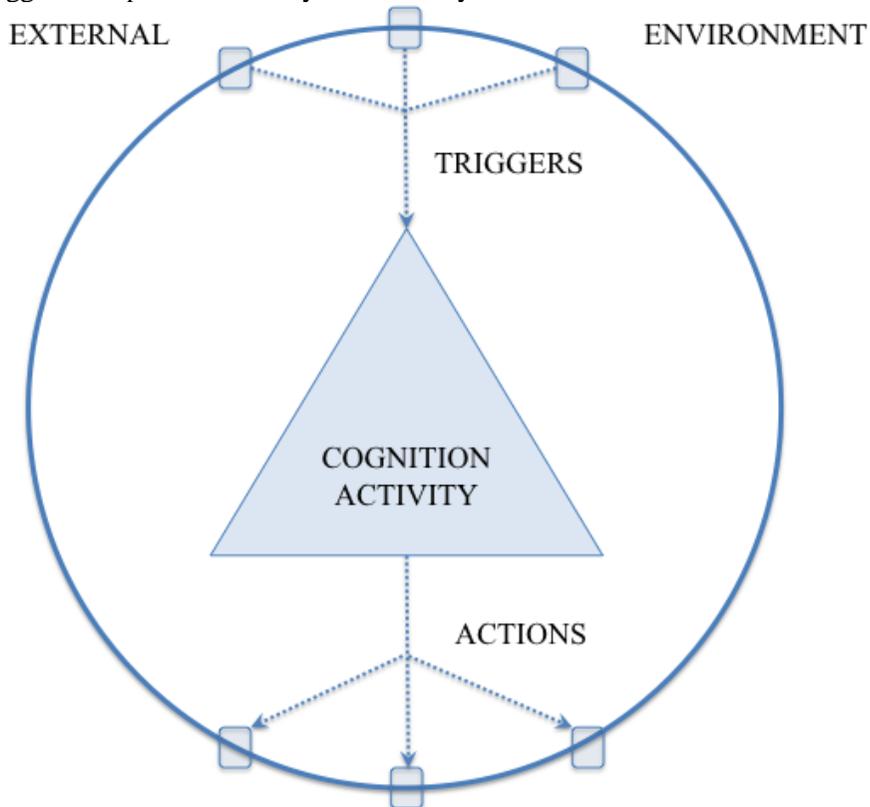


Fig. no 1 – Cognitive system (author elaboration)

A cognitive system, then:

- must have sensory organs, or receptors, to perceive environmental triggers from which training data are transmitted to the mind organization;
- must be provided with effectors (organs) to manipulate the environment through the use of external energy by developing actions and activities; must feed energy through the development of metabolic processes;
- must have a mind, characterized by its own organization, in which are developed cognitive processes - thinking - by basic cognitive resources.

The behavior of organizations, seen as autopoietic social systems, should be investigated in terms of interaction among individual members and in terms of how they take decisions and implement collective behavior to maintain the autopoiesis of the firm. It is therefore necessary to realize the rules sharing among the members of the organization (Gioia and Sims 1986).

Firm behavior can be defined as a set of processes by which the organization interacts with the environment, through its effectors; such behavior depends on the internal cognition processes, developed by the management through the detection processes that process the signals received by the sensory organs, and lead to the construction of models of the environment through specific instruments: accounting, budgets, plans and programs, and, in general, the performance management systems, market research, and the amplification of weak signals.

Maintaining autopoiesis, therefore, appears to be essential for the correct formation and management of knowledge; its formation represents an entrepreneurial process of improvement of the firm competitive capacity (Nonaka 1988, 1991, Leonard-Barton 1995; Nonaka and Takeuchi 1995; Vicari 1991).

3. Conscious behavior

Cognition, however it is defined, is a detection activity, i.e. perception of triggers and development of useful models to react to environmental changes in order to maintain viability (Beer 1989; Vicari 1991; Mella 2009, 2011). In shaping a model of cognitive system, we necessarily have to distinguish two levels: the *mental* - not visible by an external observer - in which the cognitive activity takes place, and *behavioral* - that can, instead, be observed - in which are developed the system actions into the environment.

Mental activity is characterized by the presence of cognitive resources and the implementation of cognitive processes. Cognitive resources are represented by a system of information, by a system of weights, that is, preferences, and by a computational system, in order to process information, taking into account of the weights (2). Cognitive processes can be regarded as thinking, since they lead to the formation of representations, to the expression of judgment, decision-making and monitoring of their implementation.

The thought/thinking joins action, implemented by the effectors, understood as a reaction to triggers and, in advanced forms, as an execution of decisions developed by the thought, so that the cognitive system can profitably modify its "position", however defined, perceived into the environment.

Linked processes of thinking/thought and action form the system behavior that can be defined, dynamically, as a sequence of 'thinking' and 'action' acts, as a chain thinking-action, fruit of cognition. This chain allows an autopoietic system to maintain life coupling with success to the environment, produce metabolic processes that allow the regeneration of the structure and eventually the re-production.

In these terms, a cognitive system that develops a behavior, can be represented as a transformation system of triggers into actions (interaction with the environment). This transformation is mediated through a knowledge basis continuously adapted (Maturana and Varela 1987).

Taking account of the triggers, the knowledge base and the evaluation of the weights, using the computational system, the cognitive system forms representations (models) of the environment and establishes - through decisions (thinking) (Fioretti and Visser 2004) - the efficient behavior to keep (action) - in order to survive or to improve the conditions of existence; decisions are reflected into action and new thinking.

The scheme becomes the following:

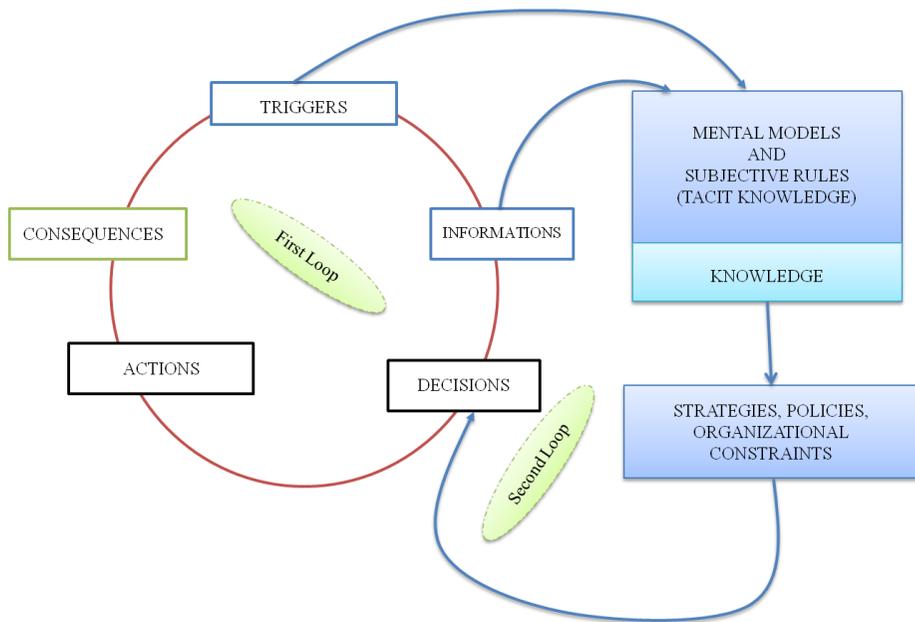


Fig. no 2 – Cognitive system: our adaptation from Argyris (1993).

A cognitive system can be defined as conscious when the reactions to the triggers are the result of decisions. The organizational structure of every conscious cognitive system should, then, necessarily include:

- Sensory organs of interface with whom the system is coupled to the environment in order to implement environmental information i.e. signals;
- Internal sensors organs in order to perceive vital parameters that is triggers of disequilibrium of the autopoietic network;
- Organs to select and store the triggers and transform them into meaningful information;
- Computational organs to put in a system the information and build representations of the environment which form the cognitive base;
- Organs of comparison and evaluation of information and representations (assignment of "weights" and formation of the "scale of preference");
- Effector organs in order to intervene in the environment (searching for adaptation) and in order to implement actions which make processes.

Every conscious cognitive system tries to improve its cognitive resources:

- Enhancing sensory organs in order to increase the range of perceived triggers;
- Developing the attention organs in order to improve representations of the environment;
- Improving the perception of the internal viable parameters;
- Refining the weights system, i.e. criteria evaluation of risk and trust (decision criteria);
- Reinforcing the computational system,
- Making more powerful and efficient the effectors.

The above considerations can be summarized in the general model of conscious cognitive system as a transformer of data and information into sensible representations (3), from which descend behaviors, as shown in Figure 3, which is a specification of the model of Figure 1.

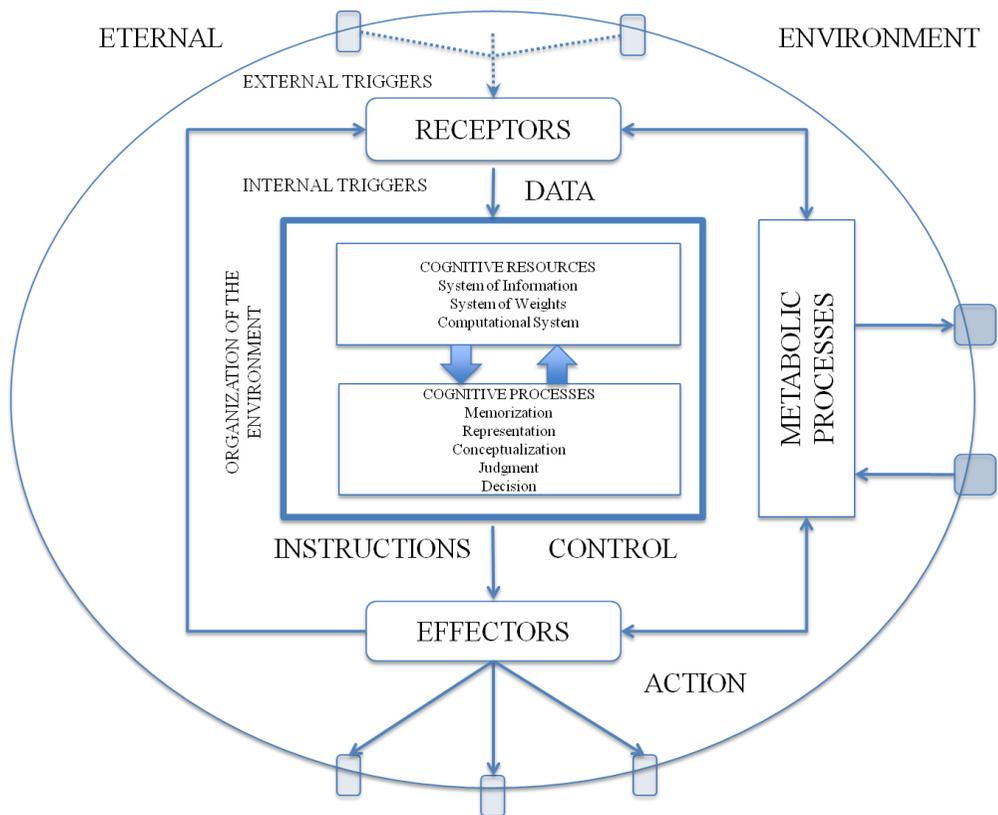


Fig. no 3 – Cognitive conscious system (author elaboration)

The model in Figure 3 perfectly describes the business organizations - such as cognitive systems in which is developed a thinking - made up of cognitive processes - and an action - consisting of the productive transformations of energetic input (factors of production) in energetic output (production of goods and services).

To an external observer organizations can be interpreted as instrumental systems that develop operational processes to achieve institutional objectives - individual, social and institutive (Masini 1964, 1979; Superti Furga 1975) - being an useful tool for the environment, according to structural coupling.

If social goals are perceived as positive, the environment will introduce favorable interactions to the organization's life, both as a single system or as a kind of systems (defined by the structure and processes). For an inner observer designed to analyze the structural processes, organizations-firms are fully cognitive systems that form representations of the external and internal environment, decide, plan, implement and control appropriate behaviors in order to counter the perceived negative perturbations and to find conditions favorable for a durable life.

Precisely in this sense, organizations-firm should be considered as autopoietic systems, cognitive and conscious, since they develop metabolic processes that reproduce continuously the organs and the network of organizational processes, in order to maintain and evolve their structure over time, for a duration that exceeds that of the structured permanence of individuals components.

The fundamental resources of the company, considered as a cognitive system, are cognitive resources, i.e. capacity of:

- Training and developing the knowledge base necessary for survival;
- Enhance the models used by the management to represents external reality,
- Collect environmental information, and order them in correct representations (external monitoring), in order to increase the cognitive base;

- Early detection of internal parameters (internal monitoring),
- Develop of appropriate weights of evaluation and size them to changing circumstances,
- Implement efficient managerial calculations,
- Enhance the computational system.

The enterprise is a system, then, able to operate on the basis of his knowledge and capable to continuously feed the knowledge of which is provided, through the cognitive behavior.

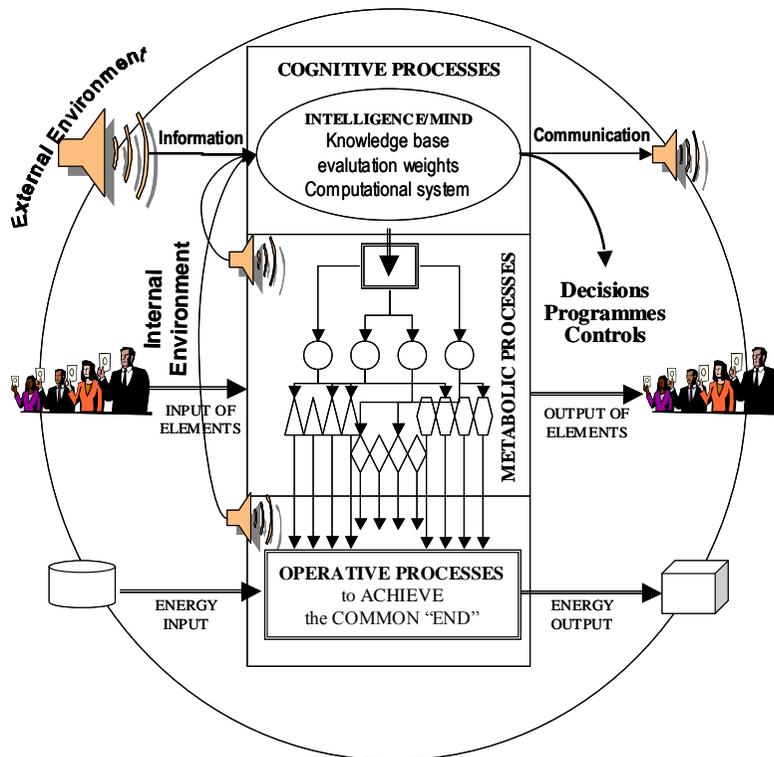


Fig. no 4 – Firm as a cognitive system (author elaboration)

Cognitive resources, ie information, weights, computational systems, themselves, are formed and modified, or by observation, ie, monitoring the environment, driven by the same cognitive processes, or by behaviors capable of finding internal and external information.

4. The “chain thinking-action”

Enterprise knowledge is the result of a collective process of choices formation, that appears as a result of continuous interaction, of exchange of signals, of individual processing, of individuals expectations, of shared norms, of carried out procedures, of organizational mechanisms created within the organization.

The firm, as cognitive system, is not the sum of knowledge of the individuals who make it up, but "something more and different", being composed of several "processing nodes or networks", formed by individuals, organs, structures and procedures (Vicari and Troilo 2003).

Both thinking and action are widespread activities in the network of organizational processes. It should be observed that between thinking and action there is, necessarily, a feedback relationship: the cognitive system is a dynamic system (Sterman 2000; Reading 2004), not simply a causal system, because the actions and behavior does not depend directly by triggers but by cognitive status inside the system, i.e. by the cognitive structure which incorporates an experience, a knowledge and a culture.

As a cognitive autopoietic system, the firm bases its existence on the ability to self-create and maintain its network of knowledge. This constant process of creation of cognition through a continuous interaction between thinking, which determines action, and action, which produces triggers that modify the knowledge base, can be identified in the "chain of thinking-action", which is the process that - thanks the computational devices and evaluation - develop rational calculation from which flows the decisions that are implemented in organizational actions. The "chain thinking-action" can be represented with a cyclical model made up of six phases, shown in Figure 5.

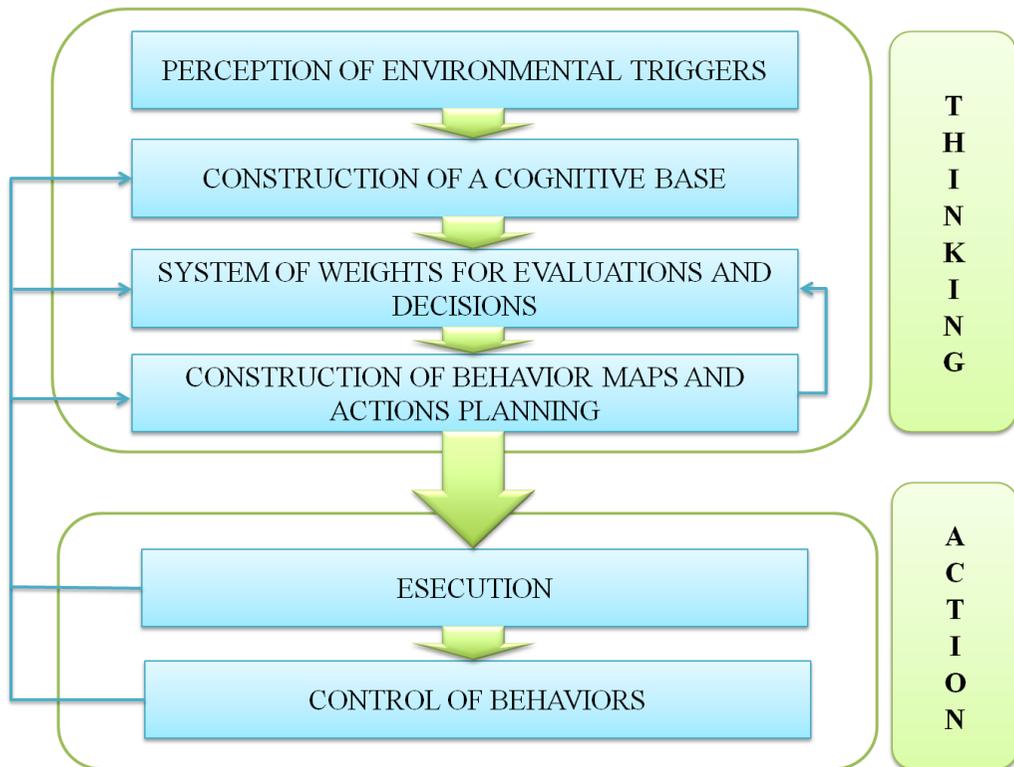


Fig. no 5 – The “chain thinking-action” (author elaboration)

The experience accumulates by detecting information about the successes and failures (errors) resulting from the execution of actions, through the activity of objectives control (Mella 1991, 2011). Any firm behavior depends on the experience, therefore, accumulated in representations and models, and, depending on the relationship between experience and behavior, we can distinguish four types of behavior:

1. *Automatic Behavior*: the behavior is reactive, and originates from automatic feedback that activate control systems which act outside of the thought, in order to react quickly to triggers or to remove the causes of interference. This behavior does not depend on the experience stored by the system, but comes from contingent facts that require an immediate reaction.
2. *Adaptive behavior*: the organization is aware of the triggers and perturbations and, using the experience gained through cognitive processes, reacts according to action models considered effective. The success of such behavior reinforces and consolidates these models, for the use in future decisions.
3. *Exploratory behavior*: it is a typical behavior in which management, seeks new challenges and new knowledge in order to predict and prevent errors and avoid them or to find new positive triggers to strengthen its survival.

4. *Innovative or creative behavior*: try to overcome the experience stored, creating new incentives that can bring benefits to overcome stored models and form new representations, through processes of creation and invention, which incorporate elements of the knowledge base.

5. The successful entrepreneurial thinking: intelligent firms

We define intelligent a cognitive system if it can translate its experience into models, expanding its cognitive basis by carrying formal descriptions of experience, transmittable through a linguistic behavior, so that linguistic behavior makes possible enabling new structural couplings. A necessary and sufficient condition for an intelligent cognitive system is that it is able, with its own cognitive processes, to build representations of the world, i.e. descriptions, concepts, uniformity and laws, and to develop a formal communicative behavior through which it extends the range of structural couplings that favor its existence.

The cognitive activity of firms (Figure 3), considered intelligent cognitive systems, can be specified in entrepreneurial and managerial “thinking” (Mella 2009; Beer 1989). These forms of “thinking” are distinguished by the manner in which it is developed the “chain” presented above.

1- *Entrepreneurial thinking* (or innovation): the output is represented by the policies, strategies and plans that put the company's management in performing productive, economic and financial behavior; so the entrepreneurial thinking directs the system i.e.:

a) evaluates the competitive position of the firm in the environment in terms of strategic vector: [products (quality service) / market (customers, price) / channel] / [processes (productivity, cost) / technology / organization],

b) develops innovative thinking and then creative in order to change the competitive position of the firm,

c) establishes the desired position in terms of strategic vector,

d) sets the goals as points of arrival to the desired position,

e) determines the set of actions necessary to achieve the objectives, i.e. the company's strategy to change the competitive position,

f) acts feedforward; the thinking is strategic: to move from the present to the future strategic situation; to modify the efficiency matrix:

g) enacts a typical exploratory behavior (trying several solutions) and innovative (new solutions).

2 - *Managerial thinking* (or conservation): the output is a system of controls on production, economic and financial behaviors, in order to ensure that these will be realized according to the strategic decisions and management policies; the organizational transformation controls, i.e. configures the most efficient paths to get to the points of arrival:

a) considers strategies such as objectives,

b) sets out plans for implementing the organization behavior,

c) controls the execution trying to minimize the deviations between the implemented and scheduled execution,

d) develops, therefore, a conservative thinking, then adaptive;

e) acts feedback; the thinking is programming how to develop the efficiency matrix: put goals and determine courses of action for self-maintenance of the structure,

f) enacts a typical automatic behavior (procedures) and adaptive (planning and control for exceptions).

As an intelligent cognitive system, using an innovative entrepreneurial thinking, the firm is able to construct actively the reality in which it operates (Weick 1979, Daft and Weick 1984; Smirchich and Stubbart 1985; Vicari and Troilo 1998), and to check its path in it, through managerial thinking.

Particularly importance is seen in the ability of developing entrepreneurial thinking since it is the basis of innovation and organizational change strategies (Amabile 1988, 1997), but, above all,

because it stimulates the differentiation of product and process which represents a crucial determinant of competitive advantage (Andrews and Smith 1996; Im and Workman 2004).

The cognitive and intelligent firm does not fit, therefore, the scope in which it operates, but it creates a different context from the others in relation to its own patterns of knowledge and activates its specific environment, in a typical autopoietic view of structural coupling (Maturana and Varela 1987).

The environment does not provide, thus, any "objective" input to the firm. By coupling to it (putting itself in relation to it) and "activating it" the company, through the looping of the "chain thinking - action", generates a pattern of cognitive representation of its position, i.e., a map, which takes the form of a "network of causal sequences" (Hebb 1949; Hayek 1952; Weick 1979), which provides guidelines on the future production, economic and financial path (Mella 2011; Senge 1990).

The environment "activated" is, therefore, that section of space to which the company attributed a sense, that portion of the environment in which it is immersed, and which identifies as close to its own action and needs (Vicari and Troilo 1998).

6. Conclusions

To build a model of autopoietic cognitive and intelligent, I wanted to emphasize cognitive activities developed by industrial organizations. I tried to show how the process described by the cognitive model called "thinking-action chain" - that fuels the entrepreneurial and managerial thinking - both features companies that want to maintain high levels of viability (Beer 1989), performance (Sobek, Liker and Ward 1998) and to develop their ability to evolve from environmental perturbations.

The perturbations, which the organization is constantly subjected during its economic life, are the conditions that allow it to build, improve and expand its cognitive processes and models and entrepreneurial (innovation and implementation) and managerial (monitoring and adaptation) behavior, organizing itself, finding new ideas, new solutions, new products, new market approaches, new ways to "invent the future" (Fink et al. 1971; Hedberg et al. 1976; Ford 1985; Ford and Baucus 1987; Mone et al. 1998), in order not to lose its independence and unity, in a perspective of homeostasis maintenance (Maturana and Varela 1980, 1987).

A "winning" entrepreneurial thinking is able to give a direction (objectives-strategy) always aimed at improving the organization's vital parameters.

The entrepreneurial thinking develops knowledge models that derive less from direct experience, since it programs innovative and exploratory behaviors and the parallel managerial thinking, oriented to control programming, translates in efficient behavior.

The role of entrepreneurial and managerial thinking is to create the conditions to encourage a continuous development of cognitive models in organizations, in order to maintain the conditions of survival, leading the company in a situation of creative tension (Senge 1990) to generate new ability to evolve.

7. Notes

(1) The representation of the external environment arises inside the system and it is not able to know, in any way, if such representation corresponds to the environment or if, on the contrary, the environment is a typical mental construction.

(2) For weight we mean the intensity according to which thinking influence action. Weights, or preferences, are the basis for the formation of judgments, make the system capable of evaluating cognitive triggers, to classify them as positive or negative depending on their survival. Therefore, each observation can be transformed into a judgment, if combined with a preference. Weights affect actions since they select (with a rank value) information considered necessary for survival by the cognitive system. The system of weights is dynamic and usually structured in levels; the highest level of the system of weights (from which comes the system of weights of the lower

levels) is defined value system or ethical system; a system of knowledge and representations associated with a system of weights is defined cultural system.

The computational system is the cognitive resource necessary to "keep together" triggers, and turn them into information and representations, taking into account the weights. Triggers processed by the computational system can also become symbols for the system so that processing becomes an elaboration of symbols and not of triggers.

(3) A representation is meaningful to the system, if it represents a point of reference for behavior, i.e. if it is coherent with other representations so that the system can take it as a basis for its actions.

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COST MEASUREMENT AND COST MANAGEMENT IN TARGET COSTING

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Firms are coping with a competitive scenario characterized by quick changes produced by internationalization, concentration, restructuring, technological innovation processes and financial market crisis. On the one hand market enlargement have increased the number and the segmentation of customers and have raised the number of competitors, on the other hand technological innovation has reduced product life cycle. So firms have to adjust their management models to this scenario, pursuing customer satisfaction and respecting cost constraints. In a context where price is a variable fixed by the market, firms have to switch from the cost measurement logic to the cost management one, adopting target costing methodology. The target costing process is a price driven, customer oriented profit planning and cost management system. It works, in a cross functional way, from the design stage throughout all the product life cycle and it involves the entire value chain. The process implementation needs a costing methodology consistent with the cost management logic.

The aim of the paper is to focus on Activity Based Costing (ABC) application to target costing process. So:

- *it analyzes target costing logic and phases, basing on a literary review, in order to highlight the costing needs related to this process;*

- *it shows, through a numerical example, how to structure a flexible ABC model – characterized by the separation between variable, fixed in the short and fixed costs - that effectively supports target costing process in the cost measurement phase (drifting cost determination) and in the target cost alignment;*

- *it points out the effectiveness of the Activity Based Costing as a model of cost measurement applicable to the supplier choice and as a support for supply cost management which have an important role in target costing process. The activity based information allows a firm to optimize the supplier choice by following the method of minimizing the total cost of ownership (TCO). Moreover the activity based analyses reveals the opportunities for rationalizing the supply related activities and containing costs and it enables the effective involvement of the supplier in the process of target costing when he provides activity based information on the costs sustained to produce the product/service: the purchaser can evaluate the impact, in terms of cost, of the activities requested of the supplier and, as a result, he has the chance to rationalize these activities by reducing their number or intensity and enables the effective involvement of the supplier in the process of target costing.*

The paper gives a contribution in the advancement of costing methodologies applicable to the target costing, *proposing* the use of a flexible model that supports the decision process according to different time horizons so that effectively supports target costing. The model is suitable for production characterized by high complexity in terms of number and intensity of activities.

Keywords: Activity Based Costing, Target Costing, Total Cost of Ownership, Supplier Selection, Supply Management

1. Introduction

The traditional approach of mark-up or cost plus pricing may be adopted in a market where demand exceeds supply and the number of competitors is limited. When the supply of the good outstrips customer demand, prices set on a cost basis can render the product uncompetitive. In such scenarios, pricing policies should be related to external factors. To obtain margins that adequately exceed costs, firms must revise their logic and begin to manage costs as a function of an exogenous variable, i.e. the price that the market allows to be applied, then shift from the logic of *cost measurement* to *cost management*. The opportunity to use *target costing* depends not only on the characteristics of the market where the company operates but also on the characteristics of the production process and the product. The methodology is used mainly in manufacturing companies and is particularly suited, as Sakurai stated (Sakurai, 1989: 39-50), to companies that manufacture a wide variety of products in small-medium volumes, those implementing

production characterized by a continuity in the production process with high product differentiation, and to high technology firms. Whether the methodology is adopted or not depends on the complexity of the product portfolio: target costing becomes more appealing when products are differentiated, characterized by high quality and with short and contracting life cycles.

2. The logic of Target Costing and cost information

Target costing is the management tool that realizes this operational logic and is based on the assumption that price must take into account the prevailing market price conditions and that production cost must also be coherent with the objectives of profitability, maintaining a convenient product differentiation.

The definitions developed in the literature on the subject differ according to the particular feature the author wants to highlight. *Target costing* can be defined as a suitable tool for the reduction in new product costs (Afonso, 2008: 559-568)- already active in product planning and design (Monden and Hamada, 1991: 16-34) - or goods already existing that need to change. The logic of target costing directs the design and product development by focusing on customer and market opportunities, because the ultimate goal is not the minimization of cost, but product profitability maximization. Target costing is a cost management tool that works across the entire product life through the cooperation of the functions of production, research and development, and marketing and administration and control (Sakurai, 1989: 39-50) which fosters connection and coordination (Kato, Boer and Chow, 1995: 39-51). It was also defined as a methodology that allows the creation of new products claiming "reasonable cost", obtained by design and development aimed at meeting the objective costs of different business areas (Tanaka et al, 1993, p. 45). Target costing is a complex of behaviours and attitudes regarding the management of the factors that determine the cost of products and it is characterized by different approach (Everaert, 2008: 236-263). The various target costing features identified in literature are synthesized efficiently by the definition proposed by the CAM-I Target Cost Core Group (Ansari, Bell and the CAM-I Target Cost Core Group, 1997: 11): "The Target costing process is a system of profit planning and cost management that is price led, customer focused, designed centered, and cross functional. Target costing initiates cost management at the earliest stages of product development and applies it throughout the product life cycle by actively involving the entire value chain". This approach stems from the fact that in conditions of strong competitive pressure, with a changing market, companies may be unable to impose a market price based on internal production characteristics: on the contrary it would be important to identify the selling price that customers are willing to pay, which would render the product competitive on the market. The difference between this value and the margin of profitability, defined by strategic planning, is the maximum sustainable cost to achieve consumer consent, attain a satisfactory market share and realize profit objectives. The cost of production then assumes the role of the dependent variable.

Determining the cost objective requires the identification and subsequent reduction of the product costs starting at the product planning stage. Therefore, target costing is not a tool to control costs but a planning tool based on the product specification required by the market. The traditional management of costs is configured as a closed system, oriented to efficiency rather than effectiveness, focusing on a system of internal efficiency measures that do not take into account the relationships between different business functions or relations with the external environment. It is based on feedback control through the analysis of variances between actual costs and standard or budget costs. Target costing is a management methodology aimed at driving the development process by effectively managing cross-functional relationships. It takes into account the external environment in order to obtain products that meet customer expectations. The cost of these products is consistent with business goals throughout the life cycle of the product and based on a feed-forward control (Cooper, 1994: 20-25).

The target costing process can be summarized in three main stages which are linked to the development cycle of the product (Sakurai, 1989: 39-50):

1-setting the *allowable cost* that relates to the planning stage (*corporate planning*) and initial design of the product;

2-setting and achieving the *target cost* that is linked to the detailed design of the product and to the production

3-plan (industrialization and *manufacturing preparation*); *target cost achievement* in the product implementation phase using standard cost, the *kaizen costing* technique or *value analysis*.

The first two stages make up the design phase of *target costing*, while the third constitutes the operational phase. The first stage of the target costing process is aimed at determining the allowable cost and is linked to strategic planning - identifying specific markets, consumers and products that the company intends to develop - and to the initial design of the product. This cost is determined by calculating the difference between the price, set according to the logic outlined above, and expected profit and it constitutes the largest value of resources that can be used by the company to obtain the product.

The problem of choosing a costing model (Kee, 2010: 204-211) relates to the second stage of the target costing process, which consists in setting and achieving the target cost and relates to the industrialization and *manufacturing preparation phase*. This stage consists of two steps:

1- calculating the difference between the allowable cost and the currently achievable one;

2- cost reduction, driven by this difference analysis.

The current cost is the one sustainable with the current level of capacity utilization, methods of production and distribution and is called "*drifting cost*" because it aligns the acceptable cost through successive modifications of the design.

The definitions of acceptable cost and initial cost should be based on the total cost of the entire product lifecycle and includes components consistent with the cost objective. In particular:

- the full product cost should be used because profit planning and price are determined by considering the product as a whole. This means that the allowable cost shall include the costs of research and development, manufacturing, sales, distribution, servicing, and service and property. Owing to an emphasis on product design, many companies focus the target costing process on the manufacturing and purchasing cost of components while disregarding the cost of support activities;

- the costs incurred throughout the life cycle of the product should be analysed in order to consider both the producer and consumer perspective. Target cost should be determined considering the costs of warranty, repair and servicing that constitute the consumer *cost of ownership for* and costs incurred by the producer from research and development up to the abandonment of the product. The target cost can then refer to costs incurred by the producer (cost of planning, design, development, production, and disposal) or it can also refer to the costs incurred by the customer (operating, maintenance and disposal costs of the product) .

Cost reduction is led by analysing how product design affects all costs associated with the product from its birth to its elimination, using different tools such as value engineering, functional analysis and tables of costs (Ansari, Bell and The CAM-I Target Cost Core Group 1997: Ch. 10). The planning cost process is dynamic and iterative. At each stage of the product development cycle, cost is continually reduced until the allowable cost and the achievable cost are aligned.

Each company develops models to estimate the costs suitable for their needs. In particular, the variables used in the estimation must be related with the technical attributes of the product or process. As attributes are the focus of design, cost estimation models must make clear to the engineers how changes to these attributes can affect the cost of the product.

3. The ABC in the *target costing* process

Activity-Based Costing (ABC) was introduced (Johnson and Kaplan, 1987: 183-208) in response to the need for a costing tool based on the factors that give rise to indirect costs as well as one able to express more objectively the causal relationship between products and costs. The method is based on the assumption that production costs are incurred for the implementation of activities which are performed in order to produce and sell products. Therefore, ABC correlates costs to activities, then to products, through a two-stage imputation methodology. The strength of ABC is due to its recognition that the consumption of resources in the production process is related not only to the volume of production, but largely to activities related to transactions that occur within the organization (Cooper and Kaplan, 1988: 20-27). The innovative contribution of ABC is twofold: on the one hand, through considering a wide variety of cost drivers, it provides the analytical causal-functional determination of the product cost of multi-product or multi-service companies. These have differentiated outputs depending on their varied complexity; on the other, it is a tool to guide management decisions because, by ordering activities by hierarchical logic, ABC highlights relevant costs and makes it possible to determine the actual cost of a decision. The Target Costing process would be effectively supported, by structuring the model in order to keep - within the activities costs - the separation of costs according to their dynamic in relation to changes in output (Woods, 1992: 53-57; Christensen and Sharpe, 1993: 38-42; Kee, 2001: 1-7, Moisello, 2008: 107-119), in order to enlighten the effect of different solution on product cost structure and on capacity utilization both in the short and the long term. Woods (1992: 53-57) proposes a partition of costs between variable and fixed, while Christensen and Sharpe (1993: 38-42) suggest a more detailed classification of the activity costs: variable costs in the short run, fixed costs and fixed costs in the short term, which I assume in the model. The distinction between short-term variable costs, fixed costs and fixed costs in the short-term depends on the time horizon in which management can change the costs. The variable costs in the short-term change in direct proportion to changes in cost drivers and are therefore related to the volume of the driver. Decisions involving activities related to the units or batches have a short-term impact. Decisions that affect the fixed costs in the short term, which is normally one year, involve cost drivers in the batch or product-support level. The fixed costs in the short term, for example, vary with the number of batches, but not in relation to the number of units in the batch. Decisions that affect the fixed costs imply a long-term time horizon. These costs are normally linked to activities in support of the product, to support the industrial structure or the business. Since both fixed costs and fixed costs in the short term have the problem of unused capacity that must be properly highlighted, the costing rates must be calculated on the basis of the offered capacity but charged in relation to the used one. From an operational standpoint the ABC model is flexible processing information on capacity because, through the comparison of variable cost capacity and the capacity of the factors that result in short and long-term fixed costs, it shows:

the size of the unused capacity in accordance with the following relations:

$$\begin{aligned} \text{short-term fixed cost capacity} - \text{variable cost capacity} &= & [1] \\ &= \text{short-term fixed cost available capacity} - \text{utilized variable cost capacity} = \\ &= \text{non utilized capacity that can be managed in the short-term} \end{aligned}$$

$$\begin{aligned} \text{fixed cost capacity} - \text{variable cost capacity} &= \\ [2] &= \text{fixed cost available capacity} - \text{utilized fixed cost capacity} = \\ &= \text{non-utilized capacity that can be managed in the long term} \end{aligned}$$

the presence of constraints in the short term if :

$$\begin{aligned}
 & \text{short term fixed cost available capacity} = \text{variable cost capacity} = \\
 [3] & \\
 & = \text{short-term fixed cost utilized capacity} \\
 & \text{the presence of constraints in the long term if :} \\
 & \text{fixed cost available capacity} = \text{variable cost capacity} = \quad [4] \\
 & = \text{fixed cost utilized capacity}
 \end{aligned}$$

[1] measures the unused capacity manageable in the short as the difference between the capacity of fixed costs in the short and the capacity of the variable costs, since the first indicates the maximum available capacity taking into account that capacity constraints can not be eliminated in the short term and the second expresses the short run used capacity as the acquisition and, therefore, the availability of variable factors is modulated by the planned use of their capacity.

[2] detects idle capacity that can be managed in the long run as the difference between the capacity of fixed costs and variable costs capacity as the first expresses the long term available capacity that is not constrained by capacity limits of short term fixed costs.

When the capacity of the short-term variable cost is equal to the capacity of short term fixed costs [3] shows the presence of capacity constraints in the short period because on the base of [1] production capacity is fully used. Similarly, [4] shows a capacity constraint in the long run when the capacity of the variable costs completely absorbs the available capacity of fixed costs.

The flexible model shows the extent of available resources and possible areas of intervention, to optimise the management of production capacity through capacity reductions or reallocation of resources to activities whose capacity is at saturation level. This pattern is also designed as compromise in the wider discussion around ABC absorption versus direct costing that stresses the importance of highlighting the costs of idle capacity (Aranoff, 2011: 6-10; Baxendale and Foster, 2010: 5-14; Sopariwala, 2009: 41-46).

The example below shows a possible structure of flexible ABC model. Table 1 summarizes the data related to three hypothetic productions: X, Y and Z. Table 2 records the unit costs of activities in the three distinct classes of cost determined on the basis of practical capacity and it highlights the non-utilized capacity costs manageable in the short and in the long term. Table 2 shows the unit costs of activities that are subsequently used in Table 3 to allocate activity costs to products on the base of the used capacity. Table 3 presents the calculation of the average unit cost of the three productions. The cost of production is the sum of operating costs directly attributable to the production and variable costs, fixed and fixed in the short term incurred to carry out the activities required by the productions.

Table 1. Values of drivers and direct costs

	X	Y	Z
Volume of production	1.000	15.000	8.400
Unit direct costs	180	100	90
Hours of dir. labour per unit	8	1	2
Number of components per unit	105	20	40
Volume of components	100.000	300.000	325.000
Machine hours	7	1	3
Number of Batches	50	50	100
Batch size	20	300	84

Controlled units per batch	2	2	2
Number of shipment orders	550	750	800
Order average size	2	20	11

Table 2 - Unit cost of activities and non-utilized capacity cost manageable in the short and in the long

	Total cost	Driver	Variable	Fixed in the short	Fixed
Logistics		No of			
	690.000	components	210.000	400.000	80.000
Capacity			740.000	750.000	800.000
Unit cost of activity			0,28	0,53	0,10
Non-utilized capacity in the short				10.000	
Cost of Non-utilized capacity in the short				5.300	
Non-utilized capacity in the long					50.000
Cost of Non-utilized capacity in the long					5.000
Setup	740.000	Batch size	200.000	190.000	350.000
Capacity			200	200	200
Unit cost of activity			1.000	950	1.750
Non-utilized capacity in the short				0	
Cost of Non-utilized capacity in the short				0	
Non-utilized capacity in the long					0
Cost of Non-utilized capacity in the long					0
Automatic machining		Machine			
	2.200.000	hours	0	950.000	1.250.000
Capacity			46.700	70.000	70.000
Unit cost of activity			0	13,57	17,86
Non-utilized capacity in the short				23.300	
Cost of Non-utilized capacity in the short				316181	
Non-utilized capacity in the long					0
Cost of Non-utilized capacity in the long					0
Finishing		Hours of dir.			
	1.550.000	labour	590.000	600.000	360.000
Capacity			39.800	60.000	60.000
Unit cost of activity			14,82	10,00	6,00
Non-utilized capacity in the short				20.200	
Cost of Non-utilized capacity in the short				202.000	
Non-utilized capacity in the long					0

Cost of Non-utilized capacity in the long					0
Quality control		No of Controls	1.500	1.000	1.200
Capacity	3.700		400	400	400
Unit cost of activity			3,75	2,5	3
Non-utilized capacity in the short				0	
Cost of Non-utilized capacity in the short				0	
Non-utilized capacity in the long					0
Cost of Non-utilized capacity in the long					0
Packing and shipping		No of Orders	36.000	35.000	14.000
Capacity	85.000		2.100	2.300	2.500
Unit cost of activity			17,14	15,22	5,6
Non-utilized capacity in the short				200	
Cost of Non-utilized capacity in the short				3.044	
Non-utilized capacity in the long					200
Cost of Non-utilized capacity in the long					1.120

Table 3 – Product average unit cost

	X	Y	Z
Direct Costs	180	100	90
Variable costs			
Logistics	29,40	5,60	11,20
Setup	50,00	3,33	11,90
Automatic machining	0,00	0,00	0,00
Finishing	118,56	14,82	29,64
Quality Control	0,38	0,03	0,09
Packing Shipping	8,57	0,86	1,56
Fixed costs in the short			
Logistics	55,65	10,60	21,20
Setup	47,50	3,17	11,31
Automatic machining	94,99	13,57	40,71
Finishing	80,00	10,00	20,00
Quality Control	0,25	0,02	0,06
Packing Shipping	7,61	0,76	1,38
Fixed costs			
Logistics	10,50	2,00	4,00
Setup	87,50	5,83	20,83

Automatic machining	125,02	17,86	53,58
Finishing	48,00	6,00	12,00
Quality Control	0,30	0,02	0,07
Packing Shipping	2,80	0,28	0,51
Unit Cost	947,03	194,75	330,04

With regard to the use of ABC in the design phase, it should be noted that the model performs to its maximum potential when the products are characterized by different levels of complexity since the cause-effect relationship between product-activities-resources leads to undistorted determinations of cost. When, as commonly happens in the manufacturing industry, the cost of materials and labour play a dominant role, industrial cost is the most appropriate cost configuration to use because it is characterized by the certainty of the calculation. The ABC model is, therefore, unsuitable as it determines a full product cost that covers all stages of the value chain. Environments with product differentiation are characterized by high product development costs and considerable Flexible Manufacturing Systems (FMS) costs for assembly services of complex logistics transactions with suppliers and customers and for information systems; in such circumstances the ABC model, as it highlights the role of support activities in the absorption of resources, allows a more accurate determination of the achievable cost and can be usefully integrated with target costing.

The vision of the product as a set of activities, and product cost as the sum of the costs of activities to attain it, allows an evaluation of the effects of possible interventions on existing products and an evaluation of the cost of new interventions. The information obtained with the application of the model permits an appraisal of the impact that the various design variants have on the costs of activities and, consequently, on product cost. ABC can determine the effect of planning and design proposals on the product cost (Cokins, 2002: 13-22). Costs related to the design and product development phase can be determined with greater accuracy than the traditional methods and therefore they can be more effectively controlled (Ben-Arieh and Qian, 2003: 169-183). In the case of new products, the model, together with a functional analysis, shows the impact of different combinations of technical and aesthetic characteristics on the cost of production as it measures related activity consumption and, therefore, the different solutions' absorption of costs. Moreover, with the separation of variable costs in the short term, fixed cost in the short and fixed, it highlights the effects in terms of capacity utilization and capacity constraints of the various activities.

Further, as noted above, a definition of the target cost should take into account the cost of the product lifecycle, which can be effectively determined by the ABC model (Moisello, 2008: 188-193) because it allows for the measurement of operating, warranty, repair and service costs incurred by the customer and the costs incurred by the producer from research and development to the abandonment of the product, taking into account the complexity of the product in terms of type and intensity of activities required.

In the case of existing products, if the achievement of the target cost means, for example, the evaluation of the opportunity to produce a component that is purchased on the market, the flexible model gives an immediate test of the incremental costs related to the hypothesis of internal production. The model identifies the costs that vary (variables) and those that may have a relevance in the decision in the case where the existing capacity should be changed (fixed costs in the short). Moreover, from the point of view of fixed costs, the model renders apparent the available capacity for internal production because it is based on the distinction between used capacity and available capacity.

The focus on process, which characterizes the activity based costing model, provides useful information for effective process redesign or re-engineering. Activity-based costing highlights

weak processes, characterized by a complicated set of activities that do not create value and by long response times. It provides adequate information on which to base redesigning interventions aimed at streamlining and speeding up processes. It highlights the *drivers* - which, being the cause of the costs - constitute the key variables to control for the achievement of efficiency targets respecting quality and time standards. ABC is also useful for predicting the decrease in activity frequency resulting from the redefinition of processes or products. If the reduction in the frequency of activities frees capacity of resources which are not constrained, it can translate into a contraction in medium to long-term costs. If the released capacity is related to constrained resources, depending on whether the firm has the possibility to expand or not, it can be used to reduce costs or to support a suitable production. Stand-alone ABC provides guidance on costs, without taking into account consumer preferences. The integration of ABC and Target Costing usefully supports the decisions related to changes in the product use of standardized components, the choice of distribution channel, the sizing of the production lot and the possibility of outsourcing, as well as the management of the delicate trade-off between the product cost structure cost and the attributes and characteristics required by the market. Target Costing produces information on market demands and cost goals, while ABC shows the changes in cost structure resulting from the various design alternatives of the product. The connection between activity-based costing and target costing also encourages designers to contribute to cost control but designing products involving the use of common and standardized components (Taylor, 2000: 3-19).

The ABC methodology provides a useful contribution in the application of the target costing model in determining the drifting cost and provides guidance on possible areas of cost containment in the operational phase of target cost alignment. On the one hand the creation of the activities map helps identify those activities that produce value-added and whose rationalization allows a more efficient cost management; on the other hand it is useful for the selection of the vendor and highlights the actions required to achieve a reduction of the purchase price and cost control in the internal management of purchase orders. Supply management plays a crucial role in the target costing process, and ABC can provide support at this stage of the process when externally purchased components are used.

4. The ABC in supply choices and in supply management

The target costing process requires careful management of the supply process and the decisions concerning purchases require two basic types of information. On the one hand, they require a store of information that allows the company to evaluate the price of goods and services not internally produced, and thus to determine the factors that can be used to obtain cost reductions from suppliers. On the other hand, they require information that effectively supports the planning of purchases and the definition of orders so as to contain the cost of those activities that must be carried out internally in order to manage supplies.

In this context activity based costing can provide important information regarding the reduction of the purchase price as well as costs concerning the management of purchase orders, since it highlights the direct relation between complexity and cost and allows the company to identify those activities without value added that can be reduced or eliminated.

The purchaser can get a reduction in price-cost through a reduction in the number, intensity and unit cost of activities (Lere and Saraph, 1995: 25-31). When the supplier, faced with a long-term or exclusive supply arrangement, is willing to provide information on the costs sustained for the product/service, in order to justify the unit prices quoted, ABC allows the purchaser to have information that is decidedly superior to that available from traditional cost accounting techniques. The purchaser can obtain a flow chart of the supplier's activities during the entire process; that is, from when the order is received to when it is shipped out, which highlights in

particular those activities without value added that can eventually be reduced and the waste that must be eliminated. As regards the activities specifically undertaken for the supply product, the purchaser can have a clear idea of the indirect cost allocation per unit, batch and product, and thus of the cost determinants used in the allocation. For the supplier cost drivers represent the variables that explain the complexity of the product and of the client; for the client they represent the lever to use to obtain a reduction in the purchase price by lowering the supply cost. The supply cost varies as a function of the technical characteristics of the product and of the order. The technical characteristics of the product translate into a request for a certain number of production support activities involving varying levels of intensity; for example, planning and quality control activities. On the other hand, the level of complexity of the order determines the level of intensity of support activities such as shipping, shipment planning, the preparation of documents necessary for shipping, and obtaining the required certifications for international supplies.

The activity point of view and the awareness of the cost drivers make it easier to identify waste, which is advantageous for both the purchaser and the supplier as well as providing important information for assessing the opportunity for reorganizing the complexity of supply by reducing the use and/or cost of activities that have no effect on the quality and functionality of the product. The activity based method provides valuable information also with regard to the control of costs incurred internally in the management of purchase orders, since it represents an effective model for the analysis of the purchase department.

The complexity of the internal and external variables facing companies make it appropriate to extend cost analysis to the entire chain of value, paying proper attention to links with organizations both up and down the production line .

So Roodhooft and Konings (Roodhooft and Konings, 1996: 97-102), base the choice of supplier on the total cost of ownership (TCO) – which is the set of costs associated with the purchase, use or maintenance of a product or service – which is determined by means of activity based costing, whose merits were underscored and whose adoption favored in Ellram's studies (Ellram, 1995: 22-30).

This approach bases the choice on identifying the supplier with the lowest value of the following indicator:

$$S_i^B = (p_i - p^{\min}) \times q + \sum_j c_j^B \times D_{ij}^B \quad [5]$$

where:

S_i^B = score for supplier i

p^{\min} = unit sales price for most economical supplier

q = number of units purchased

c_j^B = estimated unit cost of activity j , whose use is measure by cost driver j

D_{ij}^B = estimated units of cost driver j , which is consumed by supplier i

The indicator is thus constructed taking into account both the price differential applied by the supplier with respect to the lowest market price and the costs of the activities of the same supplier. The evaluation thus considers the costs relating to the various levels of quality of the purchased factor, as well as shipping and service costs.

The model is proposed for both the selection as well as the subsequent evaluation of the supplier, which can lead to a review of the choice. In the second case, the values estimated in [5] are replaced with the actual values obtained from the following equation:

$$S_i^A = (p_i - p^{\min}) \times q + \sum_j c_j^A \times D_{ij}^A \quad [6]$$

[5] is subtracted from [6] to obtain:

$$S_i^A - S_i^B = \sum_j c_j^A \times D_{ij}^A - \sum_j c_j^B \times D_{ij}^B = \overbrace{\sum_j (c_j^A - c_j^B) \times D_{ij}^B}^{\text{purchaser-effect}} + \overbrace{\sum_j (D_{ij}^A - D_{ij}^B) \times c_j^B}^{\text{supplier-effect}} + \overbrace{\sum_j (c_j^A - c_j^B) (D_{ij}^A - D_{ij}^B)}^{\text{combined-effect}} \quad [7]$$

So the model can explain the variance between the ex-ante and ex-post scores by determining the purchaser effect, the supplier effect and the combined effect. The purchaser effect depends on the company's ability to reduce the unit cost of driver j; thus the variations in the score that depend on this driver should not affect the assessment of the supplier. The supplier effect depends on the variance between the estimated and actual consumption of the driver; it is caused by variations in the volume of the activities of the supplier and has an impact on the seller's performance measure. The combined effect refers to variations in those costs not attributable solely to the purchaser or the supplier. The logic of the model is useful in different context. The criterion of choice based on the minimum total cost of ownership determined by ABC is employed in the model by Degraeve and Roodhooft (Degraeve and Roodhooft, 1998: 781-789; Degraeve and Roodhooft, 2000: 69-98), who treat the problem of selecting a supplier in situations where the supply is more complex.

Roodhooft and Konings' model for choosing an outside supplier can also be utilized, with appropriate adjustments, in the choice between one or more outside suppliers and an internal one. In the case of the make or buy choice, we propose to replace [5] with the following equation:

$$S_n^B = (p_n - c^{abc}) \times q + \sum_j c_j^B \times D_{nj}^B \quad [8]$$

Where:

S_n^B = value of the indicator for the nth supplier

p_n = unit sales price applied to supplier n

c^{abc} = cost of self - production

The cost of self-production corresponds to the average unit cost of production, determined using the flexible ABC model that maintains the separation between variable and fixed costs in the activity costs. The flexible model enables us to develop an average unit cost of production that is appropriate to the specific situation; that is, the model is made up only of incremental costs with respect to the "make" decision, however this is interpreted: as autonomous production in the country of origin, in a foreign country, in a partnership in the country of origin, or in a partnership in a foreign country.

The different values that [8] can have take on the following significance:

$S_i^B > 0$ indicates the advantage of self-production with respect to purchasing from outside;

$S_i^B = 0$ shows that the two alternatives are different from the economic point of view;

$S_i^B < 0$ signals the convenience of the *buy* choice as opposed to the *make* choice

If for $\forall n$ with $n = 1, \dots, N$, $S_i^B > 0$, the model indicates the advantage of self-production with respect to outside purchasing.

If for some n $S_i^B < 0$, the model leads to choosing the *buy* option and selecting the supplier with the lowest value of the indicator.

The methodology proposed by Roodhooft and Konings, which is based on the systematic determination of a quantitative measure, overcomes the problem of subjectivity that characterizes models, which base their choice on specific criteria and evaluations that can considerably differ depending on who does the assessment.

The determination of TCO provides important information for decisions when the purchase price of the factor represents only a small part of the purchase cost and of the use of productive factors. TCO clearly brings out the difference between low-price and low-cost suppliers. A low-price supplier can have high costs; for example, because it is unreliable regarding delivery times, in carrying out orders, and from the point of view of quality, thereby forcing the company to keep higher stocks than they would like to protect against uncertainty. The supplier is chosen on the basis of a gradual and systematic management and reduction of the ownership cost of productive factors.

The analysis of the model brings out the potential contribution of TCO to the control of costs since it underscores, on the one hand, the variables influenced by the supplier's performance, and on the other those variables that depend on internal efficiency and which affect the company's economic efficiency; thus TCO allows the company to positively assess the choice to accept purchase prices which are higher due to higher quality and overall supply management costs which are more moderate in the long run. TCO enables companies to analyze the economic effects of relations with suppliers in terms of the amount and trends in the internal and external costs of selection, evaluation and management, the internal costs for the utilization of purchased goods, and the internal and external costs associated with the distribution or the damage/defect of the good or service, while also allowing the purchase function to be carried out on the basis of value.

The TCO method shows how supply costs do not depend solely on the volume of production but on the conditions and circumstances linked to supplier performance: each supplier has a different degree of complexity in the supply process which translates into a difference in the type and intensity of activities. This brings out the third advantage in the model we have presented: the reconstruction of total cost ownership through activity based costing. In the studies on the application of TCO to supply decisions, some writers have interpreted the model as a special application of ABC – used to quantify purchase costs and the use of the products/services acquired – that extends its concepts and tools to an interorganizational context (Wouters, Anderson and Wynstra, 2005: 167-191).

The costs that are included in TCO models (Ellram, 1995: 22-30), though different depending on the company that uses the model, are divided into four categories: quality, delivery, customer service and price/cost. In traditional costing systems most of these costs – for example, the cost associated with machine downtime or quality control – are hidden in the accumulation of manufacturing costs. Internationalized firms meet with two further costs categories (Table 4): international delivery solution costs and financial costs related to the international payment and to the exchange rate risk management (Moisello, Gorbunova and Gottardo, 2008: 70-72). In traditional costing systems a relevant amount of these costs too are hidden in the accumulation of administrative costs. The ABC method traces costs correctly to the cost object that generated them, but the amount of detail usually found in ABC models is not sufficient to adequately support supply decisions; the cost object must be traced to the supplier and the individual purchase item. The ABC model allows us to use the costing system to directly derive the analyses necessary for TCO, thereby increasing the accuracy and efficiency of the TCO model.

Table 4 – Cost categories for TCO in internationalized firm (Moisello, Gorbunova and Gottardo, 2008: 72).

Costs connected to quality	Inspection cost Cost of returned goods Cost of equipment downtime Cost of remanufacturing
Delivery	Cost of orders not carried out on time Transport cost <i>Lead time</i> related costs Cost of reminders Cost of reopening orders due to partial supply
Customer service	Cost of delays due to slowness in solving problems Cost of adapting a system to that of the suppliers Cost related to time employed for problems with orders
International delivery solution cost	Eventual cost for agents Insurance Clearing for export and import (licenses, authorization and formalities)
Financial costs	International payment transfer cost Exchange rate risk management: Commission costs Personnel, information systems and supports, other costs of administration
Price/cost	Price Quantity discounts Price reductions linked to product/process improvements

5. Conclusions

Activity based costing, due to its ability to model the relationship between complexity, use of activities and the indirect costs dynamic, can adequately support the target costing process, both for the design of the product and for the redesign and re-engineering process, when indirect costs have a significant impact on the cost structure of the product that is the object of the process. ABC performs to its maximum potential if structured flexibly, with the separation of variable costs, fixed and fixed in the short because it makes evident the effects of changes in the product or in the processes in terms of capacity utilization and capacity constraints of the various activities. It also highlights the time horizon to which excess capacity is related. The ABC methodology effectively supports target costing both in determining the drifting cost and in the operational phase of target cost alignment because the creation of activities maps and the identification of value-added and non value-added activities highlights those on which cost containment should be focused. Supply management has a very strong impact in the target costing process, and ABC can also provide support at this stage of the process.

The ABC model is useful in managing the supply process both as a model of cost measurement applicable to the choice of supplier and as a support for supply cost management. The ABC model provides the correct determination of both the internal cost of producing the factor as well as the costs of the activities necessary to use productive factors

purchased externally. This information allows a firm to optimize the choice of supply alternative by following the method of minimizing the total cost of ownership (TCO). ABC clearly evidences the direct link between the complexity of the activities and the incurrence of costs, revealing the opportunities for rationalizing the activities and containing costs. An awareness of the internal activities costs related to managing the supply process guides the planning process for the purchase and management of orders and this leads to the containment of the costs of such activities. Moreover, when the supply relationship is such as to induce the supplier to provide information on the costs sustained to produce the product/service, ABC allows the purchaser the chance to evaluate the impact, in terms of cost, of the activities requested of the supplier and, as a result, to rationalize these activities by reducing their number or intensity and enable the effective involvement of the supplier in the process of target costing.

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CULTURAL TOURISM MOTIVATION – THE CASE OF ROMANIAN YOUTHS

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Cultural attractions have become particularly important and play an important role in tourism at all levels. They are also increasingly being placed at the centre of urban and rural development and constitute an important aspect of social and cultural lives of the residents. Cultural tourism is defined as ‘visits by persons from outside the host community motivated wholly or in part by interest in the historical, artistic, scientific or lifestyle/heritage offerings of a community, region, group or institution. The main purpose of this research is to identify and understand the general dimensions of motivation for attending cultural tourism. Cultural tourism is motivated by tourists’ interest in historical, artistic, scientific or heritage offering by a community, region, group or institution. It can be considered an independent segment of the tourism industry as well as a complement to mainstream tourism, in connection with other forms of attraction. In this sense, local communities and national organizations all over the world have developed particular cultural and heritage tourism products that attract increase the number of tourist visits each year. The study examine the motivations of Romanian young people in attending cultural tourism for underling the perspectives of cultural tourism development in Romania. We developed a quantitative study and designed a structured questionnaire to obtain information regarding youths’ motivations and perceptions toward attending cultural tourism, including their demographic characteristics. Based on significant literature review we included 7 composite motives: learning reasons, cultural motives, experience something new, pleasure-seeking and entertainment, physical reasons, relaxation-based motives and indirect motives. The findings of this research provide a comprehensive view of cultural tourism behavior in Romania. The evidence suggests that for the young and highly educated generation the most important reasons which attract them to cultural tourism activities are the novelty and learning experience. These distinct characteristics of young people’s motivation and their behavior toward cultural tourism have a number of both practical implications for the cultural tourism organizers and theoretical contribution to the growing research of cultural tourism.

Keywords: tourism, cultural tourism, motivation, youth customers,

JEL codes: L83, M39

Introduction

A growing number of visitors are becoming special-interest travelers who rank the arts, heritage and/or other cultural activities as one of the top five reasons for traveling (NASAA, 2010). In the last decade cultural tourism became a big business, representing from 8 to 20 percent of the tourist market share. The number of international tourists increased in the last years as well as cultural tourism. However, a distinction should be made between those people visiting specifically for cultural purposes and those who are incidentally taking in culture on their visits. For this reason a clear counting of cultural tourists for a country could not be done properly in practice. In fact it is considered that only a small proportion of international visitors could be motivated by a single cultural attraction. According to a study conducted by the European Commission, 20 percent of tourists who visited Europe cited cultural motivations, while 60 percent of European tourists are interested in cultural discovery during their trips (European Forum of World Heritage Cities, 2003).

What motivates people to participate or experience cultural tourism? Although there is extensive research on travel motivations, preferences and behaviors, going back to the early years of tourism research, until very recently travel research on students has been a neglected area. This study aims to explore the motives of students attending cultural events, heritage exhibits, rural places, or historical sites; collectively termed cultural tourism. For the purpose of the study, the paper starts with a review of the literature on motivation, and a short section of cultural tourism development in Romania.

Literature review

Motivation is the initiator of the decision process in individuals. It is '*the internal, psychological influences affecting individuals' choices*' (Middleton, 1994, p. 51). Motivation is composed of psychological/biological needs and wants that arouse, direct, and integrate a person's behavior and activity (Dann, 1981; Iso-Ahola, 1980). Therefore, understanding consumers' motives is a key prerequisite to designing and tailoring offerings to particular markets (Park, Reisinger & Kang, 2008). Effective marketing and managements is impossible unless the consumers' motivation were identified, understood, and prioritized. Knowing the motivation of visitors allows tourism agents to intercede more successfully at various points in the visitors' decision-making process, resulting in the attraction of more visitors, getting them to stay longer, increasing their enjoyment, changing anti-social behavior, and much more (Dewar, Meyer & Li, 2001).

There are three well-known theories of tourism motivation that can explain tourists' behavior. These are Maslow's (1954) needs hierarchy, Dann's (1977) and Crompton's (1979) pull-and – push factors, and Iso-Ahola's (1982) *escape* and *seeking* dichotomy.

According to Maslow, human needs are arranged in a hierarchy, from the most important to the least pressing. Maslow's hierarchy of needs in order of importance is physiological needs, safety needs, social needs, esteem needs, and self actualization needs (Kotler, Bowen & Makens, 2006). The theory implies that when a need is satisfied, it will not be a motivator any longer, and the person will then try to satisfy the next most important need.

Dann (1981) and Crompton (1979) explain tourism behavior with pull-and-push factors. Pull factors are external factors that are aroused by the product or destination and induce people to visit a destination, stay in a hotel, or attend an event. On the other hand push factors are internal forces that are psychological in nature and create the desire to travel. Pull factors are connected to external, situational, or cognitive aspects of motivation (Yoon & Uysal, 2005) and stimulate push factors. Crompton (1979) identifies seven push motives and two pull factors. The push motives were escape from a perceived mundane environment, exploration and evaluation of self, relaxation, prestige, regression, enhancement of kinship relationships, and facilitation of social interaction. The two remaining motives, novelty and education, formed the pull factors. Iso-Ahola (1982) model proposes that the two major motivation forces that influence behaviour are *escapism* (from the daily routine) and *seeking* (desire to obtain psychological rewards via experiencing new things, places, tastes etc.).

The main cultural points of interest in Romania are represented by monasteries and churches, which attract most of the foreign tourists who want to learn some of Romania's traditions and history. Domestic cultural attractions seem to raise a limited interest among Romanians (Dulau, & Coros, 2009). From one year to another, the cultural tourism consumption is gradually diminishing among young people. In 2009, the smallest consumption of culture was registered compared to previous 5 years. This decrease of cultural tourism consumption affected entertainment and cultural tourism specifically (National Barometer, 2009).

In 2009, a 20 percent decrease was registered for the museums and exhibitions visitors comparing to 2008 (National Barometer, 2009). The most important factor which determined this tendency was the decrease of visitors with high school level of education, which in 2009 visited museums

more frequently. More than 60 percent of the respondents to this barometer did not visit a museum, nor attend to an opera or theater performance, nor participate a folkloric fair or to a music or entertainment event. In conclusion the Romanians are less interested in cultural activities and so in cultural tourism. Cultural event like Sibiu European Capital of Culture 2007 has been demonstrated to have a strong impact on cultural tourism. This proves that the program was efficient both from national and international perspectives. Tourists mostly preferred artistic products like: musical performances, art festivals, visiting museums, film shows and theater plays. The popularity of the program resulted in a growth in the number of tourists and visitors who enjoyed cultural activities. The program attracted more than 800,000 tourists which represent a 300 percent increase compared with the previous year, 2006 (Statistical Yearbook for Sibiu County, 2006).

Methodology

This paper aims to examine the motivations of students in attending cultural tourism. For the purpose of the study, we developed a quantitative study on the students from the Faculty of Business, 'Babes-Bolyai' University from Cluj-Napoca, Romania.

A structured questionnaire was designed to obtain information regarding students' motivations and perceptions toward attending cultural tourism, including their demographic characteristics. The data collection instrument was developed in Romanian and had two sections. The first section had a motivation scale. The current study adopted the motivation scales from previous travel motivation studies (Uysal, Gahan & Martin, 1993; Prentice, Butler & Airey, 2006; Cetinel & Yolal, 2008). Based on significant literature review we established that these motives fall into 7 dimensions: learning reasons, cultural motives, experience something new, pleasure-seeking and entertainment, physical reasons, relaxation-based motives and indirect motives. Thirty-three items were measured on a 5-point scale ranging from 1= *not important at all*, to 5= *very important*. The last section of the questionnaire included such demographic variables as age, gender, class, monthly budget and participants' monthly budget spent on cultural tourism activities.

Data were collected by way of a self-administered questionnaire with the study sample comprising students from bachelor degree programs. Of the 200 students who responded, 19 questionnaires were incomplete and thus eliminated from further data analysis. As a result, 181 usable questionnaires were retained in the analysis, representing 90 percent response rate.

Results and discussions

The descriptive analysis of the demographic characteristics of participants is presented in Table 1. The gender distribution of the students was quite uneven, with 32.0 percent male and 68.0 percent female. They are mostly between the ages of 20-21. Forty-four percent of the students are in their first year of education, 22.1 percent in the second and 33.7 percent in their third year.

Table 1. Demographic Profile of the Participants

Demographic characteristic	Frequency N	Percentage %
Gender	181	100
Female	123	68.0
Male	58	32.0
University degree	181	100
1 st year	80	44.2
2 nd year	40	22.1
3 rd year	61	33.7

Author processed.

24.5 percent of the students are also employed. This factor influences their budget available (Pearson Chi-square value is 41.9). Thus, 45.5 percent of students which indicated a monthly

budget about 200-350 Euros are employed, and similarly 63 percent of respondents indicated a budget of 350 or more Euros are employed, too.

The exploratory factor analysis of 33 items of motivation resulted in five factors; learning, cultural, relaxation, entertainment and novelty, and explained almost 51.65 percent of the variance in motivation.

The main reason why students attend cultural tourism is the ‘need to experience something new’. Due to the highest scores obtained for ‘experience new and different things’ and ‘the variety of things to see and do’, a younger generation could be attracted to different forms of cultural tourism regarding the offer’s novelty and promotional activities (Table 2).

Cultural tourism in general is connected with some types of learning experience like getting information about places, people and events, expanding knowledge or doing something worthy for themselves. Thus 5 items for learning motives were defined in the questionnaire: to broaden general knowledge, to prepare homework, to contribute education, because it is important, and to learn about culture. These items also obtained high scores from the total 33 items, placing ‘learning’ motive in the second position of the five factors.

Also we took into consideration the need to attract students to cultural events, such as festivals, exhibitions, performances etc. These kinds of events have a major impact on the development of cultural tourism. Some festivals are organized now in historical places or use cultural themes for attracting more visitors and creating a cultural image for the city and for the community. For this reason we analyzed student’s attitudes toward cultural reasons on 7 items. The entire factor comes in the third position with an average of 3.71 mean values and the highest score was obtained for the ‘need to experience cultural events and places’, followed by the ‘desire to have these experiences’ and ‘learn or share as a part of their culture’.

The results of the study revealed that ‘push’ factors like learning and experience something new registered higher scores for female as well as male students in comparison with ‘pull’ factors like cultural motives. These findings are suggesting the idea that promotion campaigns and the promoted image should be more concentrated on the benefits of cultural tourism activities to general education and learning process. The novelty feature should also be highlighted for the younger people to generate a positive attitude on cultural events or places.

Table 2. Descriptive statistics for 5 factors

I	<i>Learning (5 items)</i>	<i>Mean</i>	<i>SD</i>	<i>KMO</i>
I.16	<i>To broaden my general knowledge</i>	4.06	0.857	
I.19	To prepare homework or a project	3.52	0.998	
I.23	<i>Would contribute to my education</i>	4.07	0.786	
I.26	It is important to visit cultural places	3.79	0.907	
I.27	To learn about culture	3.92	0.816	
	Total	3.87		0.707
II	<i>Cultural (7 items)</i>	<i>Mean</i>	<i>SD</i>	<i>KMO</i>
I.5	To be with people with similar interests	3.51	1.057	
I.6	<i>To experience cultural events and places</i>	4.06	0.857	
I.12	<i>I enjoy cultural places and events</i>	3.98	0.813	
I.14	A specific interest in such attractions	3.49	0.910	
I.24	It is a part of my culture	3.86	0.920	
I.28	I felt that I should visit the cultural places	3.47	0.946	
I.29	Because of its historic background	3.63	0.901	
	Total	3.71		0.719

III	<i>Relaxation (7 items)</i>	<i>Mean</i>	<i>SD</i>	<i>KMO</i>
I.1	To get away from the demands of life	3.22	1.127	
I.2	To have a change from my daily routine	3.62	0.996	
I.8	<i>To be with friends/ family</i>	3.75	1.065	
I.13	It is important to visit cultural places	3.30	1.055	
I.17	<i>To spend my spare time</i>	3.66	0.979	
I.25	To be emotionally involved	3.07	1.068	
I.33	I want to relax	3.59	1.049	
	Total	3.46		0.697
IV	<i>Pleasure-seeking and entertainment (4 items)</i>	<i>Mean</i>	<i>SD</i>	<i>KMO</i>
I.9	<i>To be with other people who enjoy</i>	3.52	0.998	
I.18	To tell friends about it	2.92	1.019	
I.31	<i>I want to have some entertainment</i>	3.48	1.083	
I.32	I want a day out	3.19	1.105	
	Total	3.28		0.629
V	<i>Experience something new(4 items)</i>	<i>Mean</i>	<i>SD</i>	<i>KMO</i>
I.3	I was curious	3.83	0.900	
I.4	<i>To experience new and different things</i>	4.24	0.814	
I.7	It is stimulating and exciting	3.59	0.894	
I.11	<i>I like the variety of things to see and do</i>	4.23	0.754	
	Total	3.97		0.635

Author processed.

Conclusions

This study was an initial attempt to understand the motivation for attending cultural tourism among Romanian youths. The findings of this research provide a comprehensive view of cultural tourism behavior in Romania. The evidence suggests that for the young and highly educated generation the most important reasons which attract them to cultural tourism activities are the novelty and learning experience. Knowing this, the marketing strategies and policies should be more oriented to these characteristics. Since new, different and stimulating experiences are strongly connected with products like festivals and musical events, performance and exhibitions, it may be concluded that these represent the appropriate ways for developing cultural tourism in Romania. Festivals and local events provide the opportunity for the communities to develop and share their culture and help the tourists to interact with the host community.

This study also investigated the differences in motivations of young people according to their demographics characteristics such as: gender, university degree and monthly budget. The results of this study revealed that the gender has a small influence on cultural motivations. The higher budget group is influenced by the reason of 'being a part of my culture'. On the other hand, students with lower monthly budgets are influenced by the need to experience cultural events and places.

The motivational push factors show that learning reasons like 'to broaden general knowledge', 'would contribute to my education', and 'because it is important to visit cultural places' are the most important reasons for attending cultural tourism. In this vein, it is important for the educational institutions to get their students more involved in culture. Assignments and projects would motivate students to participate in cultural events and places. Such reinforcement would probably get students to be involved in culture in their future life, and contribute to the development of cultural tourism.

Finally, it is suggested that sustained and regular studies are also needed to monitor youths' motivations for attending cultural tourism. Cities and towns that have cultural assets to promote in domestic and international markets should also conduct research to understand consumer behavior in order to increase socio and economic contribution of the cultural tourism. Such information would be of great help in understanding the extent to which local support could be obtained and how the demand for cultural tourism could be measured and monitored. Similar studies conducted in different geographical areas would also help us to comprehend a better picture of young people's motivations of different locations and cultural backgrounds.

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THE THEORIES OF INCOMPLETE CONTRACTS IN ANALYZING THE COMPANY

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Incomplete contracts theories have developed significantly in recent decades, although insistence for rigorous models left little room for empirical research. By formalizing and extending some results from other theories such as transaction costs, incomplete contracts theory tries to analyze the prudence displayed by the parties before the possible opportunistic behavior that would follow completing a contract, especially in the case of specific investments and how the insufficient contractual protection measures can lead to inefficient levels of investment. Even the name - incomplete contracts theory- suggests that the main concern is to consider the limits of contracts, that the contracts fail to specify not only the investment ex ante, but also many other unforeseen items that may appear ex post, and that would be desirable to be introduced in such an arrangement. Explanations can be either the bounded rationality or excessive cost that would involve writing of such contracts.

This paper is part of the doctoral thesis on Integrate perspective on companies sector, coordinated by professor Ph.D. Alina Bădulescu from University of Oradea, Faculty of Economics.

Key words: corporate governance, incomplete contracts, transaction costs, property rights
JEL Code: D23, G34

Introduction

This paper is part of the doctoral thesis on Integrate perspective on companies sector, coordinated by professor Ph.D. Alina Bădulescu from University of Oradea, Faculty of Economics.

According to the promoters of theory, these approaches start from the idea that the company operates through contracts, which are often incomplete. Thus, for various reasons, not all situations, whether expected or not, may be covered by contracts, including ownership of assets or authority within the firm. Thus, within the company, two types of rights may be identified: specific rights and residual rights - the latter referring to the generic rights on making decisions as regards production in circumstances not specified in contracts. According to this approach, the choice between contracting and internal organization is reduced to the efficient allocation of residual rights of control when contracts are incomplete and assets have a high degree of specificity (Draghici 2008).

The opinions of Coase (1937) and Simon (1951) on the fact that the essence of a company is given by the existence of an employment contract and of the authority that derives from it are also coterminous with the theory of incomplete contracts (Foss, Lando, Thomsen 1999), as they emphasize the need to take into account both the costs of entering a contract and the consequent need to adapt to changing conditions not mentioned in the contract. One could also find elements of the theory of incomplete contracts in the works of Williamson and Grossman and Hart, though they mainly focus on the negotiation power that gives ownership over assets in settling unforeseen circumstances not covered by contracts.

2. The theory of firm authority. The employer - employee relationship

According to Coase and Simon, the characteristic element of the company is the contract of employment, the size and limits of a firm being essentially determined by the number of

employees and the quality of contracts. The difference between an employee and an independent contractor is given the very nature of the contract that ties them to the firm: while the employee is subject to the authority of the business manager, an independent contractor acts independently. Coase emphasizes the advantage of an employment contract as it legitimates the hierarchical relationship and the acceptance of authority and therefore leads to saving transaction costs and chiefly the costs of negotiating situations that go beyond the fixed terms of contract. The disadvantage of such a contract lies in the fact that the hierarchical relationship is often overwhelmed by information and, as the company develops, the manager will probably find it very difficult to organize and manage effectively the actions of all employees subject to his/her authority because she/he will be unable to gather and process the information that is really relevant. The conclusion derived from the situation presented above is that an optimal size of the company should be established, so that it can function effectively.

Simon goes deeper in discussing employee-employer relations and tries to analyze their efficiency by comparing them with a contract set between two independent parts. The typical contract of external labor conscriptions specifies the actions to be achieved in the future, the time course and prices of labor conscriptions, while the employment contract provides for a number of requirements of employers, acceptable for employees, establishes the rights of employers and, concurrently, the obligation of the employee to accept tasks to be completed in the established period of time. Discussing the two types of contracts, Simon shows that, for a company, the advantage of the employment contract lies in its flexibility, as an employee's performance may be adapted to any situation that might appear in the development of work tasks. Obviously the advantages and benefits of an employment contract are greater as it ensures the flexibility to deal with situations of uncertainty in the activity of the company. On the other hand, Simon points out that, in the employment relationship, employment is based, to some extent, on the reputation of the employer that ensures he/she would not abuse his-her authority (the so-called need to trust the employer).

Simon's theory was criticized by Williamson (1975) for it compares the flexibility of a short-term employment contract with the rigidity of a long-term production contract (e.g. subcontracting), although at least in theory, the flexibility of a production contract could be also ensured by a series of short-term contracts.

A modern formulation given by Wernerfelt goes beyond some of the objections that may be raised against the theory of the company as formulated by Simon. Wernerfelt sees governance mechanisms as institutional mechanisms (*games forms*), depending on which players adapt to environmental changes and exchange information on these changes. His conclusion is that different forms of the game will be characterized by different levels of adjustment costs. For example, if there is a hierarchy, the employer and the employee avoid the costs of negotiating a complex employment contract, or of a series of short-term contracts, by means of a general wage agreement, in which authority is simply implicit. Thus, for a stipulated financial reward, the employer has the right to require the employee when and what to do. This kind of game has a reduced negotiation component, in comparison with other forms of games on the market, the employment relationship being thus a form of a game in which the parties decide to act jointly, in order to save the costs of communication and adaptation. Again, the agreement to enter this mechanism that is less expensive is based on information regarding the reputation of the parties (in order to avoid abuse of authority from the company, and, respectively, the employee's willingness to comply). As put forward by the theories of Coase (1937), the size of the firm is limited by the capacity of the authority to manage an excessive amount of information.

3. The theory of transaction costs, between Ronald Coase and Oliver Williamson

The model of transaction costs proposes institutions (companies), not markets, as possible forms of organizing and coordinating economic activities. Thus, when for obtaining a good or a service,

the external transaction costs of the company are higher than the domestic ones, there are reasons for the emergence and development of the firm. Conversely, if the external transaction costs will be lower than internal costs (the transaction) of the firm, then the size of the firm will reduce and it will resort to outsourcing operations.

According to Ronald Coase, firms are ways of organizing production when, due to imperfect information, transaction costs of coordinating production through market exchange are higher than the cost achieved in the company (Coase 1937).

Through his work, *The Nature of the Firm*, published in 1937, Ronald Coase imposes the theory of transaction costs as an attempt to define - in neoclassical terms - the relationship between firms and the market. Coase's affiliation to neoclassicism is revealed by the very explanation of the way companies function in accordance to *constant returns to scale*, and less by *increasing returns to scale* (Archibald 1987). Another reason for this membership is the definition of the company in a manner that is both realistic and compatible with the idea of marginal substitution, thus allowing the application of conventional economic analysis tools.

Coase argued that the company cannot control interactions with the market (e.g., because of taxes or other sale conditions), but instead it can control certain internal processes such as, for example, the internal allocation of resources. Thus, Coase shows that "within the company [...] market transactions are eliminated and the place of the complicated market structure, marked by exchange activities, is taken by the entrepreneur, who is leading the production activity." (Coase 1987). Starting here, the question that arises is why alternative methods to the market, such as for example internal price setting mechanism or mechanisms of economic planning, do not capture economic production activity, so that either all firms use only domestic prices for their entire production or economy would actually be one huge company, in which all economic activity is concentrated.

First, Coase admits that, at least in theory, markets could perform all productive economic activities, and what should be explained is the existence of the company as a defining element of the process of suppressing the mechanism of pricing. For this reason, Coase disagrees with previous explanations regarding the emergence of firms, indicating some counter-arguments:

1. Some people prefer to work under the leadership of others and are willing to pay for this "privilege" (but this is very unlikely);
2. Some people prefer to lead others, and are prepared to pay for this "privilege" (however, in most cases, people are paid more if they have such coordinating functions);
3. Buyers prefer goods produced by firms.

For Coase, the main reason for establishing and for the existence of a firm is that of avoiding some transaction costs associated with the use of the pricing mechanism on the market. These costs include the cost of finding the relevant price (cost that may be reduced but not eliminated, by acquiring this information from specialists), costs of negotiating and drafting executing contracts for each transaction (often these contracts can lead to increased costs, depending on the size of uncertainty). Moreover, in an uncertain world, contracts will be necessarily incomplete and therefore must be frequently re-negotiated. We add to these the (often significant) costs of negotiating a possible profit for activity, particularly in the case of asymmetric information and assets specificity.

However, one should also point out that this approach is problematic, for example, a firm, even if it internalizes a large part of its market activities, will have to manage with an extremely large number of contracts, for every action it undertakes, regardless of its size or significance. In fact, companies manage to solve this problem by signing a much limited (but more complex) number of employment or management contracts, which define the leadership attributes of a manager in relation to the staff, and establish a higher salary for this activity. Obviously, these types of contracts are also written in and for situations of uncertainty, which tend to last for relatively long periods of time (years). This situation contradicts the neoclassical theory, which considers market

action as being almost "instant" and does not allow the development of a long term relationship of the principal-agent type, or planning and trust-based relationships. Coase concludes that "a firm will more often appear in those situations where the preparation of a short term contract is unreasonable and that" it seems unlikely for a firm to appear when uncertainty does not exist"(Coase 1937).

He noticed that government measures referring to the market (sales taxes, rationalization, control of prices) tend to increase the size of firms, because within these firms transaction costs are eliminated. Thus, Coase defines the firm as a "system of relationships that occurs when resource allocation and coordination depends on an entrepreneur."(Coase 1937).

According to this theory, the rationale to perform operations on the market at lower costs than the ones practiced on the market leads to the establishment of the firm size between two limits:

- A minimum size, when the company's costs are very close to exceeding the market costs (in other words, if the costs of the firm exceed market costs, it makes no sense for the company to enter the market, so it does not exist);

- A maximum size determined by the rising costs to the point where further internalization of action is equal to the cost of their obtaining (trading) on the market.

In practice, it is found that reducing payments and incentives to the management team can contribute in a much more rapid and consistent manner to the increase of costs for organizing large firms, particularly in large corporations operating on international markets, with production achievement in different countries etc., or, more obviously, in the case of conglomerates, where there is virtually no economic or functional connection between many activities. Here, the rationalization of internal transactions, the management of rapid changes in market prices is becoming more and more a management problem. The poor reward or stimulation of this managerial activity may rapidly lead to corporate failure or its resize, including through the externalization of some assets based on superficial analyzes of costs.

Coase concludes by saying that firm size depends on the costs of using the price mechanism, and on organizational costs resulting from the work of other entrepreneurs. These two factors together determine the range and volume of a company's production (Coase 1987). "The more transactions the entrepreneur organizes, the higher the chances for these transactions to be different in type or develop in different places. This would be another reason for which, as the firm extends; its efficiency might tend to decrease. Interventions aimed at bringing closer production factors, by diminishing the spatial distribution, would act in the opposite direction, favoring the expansion of the firm. (...) We might say that all the changes that improve the managerial technique have the same effect" (Coase 1937).

According to Williamson, the transaction cost theory was developed in order to facilitate the analysis of "comparative costs of planning, adapting, and monitoring within alternative governance structures"(Williamson 1985). The analysis unit in the theory of transaction costs is the transaction, which occurs when some good or service is transferred across a technologically separate interface. Transaction costs arise both in *ex-ante* situations (drafting, negotiation, protection of agreements between the parties in the transaction), but also for *ex-post* reasons (mismatch of interests, challenges, launching and operating costs, costs of commitment, etc..).

Policy makers need to evaluate the production and transaction costs associated with a transaction within their firms (*insourcing*) in relation to production and transaction costs associated with the same transaction on the market (*outsourcing*). If market transactions are chosen, then the most appropriate contract should be decided upon.

Williamson (1985) argues that there are two human factors and three environmental factors that lead to the development and manifestation of transaction costs (Williamson 1985).

The two human factors are:

1. Limited rationality: It is unlikely that people involved in making a certain decision might have the skills or resources to consider every implication that might result from future transactions.
2. Opportunism: People following in their work their own interest.

The three environmental factors are:

1. Uncertainty: uncertainty enhances the problems that occur because of limited rationality and opportunism.
2. A small number of transactions: If in a market there is only a small number of players, a participant in a transaction may have difficulties in disciplining the other party, invoking removal and searching other partners on the market.
3. Asset specificity: the value of an asset may be subject to a transaction that it facilitates. The party that has invested in the respective asset will incur a loss if the other side, which has not invested, withdraws from the transaction. Opportunity (threat) on the part of those who are acting opportunistically leads to the so-called "hold-up" problem Williamson argues that the three dimensions of a transaction affecting the type of governance structure chosen are: asset specificity, uncertainty, and frequency. As asset specificity and uncertainty increase, the risk of opportunism also increases. Thus, decision makers are more inclined to choose a hierarchical governance structure (i.e. a company). As the frequency increases, the comparative advantages of using market structures will decrease, as a hierarchical structure of governance costs can be amortized in several stages of a transaction, but also through several transactions (Klein 2009).

Table no. 1 Correlation between the determinants of governance structure, the concept of O. Williamson

		Uncertainty		
		Low	Medium	High
Assets specificity	Low	Market transactions	Market transactions	Market transactions
	Medium	Contract	Contract or vertical integration	Contract or vertical integration
	High	Contract	Contract or vertical integration	Vertical integration

Source: Klein, P. G., (2009), Transaction Cost Economics, Univ. of Missouri and Copenhagen Business School

According to Peter Klein, Williamson's ambitions on the theory of transaction costs exceed the boundaries of an explanatory model of vertical integration conditions of economic activities, "it aiming to be a widely held, integrative, unifying view on economic organizations, going as far as considering transaction costs theory as an explanation for everything" (Klein 2009).

Any problem that might be represented, either directly or indirectly, as a problem that involves the existence of a contract may be efficiently analyzed in the terms of transaction costs" (Williamson 1985)

4. The company as property rights (the Hart-Grossman-Moore model)

Oliver Hart, John Moore and others developed the theory of "incomplete contracts" or of "property rights"(Grossman, Hart 1986), based on elements of Williamson's work, also in (Hart and Moore 1990), or (Hart 1995). As in Williamson, a central hypothesis of this theory is that, because of transaction costs and / or limited rationality, contracts have to be incomplete, meaning that the allocation of control rights cannot be specified for all future situations. Theory defines ownership as the possession of residual control rights, i.e. the right to use assets in unexpected situations or in contingencies not specified in the contract. Therefore, the allocation of formal property rights will affect the behavior and resource allocation.

The Grossman-Hart-Moore theory defines an enterprise as a set of jointly held assets. The basic distinction between an independent contractor and an employee, or the relationships created within the company and outside it, turns into the relationship between persons who own the physical assets and the people who use those assets in their work. Therefore, according to this theory, the person who gets involved in the development of some business and who depends on a particular asset should hold those assets as therefore the threat of his/her removal (dismissal) by the asset owner is avoided. Hiring an employee means hiring a person who assumes the risk of being excluded from using the asset by a manager's decision, while the employment of an independent contractor (through purchase of some market services) means that that particular person is given a certain amount of power to resist pressures, by the possession of his/her own assets. Thus the optimal size of the company results from the balancing of these two opposing forces (Foss, Lando, Thomsen 1999).

Grossman-Hart-Moore theory was first to provide a formal model that could explain both the advantages and the disadvantages of the company-organization, but also a theory that would convincingly establish the size of a firm.

Grossman-Hart-Moore model emphasizes the central role of non-human assets because they can be bought and sold, being included in what is called "property of assets", but many opinions also indicate the equally important role of human assets, and in particular knowledge related to production and information held by agents (key employees, managers, etc.), showing that understanding the role of "information assets" in an organization facilitates the analysis of these organizations, and that ownership and control of information - and not of physical assets-is crucial (Brynjolfsson 1994). Residual rights of control over those who have access to information related to production can often be more important than the residual rights associated with non-human assets. For example, the departure of key executives, of key decision-makers or researchers (and their knowledge) can affect other members of the company to a higher extent than the loss of equipments or certain locations (Brynjolfsson 1994). In conclusion, understanding the relationship between the role of physical assets (non-human) and human assets can lead to significant changes in the role and structure of stimulation means, especially in modern enterprises and, of course, in the knowledge-based society.

5. Theories of implicit contracts

The essence of these theories starts from the situation in which it is difficult to draw up comprehensive contracts, for example, when certain variables are either impossible to specify at the beginning or impossible to quantify at the end, so people often rely on "unwritten codes of conduct", i.e. the so-called implicit contracts.

These appear to be self-imposed, meaning that each party tries to behave up to the (reasonable) expectations of the other party, for fear of possible repercussions or the loss collaboration or the business (Foss, Lando, Thomsen 1999). The main idea in the theory of implicit contracts is that they function differently, within and, respectively, outside the firm (between different companies). Thus, a person is preferred as employee, rather than an independent contractor, when his/her coordination requires an implicit contract that is easier to implement within the company than on the market.

In a recent paper, Baker, Gibbons and Murphy (1997) point out that implicit contracts appear both in companies (in the case of labor relations) and between firms (in contractual relations). The difference lies in the options available to the parties when the contract is canceled. Unlike an independent contractor, an employee cannot leave the relationship with the assets that belong to him/her or to those he/she depends on. Specifically, in the model described, an independent contractor is defined by the possibility he/she has to sell the finite product in another part, while contracts within the firm are generated by the employer, who owns the finished product and therefore contracting company is determined by the provider (whether employer or not) who

owns the finished product and therefore employees do not have the possibility to leave the organization with the product or service to which they contribute. Power generated by the threat of leaving a relationship determines the implement ability of default contracts. For example, if the market demand for a property is volatile, relational contracts are vulnerable because the supplier is likely to leave the implicit contracts when the market price is higher. If the supplier is a division of the company, this option does not exist and the constant domestic prices preserved internally are a form of self imposed action. Thus it appears quite clearly that the theory of implicit contracts is related to Williamson's contributions, which show that litigation is easier to be performed internally than outside the firm. Mechanisms of solving litigations may be seen as a part of the system of self-imposed contracts within a firm (Foss, Lando, Thomsen 1999).

6. The company and the theory of communication in a hierarchy

Recent work on the "theory of communication in hierarchies" is based on well-known ideas from the theory of organization of Simon and March (Simon and March 1958), namely that an important function of the firm is to adapt and process new information. One should also mention the contributions of Marschak and Radner (Marschak and Radner 1972), on the theory of the team, with a completely different approach to that referring to economic organization, in which conflicts and the problem of incentives have been resolved and where the main accent is placed on coordination and communication. At the same time one should also mention the contributions of Keneth Arrow (Arrow 1985) or Casson (Casson 1997), on coordination within teams.

These works see the company as a communications network, which is designed so as to minimize both the cost of processing new information and the costs of disseminating this information between the participating parties. Communication is costly because it takes time for agencies to absorb new information sent by others, but the waste of time may be reduced by specialization in processing certain types of information (Foss, Lando, Thomsen 1999). For example, in Bolton and Dewatripont's model, each agent manages a specific type of information and different types of information are aggregated via the communication network. When the benefits of specialization outweigh the costs of communication, teams are starting to emerge (in our case, firms) (Bolton and Dewatripont 1994).

However, the theory of the team and communication within the team encounters difficulties in struggling to explain the optimum size or the limits of a company, or the way in which communication is adapted to the existing hierarchy within the company.

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RECENT THEORIES OF THE FIRM: A CRITICAL APPROACH

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Besides the classical theories of the firms as complete or incomplete contract theories, in the last decades there were developed some new theories bringing new perspectives and approaches. Among these new perspectives we are presenting in this paper the evolutionary theory of the firm, the importance of resources and knowledge, and game theory. According to evolutionary theory the most important element for a firm is the company itself and its specific assets (physical and human). Evolutionist theories, in their diversity, are interested in issues such as the effects of changes in the long run within the firms, in terms of products, processes, decisions, analysis of the determinants of success. Resource and knowledge -based theories try to find a common point between transactions and organizational management analysis, focusing on development issues within companies, the importance of business strategy and achieving competitive advantages. Finally, cooperative game theory sees the firm as a coalition of various parts that compose it, emphasizing the importance of cooperative relations between employees and shareholders, risk sharing and effective collective skills, knowledge and funds using.

This paper is part of the doctoral thesis on Integrate perspective on companies sector, coordinated by professor Ph.D. Alina Bădulescu from University of Oradea, Faculty of Economics.

Key words: corporate governance, evolutionary theory, co-operative game theory

JEL Code: D23, G34

Introduction

This paper is part of the doctoral thesis on Integrate perspective on companies sector, coordinated by professor Ph.D. Alina Bădulescu from University of Oradea, Faculty of Economics.

In the last decades there were developed some new theories bringing new perspectives and approaches on the firm behaviour, from which we are presenting in this paper the following: the evolutionary theory of the firm, the resources and knowledge-based theory of the firm, and the game theory.

1.The evolutionary theory of the firm

Williamson's contributions and, in particular, his analysis of assets and skills specific of the firm, share common points with the evolutionary theory, which nevertheless distances itself from Williamson's works by choosing a different determining element for the company. Thus, while for Williamson the crucial element in the analysis of the company is the "transaction", for Chandler and other theorists of "firms' evolutionism" the central element is the company and its specific physical and human assets (Chandler, A.D., (1992). Thus, the theory is based on the essential characteristics of the company, i.e. its strategy, structure and organizational capabilities. If the first two are widely known and discussed in literature, organizational capabilities are a relatively new category, as they refer to the managerial availability of a company, arising from *indivisibilities* or uneven rates of development of the various components within the firm and the knowledge, skills and expertise accumulated in the company. Availability, seen as a potential reserve, may practically exist in any area where the firm operates, and according to some authors (Penrose 1959) or (Robertson and Langlois 1995) the generation of new reserve capacities is

continuous: "whenever a new system is functional and procedures become routine, the lack of using management resources appears".

Organizational routines are therefore the cornerstone of organizational capabilities, and one may speak of routines in each of the different functional areas of the organization: in the activity of purchasing, production, distribution, marketing, research and development - and, more importantly, in the coordination of these functions; "Routine is the genetic code of the company, and it carries the information of adaptation, necessary in the fight against competition and for survival" (Clark and Juma 1987).

Robertson and Langlois clarify the relationship between the skills and the routines of a firm, stressing that routines refer to what the firm actually does, while capacity includes what the company could achieve if resources were reallocated; routines influence the behavior of the firm but do not determine completely what could be achieved if the company used resources competently (4).

It can be said that the evolutionary theory starts from the research of Alchian, seen as a Darwinian interpretation of the socio economic environment in which the company operates (Jacobson and Andreosso-O'Callaghan 1996). According to Alchian, the internal organization and functioning of the company are irrelevant, because "the pressure to survive will be that which, on the long run, will dictate how firms will behave on the market" (Alchian 1950) ... and those who have set objectives other than those considered correct and essential (e.g. tracking and maximizing profit), will not survive. Evolutionist in essence, Alchian's theory focuses mainly on results and less on processes, often ignoring the temporal dimension, technical progress being a type of response to market conditions and obviously, an exogenous factor in the economic development of the company (Clark and Juma 1987). Thus, Alchian's theory ignored behavior patterns, attitudes and motivations of firms, reducing them to "adaptive, imitative behavioral of the trial and error type processes, in pursuit of profit" (Alchian 1950).

The most important representative of the evolutionary theory is, however, AD Chandler, both through his research, and through the school he created, by the challenges and openings to other approaches in the economic research on the firm.

In his well-known article entitled *Organizational capabilities and the economic history of the industrial enterprise*, Chandler interpreted, in an evolutionist vision of the company, historical and empirical data collected. Thus, he looks at the case of chemical industry, both in the United Kingdom and in Germany, showing that although the late nineteenth century Britain had all the necessary comparative advantages of market dominance throughout the world for the products of this industry, (including knowledge scientific materials and access to large markets), however, the early twentieth century German companies Bayer, BASF, Hoechst managed to dominate the market and become world leaders.

Chandler's explanation is based on the accent placed on investments in production, distribution and management undertaken by German companies that managed to exploit economies of scale and scope and create a competitive advantage, to offset the British comparative advantage. Furthermore, the model successfully reproduced in other industries and has multiplied by expanding into foreign markets and related industries. Thus "managers of German firms were less concerned to reduce transaction or information-related costs and focused on using the competitive advantages created by the learned coordination routines in the processes of production, distribution, and on the improvement of existing products and processes (Chandler 1992).

Chandler's research emphasizes the role of "continuous learning that stimulates the assets of a company" (Chandler 1992) and offers an explanation of how some companies managed to maintain their position on the market.

For those interested to develop the subjects, more recent papers, such as those of Porter, return to the main features and go deeper into the analysis and comparison between the comparative and the competitive advantages (Porter 1990) or (Porter 2008).

According to the evolutionary approach, companies are organized as "enterprises", being characterized by three main attributes:

- they act strategically, i.e. they choose their own segment on which to compete;
- they look for a strategic advantage not through continuity and long production series aimed at minimizing costs, but through constant innovation of products, processes and of the organization itself
- thirdly, the organization of production is not based on repeating the same operations, but by maintaining organizational flexibility at all levels, the competitive advantage being preserved through continuous learning.

Why the British entrepreneurs did not manage to make the investments necessary to the development of organizational capabilities, in order to be able to compete with German and American companies? The answer is extremely complex, involving considerations of institutional, socio-cultural and historical nature (...), without those investments that would use the advantages of scale economy, the enterprises and industries in which they operated lost the fight even on external markets they had created before. Moreover, without a basis of organizational learning and of specific capacities in production, distribution, research, development, etc, the forces needed in the competition fight could not develop (Chandler 1992).

An interesting contribution to the evolutionary theory was brought by Lazonick, who refers to the "innovative" company, namely the company that adopts a development and innovation strategy even at high costs, since the formation of a new cost structure is an "evolutionary process" that, if successful, offers a competitive advantage to the company. The process involves "innovation", creating a quality-cost relation that did not exist previously. Unlike other authors, who focused on organizational flexibility and thus emphasized the advantages of small firms, Lazonick suggested that large firms are more likely to succeed.

Several other researchers (Robertson and Langlois 1994), or (Nelson and Winter 1982) examined the role and importance of routines, and their positive and negative aspects, especially the effect of inertia on the activity of the company. "Routines that prove effective and do not come to the fore can be considered a very important asset of the company, but they may also induce inertia", as it is very difficult for firms to replace them once they were established and proved convenient for employees. "It is important to consider not only the positive aspects of routines, but also their negative role in generating inflexibility or inertia, as well as the capabilities they may generate and that can rise to prohibitive levels the cost of adopting a new technology or of entering new domains" (Robertson and Langlois 1994).

Despite the differences that can be identified among the researchers of the evolutionary school, there are many unifying themes such as the interest for the analysis of a change within firms, not only as regards products, but also in terms of production processes and decision making, the analysis of the determinants of success of a firm or group of companies, etc.

Without denying the role of analysis of actual facts and of scientific conclusions, we believe that evolutionary theory gives too much importance to empirical and inductive approaches, in comparison with other theories of the firm, which makes it difficult to operationalize rigorously.

2. Resources and knowledge in the theory of the firm

This approach tries to find common ground between economic theories centered on the analysis of transactions and those of the organizational management, addressing issues related to the development and limits of companies, the importance of business strategy and the means of obtaining competitive advantages etc..

The theory has many points in common with the evolutionary theory, identifiable in the work of Penrose, entitled *The Theory of the Growth of the Firm*, which approaches issues related to resources, to services offered by resources and to capabilities (Penrose 1959), showing that "unlike resources, capabilities are based on the development, transfer and storage of information by the human capital of the firm " (Muşetescu 2009).

In the concepts put forward by these schools we find a new approach to the link between resources and rents - seen as super-normal rates of profit, and which identified four major types of annuities (Mahoney and Pandian 1992 , quoted by Muşetescu 2009):

- Ricardian rents coming from a limited resource, a patent, a unique location;
- Monopoly rents, coming from governmental barriers, abusive arrangements between companies etc.;
- Entrepreneurial, or schumpeterian rents, which are temporary, generated by risk taking and performance of entrepreneurial anticipations;
- Quasi-rents (marshallian or Pareto-type), specific to a company, by the characteristics and appropriate use (most valuable) of a company's capital.

3.The co-operative game theory

Relatively recent among approaches to the nature of the firm and inspired from the principal agent theories (and not only), Aoki's research develop the co-operative game theory of the firm, which sees the firm as a coalition of various "parties" within it. Thus, the firm can serve as a link in relations of cooperation between employees and shareholders and allows for optimal redistribution of risk and the effective collective use of skills, knowledge and funds (Aoki 1984).

Co-operative game theory differs significantly from the managerial approach to the company. While the managerial theory interprets the target of the company as the objective of one of its components, the co-operative theory sees a "set of relations of cooperation", a nexus of co-operative relationships, providing a link between the various units that form the company. The behavior of the firm on the market is a result of this relationship, of the cooperative game also called "organizational equilibrium".

It may be observed that Aoki's theory essentially emphasizes the analysis of internal processes within the company and gives less importance to external environmental forces acting on the company. Thus, to these potential external players, the -cooperative game theory has a dual-mode approach. On the one hand, it does not include them in the category of internal "parties" that cooperate in defining one behavior of the firm on the market, but at the same time, it recognizes their important role in influencing the cooperative game solution, here being included financial institutions, capital providers, customers and suppliers, other competitors, and so on. The problem is even more complicated if some employees are also shareholders and / or business customers, situation in which their actions matter to determine the cooperative game solution. Among other forms of criticism raised in relation to this theory, one should not ignore the fact that the theory gives a reduced importance to relationships with customers, and especially it does not take into consideration the role of the entrepreneur in decision making and the activities of the firm.

As being derived from this theory, some researchers speak of non-cooperative game theory (Davies and Lyons 1988), arguing that it is more common and more appropriate in the organizational analysis of the firm, focusing more on how rival firms' strategies and the external environment influences company decisions and market behavior, and less on the nature of domestic coalitions.

According to Rasmusen, differences between a cooperative game and a non-cooperative one is that, in the first case, players can make binding commitments, unlike the non-cooperativ game, in which these commitments can not exist. Thus,the co-operative game theory is axiomatic, invokes the paretian optimum, fairness and equity, and the result is more important than strategy, while

the non-cooperative game theory is claimed from a certain form of economic behavior, where solving the problems arising is based on maximizing the utility function of players, in situations of coercion (Rasmusen 2005). In applied economics, the most common use of the co-operative games theory is found in modeling negotiations. Cooperative games allow players to share the gains from cooperation in payments among themselves, outside the conditions prescribed. The distinction between co-operative and non-cooperative games are not in conflict or in the absence of conflict, having to deal with a variety of situations, summarized as follows (Rasmusen 2005):

- cooperative games without conflict. Employees of firms choose equally the tasks they will perform and the way of coordination among these;
- cooperative games with conflict. Bargaining over the price between a monopolist and a monopsonist.
- noncooperative games with conflict. Prisoner's dilemma (see notes)*.
- noncooperative games without conflict. Two companies set standards of creating similar products, without communicating in advance these objectives.

Note: Prisoner's dilemma is a classic example of the game theory, which describes the situation of two suspects that would be punished depending on their collaboration with the police or their solidarity with the other suspect. Prisoner's dilemma is an example of non-cooperative game, but one which may be modeled as a game of cooperation, allowing the two players not only to communicate, but also to establish compulsory commitment (see <http://www.scientia.ro/homo-humanus/51-psihiologie/385-dilema-prezonierului-teoria-jocului.html>)

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WORK ETHICS IN ROMANIAN COMPANIES (I) - EMPIRICAL EVIDENCES

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In many countries (e.g. Japan, China) it has been proved that a key-driven factor in increasing their economical development consists on employees' attitude toward work. Based on the assumption, the main objective of this article is to compound a descriptive image on drivers and barriers on work ethic in Romania, which illustrate the most frequent ethical issues in firm-employee relation. In this respect, the sense which I attributed to the term "work ethics" refers to specific attributes of relationship between two parts: employee and firm and in the second paper I will use this term based on Weber's definition as a belief in the moral value of the work. The empirical evidences presented here are the results of a research based on an online survey which I applied to managers and/or persons in leading position in Romanian small and medium enterprises. Using this methodological instrument, I collect responses from 828 companies from 41 different Romanian counties land. The resultants indicates that the main source of the unethical practices is based upon a double phenomenon: employees fail to comply with their labor contract duties and management administration restricts employees' rights to work (applying discriminatory practices) and rights to a fair wage.

Keywords: work ethics, business ethics, Romanian companies

JEL: J30, J41, J50,

Introduction

Various studies (Heintz 2005:25) confirms that the economic progress of a country lies in the willingness of people to work harder and more efficiently, and the financial value of a company increases if the human capital is based on a motivated and loyal workforce (Young 2008:185). From an economic approach, the importance of work ethic resides in increasing the employee's productivity and achieving an optimal position in terms of costs and benefits. Well done work is reflected by a corresponding financial reward, leading to the Pareto optimal state, in which no party can improve its present condition without worsening the other. So, the two parties - employer and employee - are in a win-win position. The company is more likely to be concentrated on the economic benefits; meanwhile the workforce looks forward to a balance between social and financial aspects.

But the descriptive aspects confirm us that there are many problems related to workforce. Not all want to be responsible for their work; there is not a fair balance between effort and reward. The first extreme is when the wage is situated below the level that should provide the means of existence – e.g. Nike Company has been criticized many times for very low wages paid to labor in Indonesia, or Wal-Mart Company was involved in many cases of pushing labor costs down. The second extreme is illustrated by the situation in which the salaries of managers in the American financial sector are thousand times higher as the wages of other representative workers in comparison (Stiglitz 2010:446, Chang, 2011:157-173). In order to find out some attribute specific to work ethic, I have applied an on-line questionnaire, based on 25 questions, which illustrate company's relation to its stakeholders.

Methodology of the research project

Research design was based on the following considerations. In order to achieve a representative sample, I use the quota method based on two criterions: employees' number and region. The data for the study were collected from a base of firms called Lista Firme which contains information

about over 700 000 companies in Romania. The selected information was: company name, mail address, manager's name and number of employees. This procedure resulted in a total sampling frame of 300 companies from each 41 Romanian counties. Firms were group in four categories, based on the number of employers, according to the national provisions of Law nr.346/2004:

- *Category I - Microenterprise under 9 employers*, (In this study 52,2% of responses came from micro-firm owner/managers that have less than 9 employees; that means 444 of participants was from the first category);
- *Category II - Small Enterprise 10-49 employers* (33,6% firms, that means 286 participants);
- *Category III - Medium Enterprises 50-249 employers* (11,5%, 98 participants with 80 completed responses);
- *Category IV - Great companies with over 250 employers employers* (2,6%, 22 participants)

Each member of the sample received an on-line questionnaire, particularized with the name of the manager, from which it was expected an answer. In case of unavailability of the manager, it was asked for another member in leading position to fill in. Also the last part of the survey permitted the participant to note his/her name and his/her position. It was used an international leading provider of web-based survey solutions, in order to elaborate and to sent the questionnaire based upon 25 questions. Taking in concern the number of send e-mail and the number of invalid mail address, the response rate was 10,32%, This can be considered high for the customary levels in an on-line survey. This research was finalized in January 2012 and only two specific items from this research will be used in this article.

General ethical issues in firm-employee relation

The perception of work has evolved over time and there are many factors which can stimulate our attitudes towards work. In the ancient world, in almost all civilizations, (excepting the Jewish one) work did not receive a positive value assessment. From Protestant Reform, the perception upon work has been serious changed, being considered a divine call a sacrifice that demonstrated moral worthiness. Over time this divine mandate turned into a social norm and with the information age, work was perceived as good and rewarding in itself.

Within the informational age, the approach to work has become more detailed because of its complexity. Even if the employee-employer conflict remained over time, each party's perception has changed. While human capital can be bought, its potential is only capitalized on the care, value and respect which are offered (Young 2008:185). Various management theories seek to emphasize the role and place of the human being related to his work, in order to motivate worker to perform better. The traditional model is based only on monetary incentives while the scientific management takes into account other non-economic factors, such as: appreciation, responsibility, advancement, training, etc.. (Herzberg, Mausner Snyderman 1959). Work ethic today stresses the importance of skills, discipline, challenge, autonomy, quality of work produced. Worker expects that the application of a positive work ethic to be fairly reflected in rewards.

There are many factors with shapes the contemporary attitude throughout work. Many studies have been dedicated on finding positive correlations between some key-factors and labor. Without getting into particularization, we listed below some of the most relevant ones:

- cultural gaps, (Landes 2000:10) argues that "culture makes almost the difference" as a relevant example is the Jalopies patriotism at work;
- most of the literature in social psychology views considers the parents as a primary source of work attitudes, parental work attitudes have a positive effect (Gradstein 2009:268-288) and it might be a weak correlation between to parents income (Antonji, Dunn 2000:221-58),

- educational influence, more educated individuals may work more (Antonji, Dunn 2000:221-58),
- companies' drivers and barriers: financial and non-financial stimulus, a fair balance between contribution and reward, "the fair wage-effort – workers have a sense of fairness and reduce their efforts if the actual wage falls short of the fair wage", (Akerlof, Yellen 1990:255-83), "status payment and earning compression" (Stark, Hyll 2011:349-75).

Ethical issues in the firm-employee relation are various. We consider that their source is essentially based on the infringement of employees' rights or when the workforce failed to accomplish its obligations. The following table offers an outlook upon the basic rights and duties of employees and points the major ethical issues involved.

Table 1 Rights and duties of the employees and some ethical issues

Employee rights	Issues involved
Right to freedom from discrimination	<ul style="list-style-type: none"> • Equal opportunities • Affirmative action • Reverse discrimination
Right to privacy	<ul style="list-style-type: none"> • Sexual and Racial Harassment • Health and drug testing • Work – life balance • Presenteeism • Electronic privacy and data protection
Right to process	<ul style="list-style-type: none"> • Promotion • Firing • Disciplinary proceedings
Right to participation and association	<ul style="list-style-type: none"> • Organization of workers in work councils • Participation in the company's decisions
Right to healthy and safe working conditions	<ul style="list-style-type: none"> • Working conditions • Occupational health and safety
Right to a fair wages	<ul style="list-style-type: none"> • Pay • Industrial action • New forms of work
Right to freedom of conscience and speech	<ul style="list-style-type: none"> • Whistle-blowing
Right to work	<ul style="list-style-type: none"> • Fair treatment in the interview • Non-discriminatory rules for recruitment
Employee duties	Issues involved
Duty to comply with labor contact	<ul style="list-style-type: none"> • Acceptable level of performance • Work quality • Loyalty to the firm
Duty to comply with the law	<ul style="list-style-type: none"> • Bribery
Duty to respect the employer's property	<ul style="list-style-type: none"> • Working time • Unauthorized use of company resources for private purposes • Fraud, Theft, embezzlement

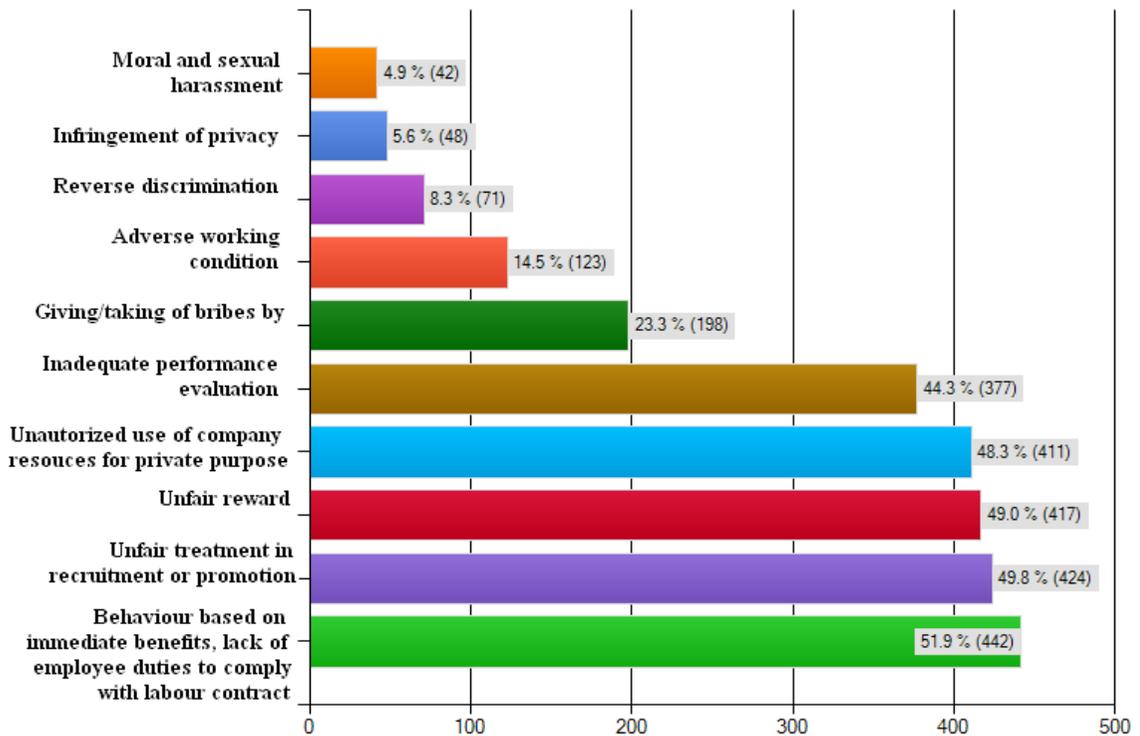
Source: Crane, Andrew; Matten Dirk, *Business ethics. Managing corporate citizenship and sustainability in the age of globalization*, Oxford University Press, 2007:270

These ethical issues might know some regional distinctiveness. Crane A. (2007:264) sustains that the European corporations are confronted with issues such as the protection of workers' human rights in their factory in China or Cambodia while at home, a variety of different ethical questions are arisen from the use of new technologies, such us the internet or the introduction of a new work environments such as call centers. This example leads us to the conclusion that ethical issues related to employees varies depending on cultural climate, development level governmental legislation and company's attitudes toward workforce.

Some empirical evidences and conclusion upon work ethics in Romania SMEs

In this research, I am focused on identifying the specific ethical issues related to workforce, in Romania. Starting form Crane's classification based on employee rights and duties, I applied a Delphi investigation, to a few specialists, using the option of opened answers, in order to evidence the most common problems. Form their answers, I have chosen the first nine important once. Applying the online survey, 850 managers or persons in leading position across the country have responded by choosing three answers that illustrate the most common ethical issues in relation to employees. The absolute and relative results of their answers are illustrated in the next figure:

Figure nr.1 The most common ethical issues in Romanian firm-employee relation



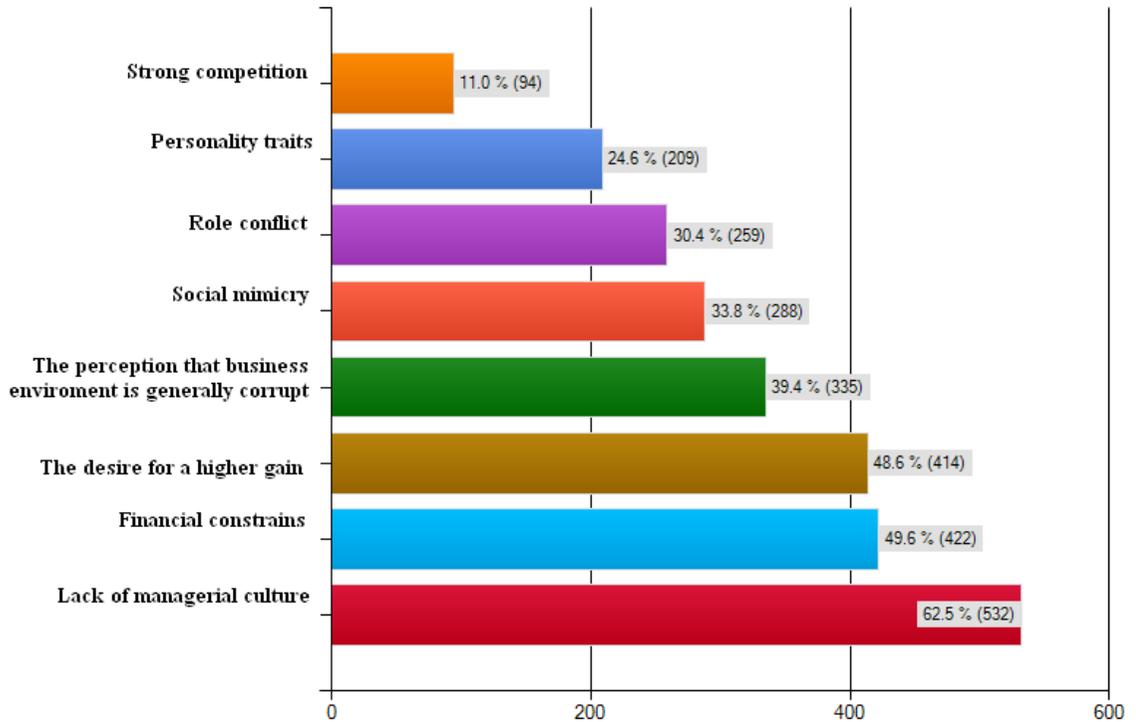
Source: Data obtained by the author in the research project: Business ethics and competitiveness in Romania, financed in the doctoral program „Cercetători români competitivi prin programe doctorale moderne și eficiente, Programul operațional Sectorial Dezvolarea Resurselor Umane 2007 – 2013,”

The obtain results are listed below according to the hierarchical relevance and in the parenthesis is mention to which type of employees\’s right or duty makes the answer references and if the ethical issue is based on financial or social aspects:

- moral and sexual harassment - 4,9% (employees’ right to freedom discrimination, social aspects);
- infringement of privacy – 5,6% (employees’ right to privacy, social aspects);
- reverse discrimination – 8,3% (employees’ right to freedom discrimination, social aspects);
- adverse working condition - 14,5% (employees’ right to healthy and safe working conditions, social aspects);
- giving/taking bribers by the employees – 23,3 % (employees’ duty to comply with the law, financial aspects);
- inadequate evaluation of performance – 44,3% (employees’ right to process; financial aspects);
- unauthorized use of company resources for private use - 48,3% (employees’ duty to respect the employer’s property, financial aspects);
- unfair reward – 49% (employees’ right to fair wage, financial aspects);
- unfair treatment in recruitment and/or promoting process 49,8% (employees’ right to work, social and financial aspects);
- employee’s behavior based on immediate benefits – 51,9% (employees’ duty to comply with labor contract, financial aspects);

Interpreting the data above, we see that the most three common unethical practices are based on financial sources, four out of five achieving a rate of over 40%. Between the first three, there is not a clear line of demarcation. The first one, the behavior focused on immediate benefits (51.9%), is an ethical issue which is based on the employee duties. It means that the employees’ have low level of acceptable performance, work quality and they are not very loyal to the firm. The nest two responses are concentrated on the employee rights: right to work (discriminatory rules – 49,8%) and right to fair wage (inadequate remuneration: unpaid overtime, moonlighting and unfair performance evaluation – 49%). It is important to mention that Romanian managers are aware that the most common ethical issues related to the workforce rise from their prevarication of employee rights. At the other pole is sexual harassment (4.6%), violation of employee's private space (4.9%) and discrimination against certain social categories (8.2%). Financial constraints have the most important impact, being one of the main causes of unethical behavior, along with the desire to have a higher gain. This assertion is supported by other results from my research. A hierarchical ordering of the main causes of the unethical practices in the conception of 850 managers from Romanian companies is presented in the figure below:

Figure nr. 2 Main causes of unethical behavior in Romanian companies



Source: Data obtained by the author in the research project: Business ethics and competitiveness in Romania, financed in the doctoral program „Cercetători români competitivi prin programe doctorale moderne și eficiente, Programul operațional Sectorial Dezvolarea Resurselor Umane 2007 – 2013,”

It is important to emphases that on the first position is placed the lack of a managerial culture. There is a clear evidence that the managers from my country, are awarded that the main reason causing various unethical practices, is precisely how are managed and controlled the activities that take place within their company. The implication upon work ethic is an inadequate organization and an incorrect management of labor. On the following two positions are located two items of financial nature: financial constraints (49.6%) and the desire to have a higher gain (48.6%). As I have argued above, most of the unethical practices in my country have a financial background. The perception that business is generally corrupt also has a relatively high impact (39.4%) favoring the emergence of various unethical practices. Discussing with some managers, during my mini-Dephi investigation, I observed a tendency of some to compare to other companies. Analyzing issues related to accurate financial records, the reason often cited was that "everyone is acting in the same way."

Concluding, the most frequent ethical issues regarding the relation between firm and employee are based on a financial background. The managers form the Romanian companies are award that the main ethical problems rise from the way they governance their companies and second placed are employees' specific attributes. This hierarchical ranking of the most important ethical issues in relation firm-employee, can help us to identify with are the main problems but the very important next step is how to resolve them. So it is not enough to know that the Romanian companies fail to evaluate in a proper manner the employee performance.

It is also necessary for the management to be able and invest in those organizational structures with conduct to/permit a fair evaluation of the employee and also for the government to provide a framework and treatment conditions in this direction, throughout regulations. In respect with this problem on 1th May 2011, it has been introduced some modification to the

Labor Code. It has been introduced an obligatory condition that each company has to make evidence on the way it evaluate the performance of each employee based on the specific attribute of the job description. Unfortunate, in many small companies this was only a formal process because for many it was the first time when they have to face such a condition and the governmental regulation did not stipulate clear criterion in this direction. In my opinion, this legislative process must be sustained by a moral commitment in order to be obtained the expected results.

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WORK ETHICS IN ROMANIAN COMPANIES (II) - A DESCRIPTIVE AND A NORMATIVE APPROACH

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This article has as start point the following question: "Why do we work?" Identifying at least three different answers, I consider that the attitude throughout work can be shaped based on these issue. At the first level, the value of work is based on the assumption that by work, the human being provides his living existence. On the second level, it is considered that the work supplies opportunities for self-expression, identity, drawing talent and enriching the personality. And on the last level, it is identified a new perspective upon work – as a reconciliation between private interest and public good. At each level, my aim is to present the status quo, but also the possible distresses when the value of work is bounded to one purpose, for example what happens if throughout our activity we are only absorbed to procure the supply basic needs or only to define our identity. If the attitude towards work specific for the first two levels is focused on "the desire to consumption", I consider that at the third level, the ethics governing employees shifted to "desire to production". That means that workforce is not only interested in economic rewards nor the gratification of self fulfillment or professional accomplishment, - aspects relevant on what one can receive- but it is focused on how it can be help full for the organization or for society, being concern upon on what it can offer, making a reconciliation between private interest and public good.

Keywords: work ethics, attitudes throughout work, economical and social reward

JEL: J30, J41, J50,

Introduction

The first article was focused on presenting some ethical issues and problems which encounter the relation firm-employee. But taking knowledge about empirical evidences without seeking benchmarks for ideal conditions, or the desired ones, minimizes the objectives of this research. Therefore, my aim is to drift from the descriptive site to the normative and prescriptive one, from "how it is" to "how should it be" and "how to get there". The presentation of the effects requires an approach to causes. In this respect, I intent to follow up mainly the anthropological and social side of work. This approach will conduct us to a better understanding and analysis of accurate determinations. Starting from the question: "why do we work?", the following responses can be considered relevant:

- 1. by work, the human being provides his living existence;*
- 2. work supplies opportunities for self-expression, identity, drawing talent and enriching the personality;*
- 3. one desire of human being is to find himself useful and needed in the society; this device can be accomplished by his work done with the aim to serve the other.*

In order to analyze the dynamics of the work ethic in Romanian Companies, I will dispose the three answers mentioned above. On this sense, the terms used to illustrate different stages in the work ethic will be: work ethic on the first level (specific to the first response) work ethic on the second and third level. Throughout this demarcation of work ethic on three levels, I do not intend to relativize this concept. On the contrary, I consider that the intrinsic value of work remains the same on each level. This differentiation is based only on methodological reasons, in order to

apprehend more explicitly, how the workforce aligns with the value of work, when it is concentrated on one function of work.

Level I – work as a resort for ensuring existence

Based on historical landmarks, which was tangential debate on the first article, I notice that the work has been seen throughout time, as the main resort for ensuring existence. We can recognize that one of the specific purposes of work is to enable man to obtain his basic needs. In this sense, work is valued not for the virtue of work itself, but for what could be purchased with the wages that were provided. Thus work becomes a means to maintain a certain lifestyle. Numerous investigations (Marsh 2010:2, Lancaster, Stillman, 2003, Marston 2007) consider that in the early twentieth century, “doing good” was equated with working hard; happiness was the result of the hard day’s work. But nowadays, as Marsh (2010:2) noted: “doing good shifted away from the work being done and was measured by what could be purchased based on the market value of the job”.

Those persons, who limit the purpose of work to what they can obtain later, define their existence throughout what they have and not throughout what they are. If the material world, on which they anchor and which gives them an identity, is destroyed, life itself has no purpose. This way of life leads to what Bauman (1998) calls the "aesthetic consumption". Thereby, we understand that the need to work harder, but not necessarily better, is aimed by the desire to have more. So what ought to be a "balanced life" - the division between work and personal life (Pahl 1995:16) - has become a life controlled by the desires and needs. Heschel (2001:193) argues in a convincing manner that "whoever decides to use the realities of life as means to satisfy his own desires that will soon give up his liberty, will decline to the status of a tool, acquiring more things will be enslaved of them".

The work ethic specific to this level can be resumed to what Fukuyama (1998:28) summarized in the following words: the general trend of the working population to wake up every morning and work long hours with physical or mental sacrifices". The underlying motive behind this trend is financial reward. The promise of a win increases the availability of work. We are entitled to take this approach as being rational, because nobody wants to work all life without avail. Therefore, the function of work ethic at this level is simply reduced to solving the money problem.

In this situation, the activity of many employees is not supported by a conscientious behavior, but a social mimicry, having the ability to adapt to various situations to gain certain advantages. In these conditions, a person works especially when he is seen by others when he is monitored by a superior. When he knows that he is no longer supervised, his attitude is radically changed. In the community, he poses his commitment, but in privacy he gives evidence of superficiality, a lack of discipline shown by dispersion or disorganization time work schedule. He is oriented towards achieving immediate benefits, the degree of involvement and identification with the organization is very low, showing instability at work and limited loyalty. When problems occur, he considers himself a victim of circumstances, having no power to take responsibility.

The restraint of work only to the function of purchasing the basic goods, can conduct to a lack of consideration for the work. This aspect leads to a reduction of involvement, lack of discipline, "money are put before professionalism and reward before the work" (Heintz 2005:18-19).

So far, there is one research about work ethic specific to Romanian conducted by Monica Heintz, based on study cases. The study confirms the presence of numerous cases in which labor practices are not necessarily the reflection of some intrinsic values of work, but the result of some external constraints. Similarly, my research confirmed that ethical issues related to work lie on the focus of employee upon immediate benefits and the desire to obtain a higher gain. I also argued that financial pressures, with the two extremes - the compulsion or desire to have more - have the highest impact to promote the implementation of unethical practices. In conclusion, we believe that the limiting approach to work only at this level, have a much higher willingness to do

"acceptable cheating" (Heintz 2005:72), as the main reason is to seek additional sources of income or the need to survive.

Revising some ethnographic sources to analyze how work is appreciated in our country, we concluded that its activity is often presented as being superficial and less profound, only to meet personal needs, some attributes specific for the work ethic at the first level. Our philosopher Emil Cioran (1996:32) considers that the laziness of the Romanian people is proverbial, and Nicolae Iorga (1998:502-503) analyzing some periods from our history appreciates that the Romanians had no interest to work harder, as it was necessary to survive because in this condition, from their work will benefit other occupying imperials. Nistor Popescu (2003:88) synthesizing the negative features of the physiognomy of the Romanian people recalls: work jumps, split, passivity and tendency to start something hard and very easy to give up.

Level II – work as a source for identity and self-expression

The second level of work ethic, is based on the premise that the work is part of our identity "expresses and enriches the personality" (Somerville 1999:42) and illustrates a fundamental dimension of our humanity. Freud (apud. Somerville 1999:43) states that work is has the function to ensure a life balance: "Recognizing the importance of the work, we contribute more than any other technique of life, to closer links between reality and the individual, through work it is indeed in solitary attached to a part of reality: the human community. " Similarly, the economist Ha Joan Chan (2011:106) believes that "we are the result of our work experience, so the place where we work and how we do it affects our identity."

Work enriches and develops self-esteem, giving dignity. Often we are used to identify ourselves by our profession when we say: I am a teacher, a doctor, an economist, etc. Those who barely manage to fit in work field are gripped by "a sense of failure" and the effects may alter the balance in society.

When a person identifies with the work he has done, his degree of involvement is much higher. I consider that work ethic at this level is based primarily on a good effort, supported by a disciplined and responsible behavior. A sign of good work is even offered by the positive way in which the employees talk about their activities. Various researches (Wüstner 2006:136-140) argue that job satisfaction is afforded by the balance between expected results and rewards received.

However there is a specific danger to those who try to make from their work the only way to succeed in life because they identify personal fulfillment with professional success. They seem to live only to work so all activities are subordinated to the construction and/or enhance a career. These issues are materialized in overtime hours at work, neglect of family duties and reducing order free time spent in recreational or social activities.

The research conduct by Eurofound (European Foundation for the Improvement of Living and Working Conditions) presents the main changes over time, on working conditions. Even if the proportion of the workforce with over time activities (over 48 hours per week) in the EU27 fell from 15% in 2000 to 12% in 2010, these studies show that work intensity has increased with a negative impact on the health condition, and nearly a fifth of European workers have difficulty in obtaining a satisfactory balance between work and private life (Eurofound Report 2011:1-6).

Karoshi syndrome – which earmarked the situation when an employee dies because of the overtime work, mainly specific to Japanese-, is more pregnant in our work conditions.

These problems are not restricted to managerial positions, but are specific to those who consider naturally to devote all the time, all efforts for their work, or "to hide anxiety in work" (Heintz 2005:10).

The priority given to personal fulfillment through work, as well as the race for maximum productivity, is an encouragement of competition in work. To obtain a position in the social hierarchy, others have to be overcome. This involves a competitive spirit, something often

considered favorable because it favors progress, avoiding hazards routine, laziness, work done improper, leading to increased effectiveness and productivity. But this "limitlessness of work" (Heintz 2005:7) becomes questionable whether the motive is the desire to dominate the others, to show superiority, and the bias to accumulate experience consists only in the desire to have more power.

Competition without reserve can lead to a situation in which the other colleagues are considered rivals, who must be defeated. Bell (1976:49) summarizes the situation by the following statement: "Behind the chiasm of modern man is the megalomania of self-infiniteisation. In consequence, the modern hubris is the refusal to accept limits, the insistence on continually reaching out". Although this description might be considered hard in words, we have to recognize that many of our motivations for a hard work are based on our comparison with the others. Similarly, Konrad Lorenz (2001:39) considers "man's race against himself" one of the eight deadly sins of civilized humanity, conducting to "blinding greed for money" and "enervating haste." Analyzing the facts, we see that these two concepts are not foreign to current practices. Greed triumphs over prudence (Stiglitz 2010) and exhausting rush drives people to compete, generating the fear of being overtaken in the race, determining an excessive focus on immediate results, a short-term vision. But this fear, not only robs the human being of one of his essential quality - reflection - but it also leads to use various unethical practices. For example, we can mention the concernment of economic agents to sell a product less relevant in a given situation - when the client hasn't all the relevant information - because in this way he will exceed his target, or will achieve a social or financial reward.

This dialectical approach about competition in the labor force leads us to conclude that its effects may be diametrically opposite, with positive or negative impact. Often, the assessment of a competitive environment is limited to favorable aspects, being ignore the negative one. This perspective: that the encouraging of a very strong competition can facilitate unethical practices is neglected by many managers. Lorenz (2001:39) sustains that "under the pressure of interhuman competition all that is good and useful for humanity as a whole as well as for the individual human being, has been completely set aside."

Based on the presupposition that the large companies offer more opportunities for achieving the highest professional level, and therefore favorite a climate for a strong competition, my research looked for a correlation between strong competition and unethical practices. 850 managers from different companies in Romania were asked to select three causes for unethical practices from a list of eight causes. One of this was the "strong competition". The table below summarizes the obtained results:

Table nr.1 *Perception of a "strong competition" as a cause for unethical practices correlated with company size*

Companies:	1-9 employees	10-49 employees	49-249 employees	Over 250 employees	Results from the sample
Relativ value for "strong competition" as the main cause for unethical behavior	9 %	11,5 %	15,3%	30,8 %	11,0 %

Hierarchical position held by "strong competition" from a eight scale ranking	8	8	7-8	4	8
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Source: Data obtained by the author in the research project: Business ethics and competitiveness in Romania, financed in the doctoral program „Cercetători români competitivi prin programe doctorale moderne și eficiente, Programul operațional Sectorial Dezvoltarea Resurselor Umane 2007 – 2013,”

Analyzing these results, it is obvious that managers who manage companies with a few employees, do not see the strong competition as a key factor of unethical practices. These issues are due to the fact that the desire for professional achievement is not so broad in these companies. It is important to mention that as far as the number of employees increases, the strong competition tends to be one of the main causes of unethical behavior, reaching from the last position, in fourth place. These results reinforce the above statements: that limiting the value of work to desire of self-assertion, can lead to negative consequences.

Level III – work as a reconciliation between private interest and public good

In order to illustrate how I understand the work ethic specific to the third level or how work should be subordinated to the goal of being useful to society, I will take as a starting point J.J.Rousseau's social contract theory undergone by the allegory of deer hunting. If a deer was to be taken, all hunters saw that, in order to succeed, they must abide faithfully by their post: but if a hare happened to come within the reach of any one of them, it is not to be doubted that he pursued it without scruple, and, having seized his prey, cared very little, if by so doing he caused his companions to miss theirs (Rousseau, 1973 86-7). The key feature in Rousseau's example seems to be that the participants are not committed to each other in any way. Those who too readily chase a passing rabbit will find themselves not invited to future stag hunts. Hence those with the self-discipline to accept a short-term loss for the sake of a longer-term gain will be rewarded. If everyone went their separate ways, they would achieve modest benefits. However, with the continued co-operation of others, they can each do better. A surplus is possible, compared to independent action.

Some attributes and conclusion upon the work ethics

Taking in account the specific attributes to work ethics at each level, it is obvious that work ethics at the third level offers a greater consideration to the human being as a workforce. Some key-features of the work ethic at this level might be:

- Employee retains the freedom of conscience and their own reasoning, being accountable for the way in which this freedom to carry out his duties (Young 2009:187);
- The development of a psychological comfort is achieved through work discipline, responsibility, respect for work performed by others. Often the pursuit of debt is hindered by dependence on the results of work produced by another employee. Starting meetings tardily, the lack of punctuality, may lead to personal offending, while punctuality avoids losing the time and energy resulting from expectations and the achievement of maximum efficiency.
- A proper time administration. More likely when we exercise our activities we are based on the concept of Benjamin Franklin that "time is money" as it is reflected in Max Weber's work (1998:45). The logic of capitalism leads to the conclusion that time is "expensive". In this way, time management is "a reflection of the desire for power: to possess metaphysical uncertainty, to master the own time and others' (Heintz 2005:137). These issues can lead to an intensification of the work, so far that the workforce is no long considered an aim but a mean for some targets, being affecting the principle of

human dignity. A proper time management is not limited to the situation of performing a task in a record time, but it is specific to a correct report on duties.

- The employment seeks to avoid any conduct or unproductive competence conflict between departments or within their relationships with managers. It is not denigrated the image of other colleagues, gossip is refused, maintaining loyalty to the absent ones;
- The workforce is truly concerned about the quality of products and services offered by the company, being not concern on immediate benefits;
- The employees are involved in various voluntary activities or community service. Recent research conduct by European Foundation for the Improvement of Living and Working (2011) shows that Romania has a relatively low level of volunteering along with Belgium, Cyprus, Czech Republic, Ireland, Malta, Poland, Portugal, Slovakia, Slovenia and Spain. Only 10-19% of adults have attended a volunteer activity in 2010, while in countries like Austria, Netherlands, Sweden and the UK the rate goes up to 40%.
- Workforce demonstrates loyalty to the organization in which they operate. In times of economic difficulties, they remain committed to the company being aware of the social impact of its abolition. This kind of relationship is built on mutual commitment for both parties. A proper example in this sense is supplied by Malden Mills Company. In December 1995, the company was destroyed in a fire. After this event, the owner Aaron Feuerstein continued to pay his 3000 employees their full salary for the next six month while the factory was been repaired.

Work ethic at this level is not based on various psychological and social interventions. In this sense, the employee is not designed to work only under certain incentives but based on ethical commitment, endorsed by both sides. No part looks at its own advantages, but a reciprocal account, based on the win-win position; it is what in Levinas words means *concern for the Other*. A company which these specific attributes, succeed to induce loyalty to the employees on the basis of what it offers. Its declared values are sustained by facts and there is no discrepancy between them. Specific to this situation is the harvest principle: *one will reap what he is sowing*. Finally, to synthesize the approach to the work on three levels, we present a well-known parable of three builders, who were making the same activity. Being asked one by one what they are doing, each gave a different answer, according to the perspective they had about the value of work. The first said that he is "carving in stone", the second one considered that he builds up and the third one said that he is "building a cathedral for the benefit of the people and to the glory of God."

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EXPLORATORY STUDY REGARDING THE QUALITY ASSESSEMENT OF SERVICES OFFERED BY AN AUTO REPAIR SHOP IN CLUJ-NAPOCA

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The quality of services should be treated as a resultant derived from the satisfaction of the costumers participating in the service consumption, which requires prior knowledge on the predictable behaviour and reactions of the clients to the offered services. In its turn, the service monitoring system's design must be shaped according to these behaviours: service delivery, service delivery management and service quality control are therefore inherently subject to a double purpose: obtaining consumer satisfaction and stimulating them to seek, in the future the services of the same tender.

It is obvious that, in the case services, their intangible character makes quality aspects to be rarely identified in physical or quantifiable indicators, which means that service quality measurements remains largely subjective or up to the client. As a result, each manager must choose some criteria for establishing the principles used in quality assessment and, ultimately, the practice under market competition conditions, is the one that will approve or not, on the long run those criteria, therefore the service's quality and its adequacy for a particular customer segment.

Key word: service quality, global quality, client satisfaction, questionnaire, services.

JEL codes: M10, M20, M30.

In drafting the study conducted in the auto repair shop we covered the following steps:

1. Defining study objectives and setting the existing constraints;
2. Researching the best suited survey basis, most adapted to the situation, taking into account the quality and cost issues as well as the choice of survey method and the sample creation;
3. Observation;
4. Checking and coding the questionnaires. Preparing the data for processing;
5. Data processing and analysis;
6. Final report and the result evaluation.

We summarized below the aspects that we considered relevant for each covered stage.

1. Defining study objectives and setting the existing constraints.

The survey aimed to identify the quality level of services offered by the auto repair shop in terms of beneficiary's point of view. Since it is not the kind of activity to involve a large number of customers daily, we performed an exploratory study and not a market research or a rigorously underlain scientific survey.

2. Researching the survey basis and creating the sample.

Regarding the survey's basis for the performed study, it was composed of all the garage's customers during the timeframe February-March 2012, which were 67 people.

3. Statistical observation.

Since observation is the act of gathering information concerning statistical units according to rigorously defined criteria, covering this stage involved the following steps:

- * We identified variables that were going to be studied and which later led to the development of the questionnaire;
- * I developed and tested the questionnaire;
- * I chose the data collection technique (taking into account the study objectives and the complexity of the information that we wanted to pick up, I chose the direct administering of the questionnaire through investigation, to potential customers of the car repair shop; this has allowed us to use any type of question because we were able to provide some explanations about certain questions; it even allowed us to get answers for

open questions, that are usually avoided by the respondents, for lack of time or other reasons.

- ✘ I set the place and time of observation, therefore the administering of questionnaires was performed during February-March 2012.

4. Checking and coding the questionnaires

Out of the 67 questionnaires administered to potential customers or car owners who entered the garage during the study, given the direct administering of the questionnaires, there were no inaccuracies.

5. Data processing and analysis.

Not to use outdated data in the analysis, as a questionnaire was completed, we proceed towards organizing the data and registering them into the computer.

6. Final report and the result evaluation

The final report is the relationship between actual research and actions that will follow its results. The research report can be considered a "product" to be capitalized and therefore it must have the following characteristics:

- it should satisfy a need, which is the need for information to be able then to make a decision;
it addresses precise users who were generically called "target" of the research report;
- it must be properly conditioned - to have an adequate presentation;
- it must be an action of communication – we should be able to talk about promoting the report;
- it must be distributed correctly – the dissemination of the report should be made, taking into consideration the above guidelines and the that he may also end up being read by people other than the "professionals", which implies an increased concern with editing.

Because in our case, the research aimed to inform the manager about customer satisfaction, promotion and distribution were very limited.

Development and testing of the questionnaire:

The questionnaire is the "basic tool used for data collecting, conditioning to a high degree the success of the research." [1] Developing a survey involves studying economics, statistics, sociology, psychology, computer science, because it is a difficult problem with multidisciplinary character.

The questionnaire has a critical role and position in marketing research because it has to translate the objectives of the research into precise, specific questions to obtain the desired information from the investigated subjects.

Although there is no generally valid pattern for drafting questionnaires, the results of theory and practice specialty have pointed out that a "good" survey must meet certain conditions [2]:

- ⤴ it should be as short as possible, but also cover all the questions necessary to obtain relevant, significant information;
- ⤴ it should be proper for the investigated subjects, namely:
 - ✘ it should be explicitly built for the subjects to understand it;
 - ✘ it should use appropriate language for the intellectual level of the subjects;
 - ✘ it should be easy to fill up, in a concise, interesting, fluent and logical manner.
- ⤴ it should be easily manageable, enabling quick response recording and encrypting;
- ⤴ it should allow easy listing of the information;
- ⤴ it should be translatable, ensuring transmission of the subject's feelings, opinions and thoughts, the findings and recommendations arising from their answers, to satisfy in particular the thirst for information of the managers.

The sketching and drawing up of the questionnaire involves getting through the following steps [2]:

1. Clearly defining the necessary and desirable information

The questions in the questionnaire followed the main aspects of the offered /received services as well as their quality level, according to the questionnaire in the 1st Appendix.

2. Establishing the type of questions (questionnaire's structure)

Given the information we wanted to achieve, we used both open and closed questions (with coded, pre-established answers) as well as questions with scale answers, even if they were more difficult to interpret and there was a need for extra explanations to be offered to the respondents.

3. Formulating questions

We have paid special attention to the formulation of questions, being aware that any changes in the formulation of questions can lead to very different answers. Therefore we tried to use a clear and concise formulation, as short as possible, to avoid ambiguity and to use plain language without "preciosity". We also tried to avoid getting insincere responses influenced by the respondent's predisposition for a certain answer as well as the restriction of the investigated subject's expression possibilities.

4. Establishing the succession of questions

Since the sequencing of questions must trigger and maintain the interest of the investigated subject throughout the entire inquiry, the questions in the administered questionnaires had the following the sequence:

- a) Introductory questions, general ones, that were polite, non-threatening, intended to heat the atmosphere; generally they were simple questions, which could be answered directly and easily;
- b) Complicated questions, with "worked" answers which refer to the investigated subject's views and options and which were mainly assessed using the scale responses.

5. Questionnaire's design

In creating the questionnaire we intended it to give the impression of an important document, simple and pleasant to look at. We numbered each question, each and every page of the questionnaire and every survey and to facilitate the work of the respondents the size of the assigned letters and spaces were large enough. To avoid any confusion, questions and their afferent answers ended on the same page.

6. Questionnaire's pre-testing

Since all the textbooks present this stage as being absolutely necessary, we conducted the questionnaire's pre-testing, pursuing the following aspects: the understanding degree of the questions, their clarity, the sequence of questions and sufficiency of answers formulated in the questionnaires as well as the time needed to fill in a questionnaire.

Following this pre-testing, we eliminated some questions that proved to be unnecessary and we introduced others, according to the information we wanted to obtain; we replaced some words that had proved to be interpretable and / or confusing and we made changes in the sequence of questions to eliminate some discontinuities.

7. Review and final editing

We made the changes required after pre-testing the questionnaires, we checked the design prior to these changes and we drafted their final form.

8. Questionnaire's implementation

As I said before, we used the direct administering of the questionnaires, on the customers of these companies or to visitors.

Conclusions we reached after data processing:

General observations:

We retrieved (based on the answers to questions 7, 8 and 9 of the questionnaire) the following observations:

- 24 out of the 67 interviewed people, came up with private car, which means that most of them (64.18%) came with their work car;
- 41 people, which is 61.19% had previously scheduled the visit to the car repair shop, while the remaining 26 people had no scheduling;
- most of those interviewed said that they visit / contact a car repair shop every three or four months, as follows:

Table 1.

The time frame for visiting / contracting a car repair shop

	Time frame					Total
	1 month	2 months	3 months	4 months	More than 4 months	
Number of people (%)	-	4,48	35,82	47,76	11,94	100

Observations of the visit:

We retrieved (based on the answers to questions 1 and 2 of the questionnaire) the following observations:

- most respondents had been to the garage before (46 people out of the 67 surveyed) and those who have not been there before, reached it by receiving recommendations from loved ones (19 respondents) while only two people entered the car repair shop by passing by, as follows:

Table 2.

Aspects that determined the visit of the interviewed people

	Determining Aspects				Total
	Advertising	Close people	Previous experience	Others	
Number of people (%)	-	28,36	68,66	2,98	100

There are two aspects to be noticed in this context, given the responses of those who were interviewed:

- a positive aspect – the fact that most of them came back which makes us assume that they were satisfied with the services
- a negative aspect – lack of advertising and therefore the absence of its influence – which in the present economic conditions and on a highly segmented market is imperative for a company working in the field of services.

Features related to the quality assessment of service offered by the car repair shop: The answers to the third question of this questionnaire, applied to the various respondents who visited the garage, will help us identify the quality of the offered services from the customer's perspective; we tried to identify the quality level of services by determining the marks or the average values of each question that covered a specific attribute (feature); with this purpose, analyzing the responses to the applied questionnaire, we determined the following:

Table 3.

Respondents' assessment concerning the quality characteristics of the offered services

-%-

No. crt.	Assessed aspects	marks					Total
		Very good (5)	Good (4)	Indi-ferent (3)	Satisfying (2)	Unsatisfying (1)	
1	How do you appreciate the global quality of the performed service?	64,18	35,82	-	-	-	100
2	How do you appreciate the time frame necessary to deliver the solicited service?	61,19	38,81	-	-	-	100
3	How do you appreciate the quality/price report for the delivered service?	58,21	31,34	10,45	-	-	100
4	How do you appreciate the cleanliness in the car repair shop?	28,36	50,75	20,89	-	-	100
5	How do you appreciate the information/ consultancy received from the car repair shop ?	23,87	58,21	11,94	4,48	1,5	100
6	How do you appreciate the communication channels offered by our (fax, tel., e-mail, etc)?	35,82	47,76	-	16,42	-	100
7	How do you appreciate the diversity of services offered by our garage?	37,39	4,41	-	55,22	2,98	100
8	How do you appreciate the professionalism degree of our employees?	16,42	83,58	-	-	-	100
9	How do you appreciate the repair warranties?	59,70	37,32	-	2,98	-	100
10	How were the complaints about the services offered by our garage dealt with?	56,72	38,80	-	4,48	-	100
11	How do you appreciate the company's image advertising campaign (as it is reflected in the media, on the internet, etc)?	1,5	13,43	28,36	-	56,71	100

If most of them appreciate as 'good' and 'very good' the overall quality of services, the time necessary for service to be delivered, the quality / price ratio, the cleanliness, the professionalism of the staff, the warranty offered for repairs, the treatment of complaints – there is an obvious need for framing and profoundly understanding the reasons why the following aspects were recorded:

- 55.22%, which is 37 of the respondents are satisfied only by the diversity of the services offered in the car repair shop, while 37.39% (25 respondents) values the diversity of services as being very good. These answers lead us to

wonder whether there are services that customers would appreciate but are not provided by the car repair shop

- 56.71% of the respondents (38 people) appreciate the company's promotional activity with its services as being absolutely unsatisfactory – which proves once again, the negative effect of the fact that the garage has no website and it does not assign a budget for various promotional activities. Interesting is the opinion of 28.36% of respondents (19 people) stating that it is all the same for them, if they read, hear or see something about this car repair shop in the media, on the internet etc. They are the ones who have become loyal customers in time and are only influenced by the quality of the services they have already received?! Here's a question that needs an answer!

The marks obtained for each of the evaluated characteristics were:

Table 4.

Respondents ratings concerning the quality characteristics of the offered services

No. crt.	Evaluated aspects	marks					Mark
		Very good (5)	Good (4)	Indi-ferent (3)	Satis-faying (2)	Unsatisfying (1)	
1	How do you appreciate the global quality of the performed service?	43	24	-	-	-	4,64
2	How do you appreciate the time frame necessary to deliver the solicited service?	41	26	-	-	-	4,61
3	How do you appreciate the quality/price report for the delivered service?	39	21	7	-	-	4,47
4	How do you appreciate the cleanliness in the car repair shop?	19	34	14	-	-	4,07
5	How do you appreciate the information/ consultancy received from the car repair shop ?	16	39	8	3	1	3,98
6	How do you appreciate the communication channels offered by our (fax, tel., e-mail, etc)?	24	32	-	11	-	4,02
7	How do you appreciate the diversity of services offered by our garage?	25	3	-	37	2	3,17
8	How do you appreciate the professionalism degree of our employees?	11	56	-	-	-	4,16
9	How do you appreciate the repair warranties?	40	25	-	3	-	4,56

10	How were the complaints about the services offered by our garage dealt with?	38	26	-	3	-	4,47
11	How do you appreciate the company's image advertising campaign (as it is reflected in the media, on the internet, etc)?	1	9	19	-	38	2,03

If we consider the characteristics assessment scale starting with 1 - for the minimum grade, 5 - the maximum grade, knowing that the differences between the maximum score and the evaluation's results that exceed 1.5 points are critical in the provider's activity, we can highlight the following:

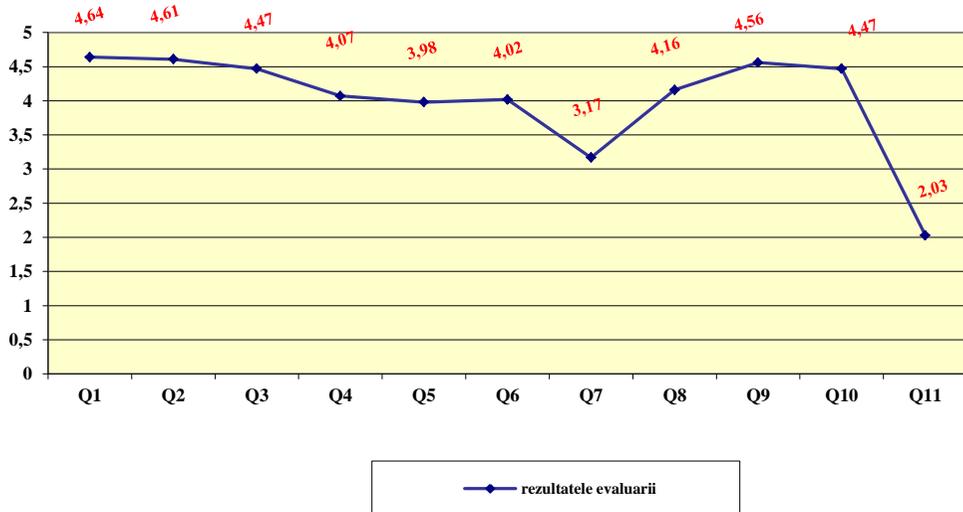


Fig.no.1. The marks obtained by respondents evaluation

The graphical representation of the evaluation results shows that the provider company's manager must take very quick measures, in terms of:

- first of all the company's promotion activity and its services - and here perhaps the creation of a website with contact data (the ability to contact the staff via e-mail) would be the first necessary step;
- then, efforts should focus on the range of offered services, which refers to their diversification;
- and last but not least, it should turn its attention to the relationship between customers and staff, to identify the reasons for dissatisfaction concerning the information, the specialty consultancy, provided by the garage's employees.

The 4th question seeks to identify elements that are important to the respondents (customers or potential customers) about the quality of services, so that they can be used later to improve the quality of the company's offered service or even to diversify them. Thus between the elements stated by respondents as being able to determine an increased in the quality of the offered services, the following emerged:

- bringing the car repair shop up to date and improving the training of the staff (28.45%);

- other issues (8.37%) such as:
 - diversifying the range of offered services;
 - faster solving of minor technical problems;
 - creating a waiting are;
 - the possibility of paying with credit card;
 - a website should be available to offer information about tariffs and services;
 - extending of the opening hours and work on Saturdays;
 - a stock of items necessary for "minor" interventions should be available

Issues affecting the service quality assessment:

The 5th question sought to determine the important elements that have an overwhelming influence in assessing the quality of services offered by a car repair shop, by giving marks from 1 to 10 and ranking some items according to their importance for the respondent. Thus, we determined a mark for each hierarchy's element, producing a score for each item by summing the grades given by respondents and dividing by the number of analyzed questionnaires (which is the number of respondents) we obtained the following results:

Table 5.

The answers to the 5th question

The element	Number of answers for each mark										Final mark
	10	9	8	7	6	5	4	3	2	1	
Service tariffs	41	17	8	-	-	-	-	-	-	-	9.36
Repair warranty	48	15	4	-	-	-	-	-	-	-	9.66
The diversity of service range	11	15	21	23	7	-	-	-	-	-	8.57
Garage's equipments	10	21	35	1	-	-	-	-	-	-	8.60
Employees professionalism/technical abilities	12	21	33	1	-	-	-	-	-	-	8.66
Promptitude/honouring the deadlines	26	35	6	-	-	-	-	-	-	-	9.30
The space fitted for the working area, and the waiting area	10	14	37	6	-	-	-	-	-	-	8.42
Received consultancy/information	12	28	26	1	-	-	-	-	-	-	8.76
Credibility	29	13	19	6	-	-	-	-	-	-	8.97
The garage's working hours/schedule	16	18	23	10							8.60

According to the assessments made by respondents we have acquired the following classification of elements having an influence on quality:

Table 6.

Hierarchy of elements that influence a car repair shop quality assessment of services

Rank	The respondents drafted hierarchy
1	Repair warranty
2	Service tariffs
3	Promptitude/honouring the deadlines
4	Credibility
5	Received consultancy/information
6	Employees professionalism/technical abilities
7	Garage's equipments
7	The garage's working hours/schedule
9	The diversity of service range
10	The space fitted for the working area, and the waiting area

The most important element in assessing the quality of services was the warranty granted for the repairs, followed in order by service fees, promptness / timeliness and the credibility of employees and the company in general.

Equally important for the respondents are the garage's equipments and its working hours and almost insignificant is the space fitted for service and waiting area.

The information obtained by the instrumentality of this question is particularly valuable for the company because in the future they will understand better what elements they need to use as background for their offering strategy and for establishing the services with their related tariffs (for example, they will not insist too much on highlighting potential investment in spatial arrangements, as long as the majority does not care about this aspect, but certainly they will be very careful in highlighting the warranties granted for the performed services or in informing the customers about tariffs and generally about the practiced discounts) understanding now, that these elements and the care for their judicious settlement, come to meet the wishes of the customers and to increase their satisfaction.

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STRATEGIC APPROACHES OF INTERNATIONAL HOTEL CHAINS TO ENTER ON THE ROMANIAN MARKET

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On the Romanian market 23,9% of all accommodation structures are hotels. Among these 4% are belonging to international hotel chains which is a very small percentage. Almost all international hotel chains realized the potential of the market and that is why they intend to increase the number of hotels opened in Romania. Hotel chains attempt to control and dominate the market as result of an extremely dynamic and complex environment. The decision made by a hotel company to carry out its activity in a foreign country and the way to enter into the market can be motivated by many reasons. The paper analysis the presence of international hotel chains on the Romanian hospitality market and the strategies used to enter on the Romanian market compared with the global strategies. The paper used the comparison method to highlight different entry strategies used by international hotel chains when entering a foreign market. For data collection, the main method used was the observation of annual statistical reports with the support of international hotel chains. The first international hotel chain that came in Romania was InterContinental in 1971, but the majority entered on the Romanian market after 2000. In 2012 other chains announced the intension to penetrate this market. The study identifies strategies for penetrating the Romanian market by international hotel chains. The preferred penetration strategy on the Romanian market is management contract followed by franchise. Not least are highlighted comparative aspects of internationalization decisions taken by the chains in the world and in Romania, analyzing whether in Romania are predominantly used the same strategy as in most other countries or some specific strategies. International hotel companies want to entre on the Romanian market because they consider that in this area is need for hotels which belong to the luxury segment but also hotels that belong to the economy segment.

Keywords: hotel chain, penetration strategies, Romania hotel market

JEL Codes: L83

I. Introduction

According to the statistical data provided by the National Institute of Statistics, in 2010 was a total of 1246 hotels on the Romanian market; that means 23,9% of all accommodation structures from Romania. (Romanian Tourism. Statistical Abstract., 2011:21)

Among these, there are currently 48 hotels belonging to international hotel chains. At this moment, there are 18 international hotel chains on the Romanian market, namely: Golden Tulip, Best Western, Danubius Hotels, Hunguest Hotels, Ramada, Pullman, Novotel, Ibis, Howard Johnson, Radisson Blu, K+K Hotels, Hilton, DoubleTree by Hilton, JW Marriott, Crowne Plaza, Intercontinental, Starlight Suite Hotels and NH Hotels.

II. The presence of international hotel chains on the Romanian hospitality market

In 2010 were 1246 hotels on the Romanian market. From those 48 belong to international hotel chains, representing just 4% form all hotels that are present on the Romanian market. The rest, 96% are Romanian hotels (Fig. nr. 1).

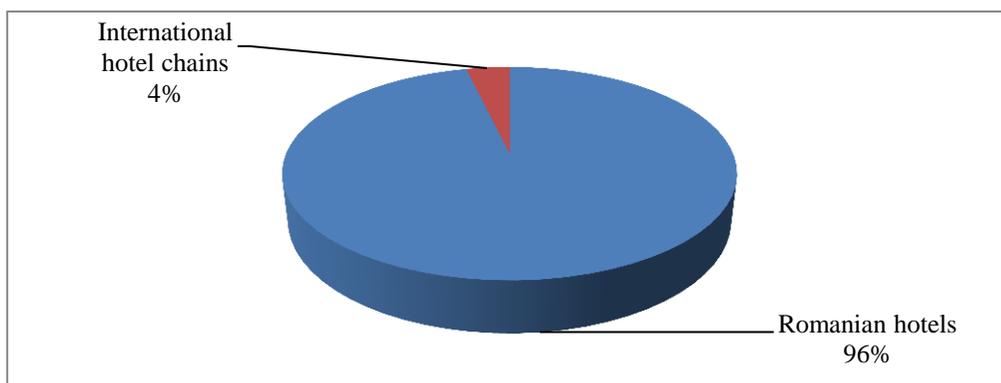


Fig. nr. 1: The presence of international hotel chains on the Romanian hotel market

Source: made by authors

Even, at this moment, the presence of international hotel chains on the Romanian market is very low. Almost all international hotel chains realized the potential of the market and that is why they have the following strategy: increasing the number of hotels that are in this country by opening hotels also in the province. Also, they want to penetrate the Romanian market with other brands that belong to the same international hotel group.

III. The international hotel chain evolution on the Romanian market

To understand the situation, is very important to analyze which was the international hotel chain evolution on the Romanian market. Table nr. 1 shows the penetration years used by the international hotel chains to get on the Romanian market. The first international hotel chain that came in Romania was InterContinental, in 1971, followed by the chains Hilton, Best Western and Crowne Plaza.

Table nr.1: The years used by the international hotel chains to penetrate the Romanian market

Hotel chain	The penetration year on the Romanian market
Intercontinental	1971
Hilton	1996
Best Western	1997
Crowne Plaza	1998
JW Marriott	2000
Danubius Hotels	2001
Ibis	2001
Hunguest Hotels	2002
Howard Johnson	2004
NH Hoteles	2005
Golden Tulip	2005
Ramada	2005
Novotel	2006
K+K Hotels	2006
Radisson Blu	2008
Pullman	2009 (from 1994 Sofitel)
Starlight Suiten Hotels	2009
DoubleTree	2011
Hampton	Starting 2012

Source: made by authors

The other international hotel chains entered on the Romanian market after 2000. It can be seen, that those chains came on this market, step by step, almost each year had a new entrance. Also, in 2010, no international hotel chain entered on the Romanian market. But 2011 brings another opportunity for other hotel brands or the old international chain development. In 2012 other chains announced the intension to penetrate this market.

Strategies used in Romania based on the number of hotel chains present on the Romanian market

The strategies used by international hotel chains are different. The hotel chain takes into account the specific of each hotel chain, but also the advantages taken into consideration when a chain wants to penetrate a foreign market.

From all 18 hotel chains, which are on the Romanian market the most part of them are using the same penetration strategy for all the hotels. Exceptions are Hilton Hotel (is using franchise and management contract) and NH Hotels (uses management contract and leased contract). Fig. nr. 2 shows the strategies used by international hotel chains, which are present on the Romanian market.

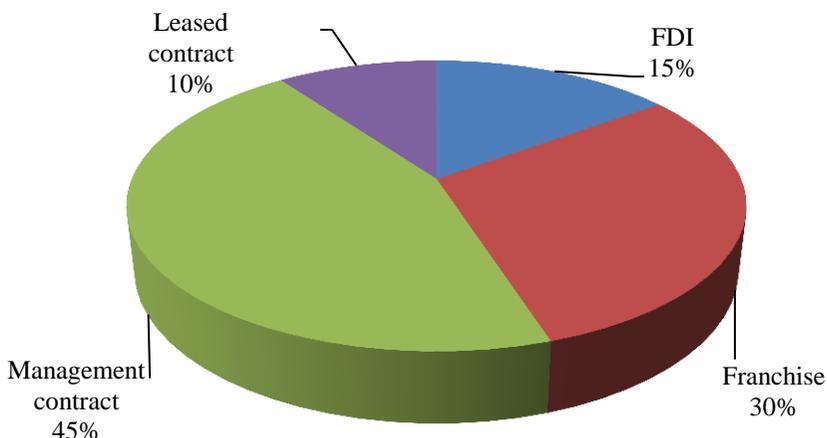


Fig. nr. 2: Strategies used by international hotel chains, which are present on the Romanian market (% number of international hotel chains)

Source: made by authors

The international chain strategies used in Romania, compared with the global strategies

The most part of international hotel chains are using also in Romania the predominant strategies. From 18 international hotel chains, which are present on the Romanian market, twelve are using in Romania the same predominant strategy of the chain and six chains are using a different strategy (Table nr. 2).

Table nr. 2: The use of predominant strategy also in Romania

	<i>Predominant strategy into the world</i>	<i>Strategy used in Romania</i>
<i>Golden Tulip</i>	Franchise	Franchise
<i>Best Western</i>	Franchise	Franchise
<i>Ramada</i>	Franchise	Franchise
<i>Howard Johnson</i>	Franchise	Franchise
<i>Radisson Blu</i>	Management contract	Management contract
<i>Pullman</i>	Management contract	Management contract
<i>Novotel</i>	Leased contract	FDI
<i>Ibis</i>	Leased contract	Management contract
<i>Hilton</i>	Franchise	Management contract/Franchise
<i>DoubleTree by Hilton</i>	Franchise	Management contract
<i>JW Marriott</i>	Management contract	Management contract
<i>Crownw Plaza</i>	Franchise	Management contract
<i>Intercontinental</i>	Management contract	Management contract
<i>Danubius Hotels</i>	FDI	FDI
<i>NH Hoteles</i>	Leased contract	Leased contract/ Management contract
<i>K+K Hotels</i>	FDI	FDI
<i>Hunguest Hotels</i>	FDI	Franchise
<i>Starlight Suiten Hotel</i>	Management contract	Leased contract

Source: made by authors

IV. Conclusions

Even at this moment, in Romania, the number of international hotel chains is not significantly; but this situation will be changed in the future. International companies want to entre on the Romanian market because they think that in this area is need for hotels which belong to the luxury segment but also hotels that belong to the economy segment. On the Romanian market, are expected also other hotel companies: Kempinsky, Hyatt, Four Seasons, Sheraton or Leading Hotels of the World, trough private properties but also affiliations, franchise or management contract.

The most important challenges, that the hoteliers must consider, are the high costs to construct the property, the growing costs with workforce and utilities and the unpredictable costs for land acquisition. Also, a big opportunity, that the new international hotel chains have to enter on the market, is the lack of quality services into the secondary cities from this country.

Romania becomes an interesting country for the big international hotel chains, given by the fact that many companies have relocated their production here. This thing is very good and important for the Romanian tourism, because the international hotel chains that are already on this market and those that are not yet in Romania, will want to invest in this country, in the capital but also in the province.

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FEATURES AND CHARACTERISTICS OF MERGERS AND ACQUISITIONS WAVES - OVERVIEW AND THE EUROPEAN EXPERIENCE

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This paper analyses the mergers and acquisitions waves that took place in history, emphasizing the generating factors of each wave of operations, as well as the particularities specific to each period. Systematically, these growth and development instruments have become very attractive for the firms in the entire Europe and, in the present, the phenomenon of mergers and acquisitions represents a reality having a major impact on national economies and also on the world economy. This research is based on a systematic, logical and comparative analysis of scientific literature and statistical data regarding mergers and acquisitions.

Key words: external growth, mergers, acquisitions, waves, Europe

JEL Codes: M10, M20

1. Introduction

The phenomenon of mergers and acquisitions appeared long time ago in the United States, yet at the European level this phenomenon is relatively new, mainly presenting a strategic dimension. The appearance and generalization of waves of mergers and acquisitions in the European countries, following the American model, emphasize the necessity of a vision on this phenomenon over a longer period of time. The mergers and the acquisitions take place most often in waves which affect mainly certain activity sectors. Since the end of the 19th century, the United States have experienced six waves. In Europe, they were less emphasized until the '60s since the increasing interdependence of economies has favoured a convergence of the concentration movements.

2. Research methodology

This paper is based on a systematic, logical, and comparative analysis of scientific literature and of the statistic data referring to the waves of mergers and acquisitions. Thus, we used as a research method the qualitative approach in order to analyse the waves of mergers and acquisitions whihc took place one after another in history and to emphasize the factors genrating each wave of operatipons, as well as the particularities specific to each period.

3. The waves of mergers and acquisitions – particularities and characteristics

The first waves of mergers and acquisitions took place between 1897 and 1904, 1916 and 1929, 1965 and 1969, 1984 and 1989. At the end of the '80s the merger and acquisition activity recorded a decline, but it was resumed at the beginning of the '90s, giving the start to the fifth wave. We have to mention the fact that only in the '90s, the mergers and acquisitions present, for the first time, similar characteristics in the assembly of developed countries, reflecting the increasing globalization of economies and market deregulation. A relatively short yet intense period of mergers and acquisitions took place between 2003 and 2007, which made several researchers (Gaughan, 2011:35; Ceddaha, 2007:20) consider it as the sixth wave of mergers and acquisitions.

3.1. The first wave of mergers and acquisitions: the wave of horizontal operations

Regarding the first wave of mergers and acquisitions taking place in 1897-1904, Gregoriou and Renneboog (2007:2) maintain the fact that it was generated by the economic recession (that of 1883) and it was impelled by the legislation regulating these operations, by the increase of

industrial stocks and also by the enterprises 'desire to obtain efficiency revenues (DePamphilis, 2010:17). The greatest majority of operations targeted industrial enterprises belonging to the same sector, thus being horizontal operations (Bancel and Duval-Hamel, 2008:19; Lees, 2003:47).

Scherer and Ross (1990, quoted by Coutinet and Sagot-Duvaurox, 2003:20) shows that the main characteristic of the first wave of mergers and acquisitions in the United States is represented by the horizontal operations simultaneously involving more than two firms. Practically, the main purpose of this wave consisted in the consolidation of industrial production and in the reduction of competition (Lamoreaux, 1985 quoted by Gregoriou Renneboog, 2007:2). Therefore, Stigler (1950) considers that the main motivation for mergers and acquisitions was to obtain a monopoly position ("*mergers for monopoly*"), the consolidation taking place in main branches such as transports, oil industry or steel industry.

At Europe's level, only Great Britain was touched by this phenomenon of corporate concentrations. Thus, Vieillard (1990, quoted by Briciu and Nivoix, 2009) maintains that this country has experienced, in the same time with the United States, numerous merger and acquisition operations, which has led to the formation of some large national groups in sectors such as textiles, tobacco etc. On the other side, Ceddaha (2007:17) considers that the first wave of mergers and acquisitions affected especially the hard industry, allowing the formation of real empires such as US Steel, General Electric, DuPont, Standard Oil or Rockefeller. This first wave of mergers and acquisitions was stopped by the great recession in 1940, the fraudulent financing and by the first refusal of a merger by Northern Security company by reason of applying the antitrust laws (The Sherman Antitrust Act) (Coutinet and Sagot-Duvaurox, 2003:20).

3.2. The second wave of mergers and acquisitions: the emergence of vertical operations

After the end of the second wave of operations, around 1950, the merger and acquisition activity remained at a relatively low level until the end of 1910. Yet, during the '10s the antitrust legislation started to get roots, both in the United States and in Europe, most probably as a result of the previous monopolization attempts (Gregoriou and Renneboog, 2007:2), which has significantly changed the rules of the game, during the second wave of mergers and acquisitions. The diminution of the opportunities to make horizontal operations within certain sectors and the strengthening of the antitrust legislation in the United States (the Clayton Act of 1914 which forbids mergers and acquisitions reducing significantly the competition in a sector of economy) have allowed the emergence of new types of operations during the second wave of mergers and acquisitions (between 1916 and 1929) that is the vertical operations (Kleinert and Klodt, 2002; Javidan et al., 2004:246, Lees, 2003:47). The enterprises' concentration movements have as objective the consolidation of the position of firms within the oligopolistic markets (Bancel and Duval-Hamel, 2008:19). For this, Stigler (1950) has qualified the operations of the second wave as "*mergers for oligopoly*".

In Europe, only Great Britain had, in the same time, another wave of mergers and acquisitions, even though the other countries, too, experienced at the beginning of the century concentration operations (Morvan, 1972, quoted by Coutinet and Sagot-Duvaurox, 2003:21). According to Ceddaha (2007:17), the phenomenon of mergers and acquisitions reached, for the first time outside the American continent, British economy, too. Thus, the second wave of mergers and acquisitions in Great Britain mainly reached the alimentary sectors, electricity and chemical products. The wave of concentrations in Great Britain coincided, as in the case of the United States, with changes occurred industrially and technologically and also the emergence of new sectors (for example, the car sector). The development of mass production techniques has encouraged the growth in the size of enterprises, this being achieved simultaneously both by internal growth and by mergers and acquisitions (Coutinet and Sagot-Duvaurox, 2003:21).

The great depression started in 1929 represented the event marking the end of the second wave of mergers and acquisitions (Coutinet and Sagot-Duvauroux, 2003:21).

3.3. The third wave of mergers and acquisitions: the implication of European continental countries in the merger and acquisition operations

The third wave of mergers and acquisitions took place between 1965 and 1969. This wave was characterized by conglomerate type operations, being known in the literature as the “*wave of conglomerates*” (Bancel and Duval-Hamel, 2008:19). Ceddaha (2007:18) considers that the development of the antitrust laws incited the large groups adopt a diversification strategy. Thus, enterprises developed external growth strategies based on conglomerated mergers, in order to diversify the risks and make synergies (Coutinet and Sagot-Duvauroux, 2003:21; Javidan et al., 2004:246).

The engines of this wave were the growth of the capital markets and the sustained economic *boom* (DePamphilis, 2010:17). The main countries of continental Europe, Germany and France, experienced only after the Second World War, at the end of the ‘60s, the first wave of mergers and acquisitions, while the United States and Great Britain were facing the third wave. This wave of operations reached the highest level and was initiated on the background of an economic *boom*. Gregoriou and Renneboog (2007:2) consider that the operations of this wave can be attributed to some multiple causes such as: stricter antitrust regulations, less developed external capital markets and, also, economic, social, and technological changes.

Europe experienced in the same time the first wave of mergers and acquisitions which involved other European countries, too, outside Great Britain. Ceddaha (2007:18) and Coutinet and Sagot-Duvauroux (2003:22) consider that these operations had as motivation, mainly, the desire of industrial groups to reach a dimension called critical, in order to cope with the competitors. Practically, this was the time when large industrial groups were formed such as British Leyland (formed by grouping the national car producers), ICL (a company which became leader in the IT sector after the merger between English Electric and ICT), GEC (General Electric Company, which acquired several firms in the electricity sector) in Great Britain or Saint Gobain-Pont à Mousson, Usinor-Sacilor, Péchiney-Ugine-Kuhlman in France (Coutinet and Sagot-Duvauroux, 2003:22, Ceddaha, 2007:18). During the period analyzed, in Europe the horizontal mergers and acquisition flourished (Coutinet and Sagot-Duvauroux, 2003:22). The oil shock of 1973, succeeded by a serious stock exchange crisis, ended this wave of mergers and acquisitions.

3.4. The fourth wave of mergers and acquisitions: community scale and amiable character

The fourth wave of mergers and acquisitions, which took place between 1981 and 1989, belonged to an increasing globalization movement which involved a stronger and stronger dependence among the biggest industrialized countries and also a deregulation within different regulating sectors of developed countries (especially the United States and Western Europe countries). DePamphilis (2010:17) considers that the engines of this wave were represented by the growth of the capital markets, the economic *boom*, the conglomerates’ weak performances (which mainly targeted USA and were formed during the ‘60s), the favorable regulating (legislative) environment and favoring accounting practices. Practically, generally, this wave was characterized by operations generated by conglomerate’s split (*split* and *spin off*), Leverage-Buy-Out operations, the use of *junk bonds* (indeed, at a much higher level in USA than Europe, which experienced a much more modest activity of corporate takeovers), hostile takeovers (more in USA and less in Europe), the appearance of corporate raiders and financial investors using the lever effect in transactions (Bancel and Duval-Hamel, 2008:19; DePamphilis, 2010:17, Javidan et al., 2004:246).

As a result of research, Briciu and Nivoix (2009) states that more than 95% of the number of operations recorded during this European wave was amiable. The proportion is small if we take

into consideration the value of the operations (75%), which shows that hostility targeted especially operations involving large firms. Regarding the financing of merger and acquisition operations involving quoted European firms, 44% of the operations of this wave were financed wholly with money. These operations represented 42% of the total value of operations announced. The researchers also noticed that the percentage of the operations partially financed with money is of 80% of the total and in more than 40% of the operations made in 1987-1991, the payment was made in bonds exchange.

European countries started preparing themselves for the formation of Single Market by transforming some national champions into international champions or at least European champions. In the perspective of Single Market formation, the antitrust policies adopted at the level of European Union were materialized in the EU Directive regarding the control of concentrations, adopted in 1989 and entered into force on 21 September 1990 (Kleinert and Klodt, 2002).

After analyzing the reports of European Commission, we can notice that the percentage of mergers and acquisitions among enterprises belonging to different member states of European Economic Community and also the acquisitions of European firms by foreign firms, especially American, increased at the end of the '80s, as it can be seen in the following table.

Table 1. The evolution of national community, and international mergers and acquisitions in 1987-1993

Year	National operations (in % of the total number of operations)	Community operations (in % of the total number of operations)	International operations (in % of the total number of operations)	Unknown acquirer (in % of the total number of operations)	Total number of operations
1987	71.6	9.6	18.9	-	2775
1988	65.9	13.5	20.5	-	4242
1989	63.2	19.1	17.7	-	6945
1990	60.7	21.5	17.8	-	7003
1991	54.3	11.9	14.5	19.3%	10657
1992	58.1	11.6	14.2	16.1%	10074
1993	57.4	11.7	18.8	12.1%	8759

Source: Adapted from: European Commission. "Fusions et acquisitions". *Economie Européenne, Supplément A*, DGAEF, no 2, 1999:4-5. http://ec.europa.eu/economy_finance/publications/publication2894_fr.pdf.

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Note: for the years 1987, 1988, 1989 and 1990, European Commission does not provide data referring to the percentage of the operations in which the acquirer is unknown, of the total of operations made

It can be noticed that the percentage of national operations in the total of merger and acquisition operations is in majority. Yet, the increase of the number of community operations as compared to international operations is due to the fact that European enterprises, especially the British and French ones, more and more oriented towards Europe, in what cross-border acquisitions are concerned. Regarding cross-border operations, it can be noticed that European firms have become active on the much more developed American market of takeovers. Actually, considering the creation of the Single Market as an integrant part of a larger internationalization process, European enterprises developed, also, acquisitions outside the European space, too, especially in the United States.

This wave of operations was interrupted at the end of the '80s under the conjugated effect of such factors as: the crash of the *junk bonds* market, which ensured the financing in many of the Leverage-Buy-Out operations of this period, as well as different unfavorable conjuncture changes (Coutinet and Sagot-Duvaurox, 2003:23; Ceddaha, 2007:18; Gaughan, 2011:63).

3.5. The fifth wave of mergers and acquisitions: the internationalization and the use of share exchange – this wave's defining particularities

After a short break, the merger and acquisition market had an ascending evolution, during the '90s, reaching a historical peak in 2001. All the opinions expressed in the literature (Ceddaha, 2007:19; Gregoriou and Renneboog, 2007:3; Gouali, 2009:88) indicate the fact that the fifth wave of mergers and acquisitions started in 1993. It is the first truly world wave, both in the United States and in Europe or Asia, the wave presenting in all the areas the same characteristics and resulting from the same causes. Moreover, Europe reached a number of transactions comparable to that obtained in the United States. Thus, during this wave there were approximately 119,000 recorded transactions and in Europe there were approximately 117,000. Gregoriou and Renneboog (2007:4), making a comparison with the previous wave, noticed a significant increase in the number of transactions recorded (during the '80s there had been approximately 34,000 transactions recorded in the United States and 13,000 in Europe). The firms of continental Europe were as eager to participate to the merger and acquisition activity as their homologues in the United States and Great Britain. Also, many of the operations made during this wave were international operations, reflecting a growth of the capital markets' globalization. The mega-transactions, which represented another characteristic of this wave, require considerable financial resources, so that the main financing manner of the operations was represented by bonds, respectively a combination between bonds and the appeal for indebtedness. Except for an especially favorable macroeconomic context, three forces have mainly contributed to the creation of this euphoria: the globalization, the deregulation in all the sectors (energy, banking, telecommunications, and aerial transports) and especially the technological transformations which affected numerous sectors. Moreover, the appearance of the "new economy" transformed this strategic maneuver into a development model (Kleinert and Klodt, 2002; Coutinet and Sagot-Duvaurox, 2003:23-24; Ceddaha, 2007:19; Martin, 2008:177; Gouali, 2009:88-89).

During the fifth wave, European Union recorded a significant growth of the merger and acquisition activity, especially of the cross-border operations. In spite of all these, the large majority of transactions were national transactions. In 1990-1995, according to the European Commission's report (1996:6), more than 70% of all the operations recorded in the EU-15 countries were national transactions, a percentage approximately the same with the percentage of the 1986-1990 period. Countries like Germany, Spain or Italy cumulated most of the national transactions, while smaller countries like Austria or Ireland recorded several cross-border operations. In 1990-1995, according to the same report, the community cross-border operations increased, cumulating 18.7%. The firms in Great Britain, Ireland, Sweden, or Austria got involved in several operations targeting firms outside the community. Companies in countries like Holland, France, or Great Britain took over mainly the role of acquirers, while companies in countries like Italy, Spain, or Germany have often been targets of the merger and acquisition operations.

If in 1985-1987 the value of the mergers and acquisitions involving European enterprises represented 20% of the world total, the percentage increased to 43% in 1991-1993 (European Commission, 1996:115). At the European Union level, the total value of the operations culminated in 1999, even though the number of operations grew until 2000. The data provided by the European Commission (2001) allow the emphasis of the trends manifested during the fifth wave of operations. Thus, during this wave, the number of mergers and acquisitions recoded a constant growth, reaching a peak in 2000, when there were 16750 operations recorded. 2001 marked the end of the wave, the merger and acquisition activity entering a descending path. Obviously, the evolution of the number of mergers and acquisitions is correlated with the evolution of economy. Thus, the low rates of economic growth recorded at the European Union

level in 1992-1993, in 1996 and 2001 were reflected in the decrease of the merger and acquisition activity during these years.

Table 2. The evolution of national, community, and international mergers and acquisitions in 1991-2001

Year	National operations (in % of the total number of operations)	Community operations (in % of the total number of operations)	International operations (in % of the total number of operations)	Unknown acquirer (in % of the total number of operations)	Total number of operations	The variation of the number of operations
1991	54.3	11.9	14.5	19.3	10657	...
1992	58.1	11.6	14.2	16.1	10074	-5.5%
1993	57.4	11.7	18.8	12.1	8759	-13.1%
1994	58.7	12.9	20.5	7.9	9050	3.3%
1995	57.4	12.9	22.8	6.9	9854	8.9%
1996	54.8	12.6	26	6.6	8975	-8.9%
1997	56	14	26	4	9784	9%
1998	53.5	14.1	28.4	4	11300	15.5%
1999	55.7	14.2	26.4	3.7	14335	26.9%
2000	54.7	15.2	25.4	4.7	16750	16.8%
2001	54.1	14.9	24.1	6.9	12557	-25%

Source: Adapted from: European Commission. "Fusions et acquisitions", *Economie Européenne, Supplément A*, DGAEF, no12, 2001: 4.5. http://ec.europa.eu/economy_finance/publications/publication2404_fr.pdf.

Several papers of European Commission (1999, 2000) emphasized the development of international mergers and acquisitions, intra and extra-community, this represented one of the main characteristics of the operations of this wave in Europe. Thus, it seems that the tendency of internationalization increased as compared to the previous European wave. Indeed, the percentage of the European firms' international operations overcame, at the end of the '90s, the percentage of 30% of the total value of the recorded operations.

The European firms were active in the activity of cross-border mergers and acquisitions both from the perspective of acquirers and that of sellers. They engaged not only in intra-European operations, so that, the intensification of the merger and acquisition activity cannot be explained strictly through the creation of the Single Market. The percentage of intra-European remained relatively stable during the 1990's, while the operations in these countries increased.

Regarding the distribution of the merger and acquisition activity between the member states, in 1991-2001, according to the data provided by the European Commission (2001:4), we infer that Great Britain was the most active country, followed by Germany, France, Holland, and Italy.

After a fluctuation during the first half of the '90s, the number of community operations increased regularly, starting with 1996, to culminate in 2000 with 2500 operations. The following year marked the decline of the merger and acquisition activity, recording a decrease of 27% in the number of community operations. Practically, the fifth wave of mergers and acquisitions, without precedent regarding the volume of operations, ended in 2001 when the global economy entered the recession.

3.6. The sixth wave of mergers and acquisitions: the strengthening of Europe's position in the global activity of mergers and acquisitions

The sixth wave of mergers and acquisitions started in 2003, three years after the technological bubble went flat. DePamphilis (2010:17) considers that the engines of this wave of mergers and acquisitions were represented by the interest low rates, the increase of the capital markets, the boom recorded by the world economy, the globalization, or the high raw material prices. Ceddaha (2007:20) or Marks and Mirvis (2010:33-34) outlined a few characteristics afferent to the sixth wave of mergers and acquisitions. This wave is characterized by very ambitious Leverage-Buy-Aut operations, a consequence of a high appetite for investment funds, in a context marked by

interest rates which became very attractive and by stock exchange euphoria. Thus, during this wave, the world's greatest companies continued their projects of expansion through mergers and acquisitions. Another characteristic refers to the intensification of the operations made by private funds which, in 2007, the peak year of this wave, cumulated 20% of the total value of operations made. Practically, the sixth wave of cross-border transactions, of cross border megamergers, of the increase of the influence of the *private equity* investors (DePamphilis, 2010:17) and of the global expansion of the acquirer originating in the emerging countries (especially China and India) (Bancel and Duval-Hamel, 2008:20).

At the European level, the introduction of Euro (according to the European Commission's report, 2007:14, the percentage of cross-border mergers and acquisitions among the EU12 countries in the total of operations made by the euro zone companies increased from 34% in 1999 to 42% in 2004), the process of globalization, technological innovations, the deregulation and privatization (especially Central and Eastern Europe countries) and, also, by the financial markets *boom* and the existing liquidity gave an impulse to the merger and acquisition activity.

Regarding European Union, this wave of operations manifested in an intensification of the merger and acquisition activity, especially in the EU-15 countries. Yet, in the period analyzed, we could notice an increase in the number and value of the operations recorded in the new member states of European Union. Starting with 2004, Europe has become more and more an opportunity creating area. European enterprises seemed more offensive than during the previous waves, especially under the impulse of English, French, and German enterprises. Parallel with the acquisitions made in the USA, favored by the decrease of dollar as compared to Euro, the dynamics that these had generated actually represented an intra-European market.

Based on data provided by the European Commission (2009), the analysis of the evolution of mergers and acquisitions in which the companies in the old, new member states respectively were targets of the operations, shows that, starting with 2004 both their number and their value increased.

Table 3. Mergers and acquisitions in the new member states, made in 2000-2007, according to the region of the acquirer

	2000	2001	2002	2003	2004	2005	2006	2007
Number of transactions out of which:	1487	1131	828	821	561	687	746	895
National (in % of the total number)	48.6	52.3	47.5	50.5	41.5	36.7	36.1	39.0
New member states (in % of the total number)	3.2	2.6	5.7	4.8	8.0	5.7	5.6	8.7
Old member states (in % of the total number)	33.8	34.8	32.7	29.6	30.8	40.8	42.0	35.2
USA (in % of the total number)	6.3	4.6	4.5	4.5	6.4	7.6	6.3	7.4
Asia (in % of the total number)	0.2	0.2	1.0	0.4	0.9	1.0	1.3	1.3
The rest of the world (in % of the total number)	7.9	5.5	8.7	10.2	12.3	8.3	8.7	8.4
Value (in billions of Euro)	19.3	19.5	16.2	7.4	15.3	28.4	20.7	36.1

Source: Adapted from: European Commission . *Five years of an enlarged EU Economic achievements and challenges*. Directorate General for Economic and Financial Affairs, European Economy No1, 2009:167. http://ec.europa.eu/economy_finance/publications/publication14078_en.pdf

Obviously, there are differences between the merger and acquisition activity at the level of old member states as compared to that of the new members. If at the level of old member states, approximately two thirds of the operations were national, in the new member states, the majority of the operations were made by foreign investors. In 2007, the peak year of this wave, 35% of the transactions were made by the acquirers from EU-15, while only 9% of the acquirers originated

in the new member states. According to the European Commission's report (2009:167), of the new member states, most of the target companies were located in Poland, The Czech Republic, Hungary, and Romania.

Table 4. Mergers and acquisitions in the old member states, made in 2000-2007, according to the region of the acquirer

	2000	2001	2002	2003	2004	2005	2006	2007
Number of transactions out of which:	13208	10148	7837	8083	8527	8937	10283	10887
National (in % of the total number)	68.9	69.0	70.5	70.5	69.2	65.8	66.3	64.6
New member states (in % of the total number)	0.1	20.3	0.2	0.1	0.3	0.2	0.3	0.4
Old member states (in % of the total number)	19.2	18.5	16.5	15.0	15.0	17.2	16.7	18.5
USA (in % of the total number)	6.5	5.9	6.1	6.8	8.0	7.7	7.5	7.3
Asia (in % of the total number)	0.6	0.8	1.0	0.9	1.1	1.7	1.4	1.5
The rest of the world (in % of the total number)	4.6	5.5	5.7	6.6	6.4	7.4	7.8	7.7
Value (in billions of Euro)	1072.7	561.8	452.4	390.2	537.9	696.7	873.5	1127.0

Source: Adapted after: European Commission. *Five years of an enlarged EU Economic achievements and challenges*. Directorate General for Economic and Financial Affairs, European Economy No1, 2009:167. http://ec.europa.eu/economy_finance/publications/publication14078_en.pdf

This wave of mergers and acquisitions was relatively short, yet intense and ended rapidly when the financial-economic crisis, which started in 2007, enclosed the firms' access to the facile and cheap lending. Thus, if in the United States the merger and acquisition market started decreasing even in 2007, in Europe, 2008 marked the beginning of the decline, as the recession started to encompass the economies of many countries.

4. Conclusions

Since the end of the 19th century, the chronicle of enterprises' lifecycle has been marked by successive waves of mergers and acquisitions, amiable or hostile, national or international. The greatest majority of countries, different sectors have been massively restructured through mergers and acquisitions. Taking into consideration the increased internationalization of economies, we can state that the merger and acquisition operations more and more present similarities forma geographical area to another. We consider that the merger and acquisition operations are far from overcoming the peak times. Certainly, the merger and acquisition activity may know a period of regression when the national economies or the world economy is in recession, when the financial markets are experiencing turbulences and the capital markets are characterized by volatility, yet, once the critical situation is over, the merger and acquisition market can retake its rhythm, reaching new peaks.

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Table 3.

Respondents' assessment concerning the quality characteristics of the offered services

-%-

No. crt.	Assessed aspects	marks					Total
		Very good (5)	Good (4)	Indi-ferent (3)	Satisfying (2)	Unsatisfying (1)	
1	How do you appreciate the global quality of the performed service?	64,18	35,82	-	-	-	100
2	How do you appreciate the time frame necessary to deliver the solicited service?	61,19	38,81	-	-	-	100
3	How do you appreciate the quality/price report for the delivered service?	58,21	31,34	10,45	-	-	100
4	How do you appreciate the cleanliness in the car repair shop?	28,36	50,75	20,89	-	-	100
5	How do you appreciate the information/ consultancy received from the car repair shop?	23,87	58,21	11,94	4,48	1,5	100
6	How do you appreciate the communication channels offered by our (fax, tel., e-mail, etc)?	35,82	47,76	-	16,42	-	100
7	How do you appreciate the diversity of services offered by our garage?	37,39	4,41	-	55,22	2,98	100
8	How do you appreciate the professionalism degree of our employees?	16,42	83,58	-	-	-	100
9	How do you appreciate the repair warranties?	59,70	37,32	-	2,98	-	100
10	How were the complaints about the services offered by our garage dealt with?	56,72	38,80	-	4,48	-	100
11	How do you appreciate the company's image advertising campaign (as it is reflected in the media, on the internet, etc)?	1,5	13,43	28,36	-	56,71	100

If most of them appreciate as 'good' and 'very good' the overall quality of services, the time necessary for service to be delivered, the quality / price ratio, the cleanliness, the

professionalism of the staff, the warranty offered for repairs, the treatment of complaints – there is an obvious need for framing and profoundly understanding the reasons why the following aspects were recorded:

- 55.22%, which is 37 of the respondents are satisfied only by the diversity of the services offered in the car repair shop, while 37.39% (25 respondents) values the diversity of services as being very good. These answers lead us to wonder whether there are services that customers would appreciate but are not provided by the car repair shop
- 56.71% of the respondents (38 people) appreciate the company's promotional activity with its services as being absolutely unsatisfactory – which proves once again, the negative effect of the fact that the garage has no website and it does not assign a budget for various promotional activities. Interesting is the opinion of 28.36% of respondents (19 people) stating that it is all the same for them, if they read, hear or see something about this car repair shop in the media, on the internet etc. They are the ones who have become loyal customers in time and are only influenced by the quality of the services they have already received?! Here's a question that needs an answer!

The marks obtained for each of the evaluated characteristics were:

Table 4.

Respondents ratings concerning the quality characteristics of the offered services

No. crt.	Evaluated aspects	marks					Mark
		Very good (5)	Good (4)	Indifferent (3)	Satisfying (2)	Unsatisfying (1)	
1	How do you appreciate the global quality of the performed service?	43	24	-	-	-	4,64
2	How do you appreciate the time frame necessary to deliver the solicited service?	41	26	-	-	-	4,61
3	How do you appreciate the quality/price report for the delivered service?	39	21	7	-	-	4,47
4	How do you appreciate the cleanliness in the car repair shop?	19	34	14	-	-	4,07
5	How do you appreciate the information/ consultancy received from the car repair shop?	16	39	8	3	1	3,98
6	How do you appreciate the communication channels offered by our (fax, tel., e-mail, etc)?	24	32	-	11	-	4,02
7	How do you appreciate the diversity of services offered by	25	3	-	37	2	3,17

No. crt.	Evaluated aspects	marks					Mark
		Very good (5)	Good (4)	Indi-ferent (3)	Satis-faying (2)	Unsatisfying (1)	
	our garage?						
8	How do you appreciate the professionalism degree of our employees?	11	56	-	-	-	4,16
9	How do you appreciate the repair warranties?	40	25	-	3	-	4,56
10	How were the complaints about the services offered by our garage dealt with?	38	26	-	3	-	4,47
11	How do you appreciate the company's image advertising campaign (as it is reflected in the media, on the internet, etc)?	1	9	19	-	38	2,03

If we consider the characteristics assessment scale starting with 1 - for the minimum grade, 5 - the maximum grade, knowing that the differences between the maximum score and the evaluation's results that exceed 1.5 points are critical in the provider's activity, we can highlight the following:

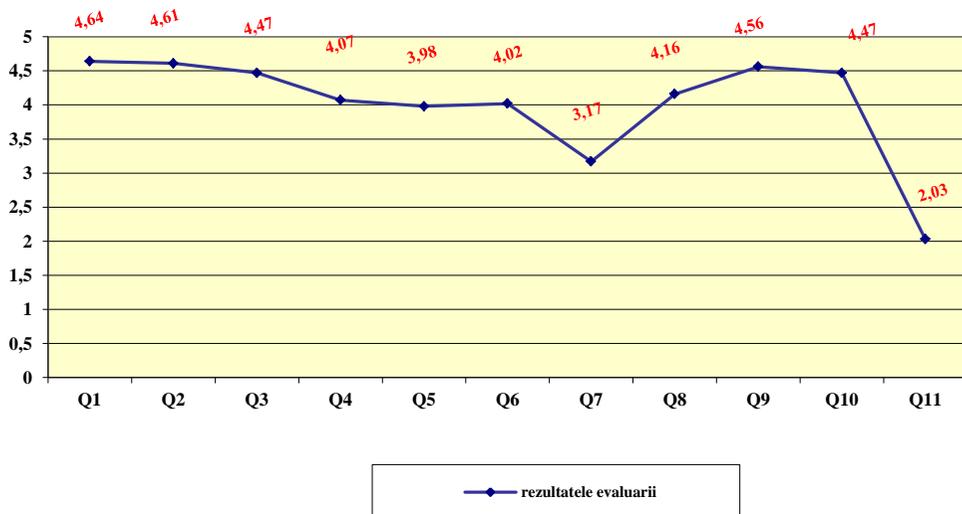


Fig.no.1. The marks obtained by respondents evaluation

The graphical representation of the evaluation results shows that the provider company's manager must take very quick measures, in terms of:

- first of all the company's promotion activity and its services - and here perhaps the creation of a website with contact data (the ability to contact the staff via e-mail) would be the first necessary step;

- then, efforts should focus on the range of offered services, which refers to their diversification;
- and last but not least, it should turn its attention to the relationship between customers and staff, to identify the reasons for dissatisfaction concerning the information, the speciality consultancy, provided by the garage's employees.

The 4th **question** seeks to identify elements that are important to the respondents (customers or potential customers) about the quality of services, so that they can be used later to improve the quality of the company's offered service or even to diversify them. Thus between the elements stated by respondents as being able to determine an increased in the quality of the offered services, the following emerged:

- bringing the car repair shop up to date and improving the training of the staff (28.45%);
- other issues (8.37%) such as:
 - diversifying the range of offered services;
 - faster solving of minor technical problems;
 - creating a waiting are;
 - the possibility of paying with credit card;
 - a website should be available to offer information about tariffs and services;
 - extending of the opening hours and work on Saturdays;
 - a stock of items necessary for "minor" interventions should be available

Issues affecting the service quality assessment:

The 5th question sought to determine the important elements that have an overwhelming influence in assessing the quality of services offered by a car repair shop, by giving marks from 1 to 10 and ranking some items according to their importance for the respondent. Thus, we determined a mark for each hierarchy's element, producing a score for each item by summing the grades given by respondents and dividing by the number of analyzed questionnaires (which is the number of respondents) we obtained the following results:

Table 5.

The answers to the 5th question

The element	Number of answers for each mark										Final mark
	10	9	8	7	6	5	4	3	2	1	
Service tariffs	41	17	8	-	-	-	-	-	-	-	9.36
Repair warranty	48	15	4	-	-	-	-	-	-	-	9.66
The diversity of service range	11	15	21	23	7	-	-	-	-	-	8.57
Garage's equipments	10	21	35	1	-	-	-	-	-	-	8.60
Employees professionalism/technical abilities	12	21	33	1	-	-	-	-	-	-	8.66
Promptitude/honouring the deadlines	26	35	6	-	-	-	-	-	-	-	9.30
The space fitted for the working area, and the waiting area	10	14	37	6	-	-	-	-	-	-	8.42
Received consultancy/information	12	28	26	1	-	-	-	-	-	-	8.76

The element	Number of answers for each mark										Final mark
	10	9	8	7	6	5	4	3	2	1	
Credibility	29	13	19	6	-	-	-	-	-	-	8.97
The garage's working hours/schedule	16	18	23	10							8.60

According to the assessments made by respondents we have acquired the following classification of elements having an influence on quality:

Table 6.

Hierarchy of elements that influence a car repair shop quality assessment of services

Rank	The respondents drafted hierarchy
1	Repair warranty
2	Service tariffs
3	Promptitude/honouring the deadlines
4	Credibility
5	Received consultancy/information
6	Employees professionalism/technical abilities
7	Garage's equipments
7	The garage's working hours/schedule
9	The diversity of service range
10	The space fitted for the working area, and the waiting area

The most important element in assessing the quality of services was the warranty granted for the repairs, followed in order by service fees, promptness / timeliness and the credibility of employees and the company in general.

Equally important for the respondents are the garage's equipments and its working hours and almost insignificant is the space fitted for service and waiting are.

The information obtained by the instrumentality of this question is particularly valuable for the company because in the future they will understand better what elements they need to use as background for their offering strategy and for establishing the services with their related tariffs (for example, they will not insist too much on highlighting potential investment in spatial arrangements, as long as the majority does not care about this aspect, but certainly they will be very careful in highlighting the warranties granted for the performed services or in informing the customers about tariffs and generally about the practiced discounts) understanding now, that these elements and the care for their judicious settlement, come to meet the wishes of the customers and to increase their satisfaction.

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SUB-SECTION: ECONOMIC STATISTICS

ANALYSES OF ORADEA MUNICIPALITY'S ECONOMIC SITUATION THROUGH LOCAL REVENUES

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This paper proposes a new approach in presenting the economic situation of a municipality by analyzing its local revenues. The quantity and evolution of local revenues are extremely important in public management because, in their absence, local governments cannot implement any policy, endangering therefore the local economic development. In this paper we conducted an eight years analysis on the evolution of Oradea's municipality revenues. The used research methodology was both analytical and empirical, by constructing and analyzing selected indicators. In the end we conclude that the grants obtain by the municipality from the European Union represent the key to future economic development.

Keywords: local revenues, local development, public finance

JEL Codes: H20, H71, O18

I. Introduction

The institutional decentralization process has given local governments the opportunity to make a significant contribution to the sustainable development of the administrative-territorial units they manage. This contribution is represented by outlining the directions for future development of cities and municipalities based on the strategies and programs undertaken and through the allocation of financial resources to achieve their goals through. It is these increased responsibilities of local governments and their possible impact that led us to choose this research theme.

Each EU member state has its own legislation on local government finance, but the diversity of national rules is consistent with common law adopted at European level. Therefore, legislation is a key factor in the implementation of local financial autonomy and decentralization by establishing general rules for local government finance. Thus, Article 3 of the "European Charter of Local Self-Government", signed in Strasbourg on October 15, 1985, proposes that local authorities have the right to regulate and manage an important part of public issues and Article 9 presents some general principles on the financial resources of local authorities.

According to the current European ideas, it is necessary that the planning and preparation of local budgets to be done according to the requirement of structuring the resources according to the following criteria (Balan, 1999: 8): the needs of economic development, social and cultural needs, and needs regarding local government functioning.

Administrative-territorial units of the Member States of the European Union have pursued the continuing growth of local economies by increasing revenue performance that took place in connection with the five criteria: adequacy of income, financial independence, fairness,

The quantity and evolution of local income are particularly important in public management because, in their absence, local governments cannot implement any public policy (European Commission 2000: 3) thus jeopardizing local economic development. This paper deals with topics of local economic development in terms of revenues, having as its objective the analysis of Oradea's income evolution through specific indicators. The used research methodology is both analytical and empirical, by constructing and analyzing selected indicators.

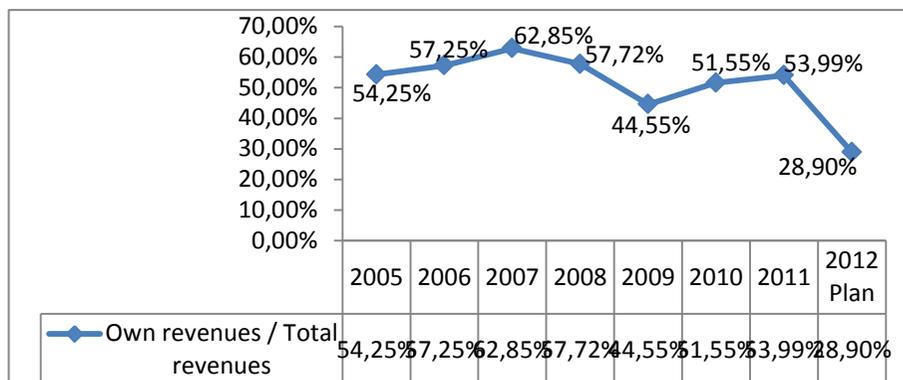
II. The revenues analysis of Oradea municipality's local budget

According to article 5, paragraph (1) of Law 273/2006 on local public finances, updated, local revenues are own revenues, consisting of: taxes, fees, contributions and other payments, other income and allowances deducted from income tax, the amount deducted from certain state

income taxes, subsidies from the state budget and other budgets, as well as donations and sponsorships.

Substantiation of revenues of local budget are normally based on observation and evaluation of taxable materials and the tax base used for calculating taxes and fees, evaluation of rendered services and revenues from those and other specific elements.

Indicator of own revenues includes both own current income and also deducted ratios from the tax on overall income, emphasizing local economic conditions. Own revenues are those that confer financial autonomy to the administrative-territorial unit. One can therefore conclude that with the increase of their income in total income, the degree of financial autonomy of Oradea has increased gradually from 2005 until 2007. But starting with 2008 a significant decrease in the autonomy can be seen, that continues also in 2012. The cause is the decrease of property tax revenues and particularly revenues from capitalizing assets.



Source: Elaborated by the author according to Oradea City Hall's data

Figure 1. Evolution of Indicator of own revenues

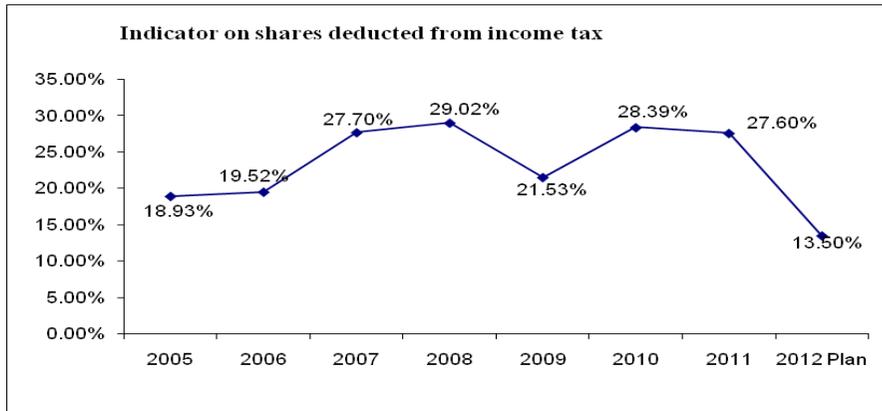
Indicator on property tax shows the evolution of the main categories of taxes managed by local public authority. This income is used for large cities to finance more than one third of total expenditures made by that local authority. Analysis of this indicator can provide information about the local economy: the value associated to tax base reflects, in case of Oradea, the force of local economy. From 2005 until 2007 an increase of share of property tax can be seen, from the total revenue of the municipality. This trend changed in 2008 and 2009 when the share of the total property tax revenues of Oradea fell to 15.25% and 12.13%. The indicator of the property tax recorded high values again in 2010 and 2011, and for 2012 the forecast is to further decline to 9.31%.

Table 1. Evolution of Indicator on property tax

Property tax revenues/Total revenues	2005	2006	2007	2008	2009	2010	2011	2012 Plan
	13.42%	14.49%	17.68%	15.25%	12.13%	16.39%	16.19%	9.31%

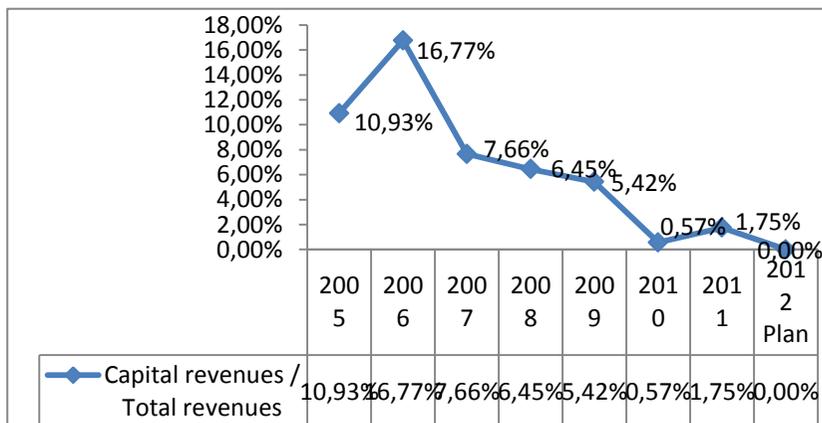
Source: Elaborated by the author according to Oradea City Hall's data

Indicator on shares deducted from income tax from the tax on income received by the state budget in each administrative units, every month (within 5 days at the end of month in which the tax was collected), a share of 47% is given to local budgets of communes, towns and municipalities to which taxpayers belong. Shares deducted from income tax allocated to Oradea have been growing from 2005 to 2008, while in 2009 their share in total city revenues started to decline, causing a record value of 21.53%. In 2010 and 2011 this indicator again elevated, but for budget year 2012 is expected to collapse with 14.10 percent points.



Source: Elaborated by the author according to Oradea City Hall's data
Figure 2. Evolution of Indicator on shares deducted from income tax

Indicator on capital revenues expresses the evolution of revenues resulted from sale of the private domain of Oradea. A decrease in the share of capital income in total income of the municipality can be noticed, except in 2006 when this ratio reached a relatively high level compared with other years. In budget year 2012, were projected no capital revenues for Oradea municipality.



Source: Elaborated by the author according to Oradea City Hall's data
Figure 3. Evolution of Indicator on capital income

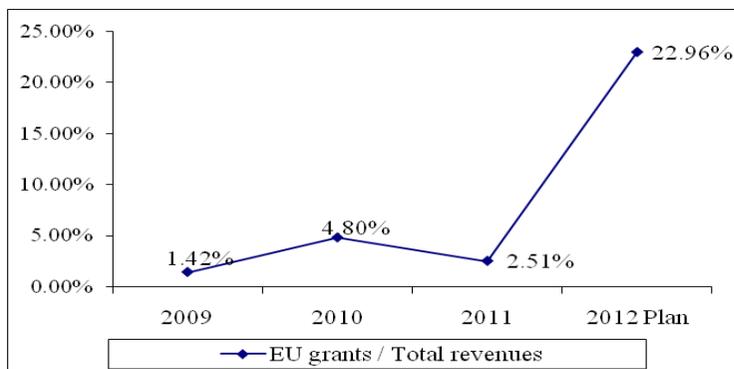
Indicator of subsidies from the state budget shows the financial dependence of local authority from the state budget and from other governments through some amounts deducted from state income taxes and subsidies received from this and other administrations. The evolution of this indicator is reverse as to progress indicator on revenues. For 2012 is expected an increase of the financial dependence of Oradea to the state budget and the county council's budget, this indicator registering a maximum value in the period analyzed.

Table 2. Evolution of subsidies from the state budget indicator

Subsidies from the state budget / Total revenues	2005	2006	2007	2008	2009	2010	2011	2012 Plan
	45.75%	42.74%	37.14%	11.36%	26.66%	43.62%	42.32%	48.14%

Source: Elaborated by the author according to Oradea City Hall's data

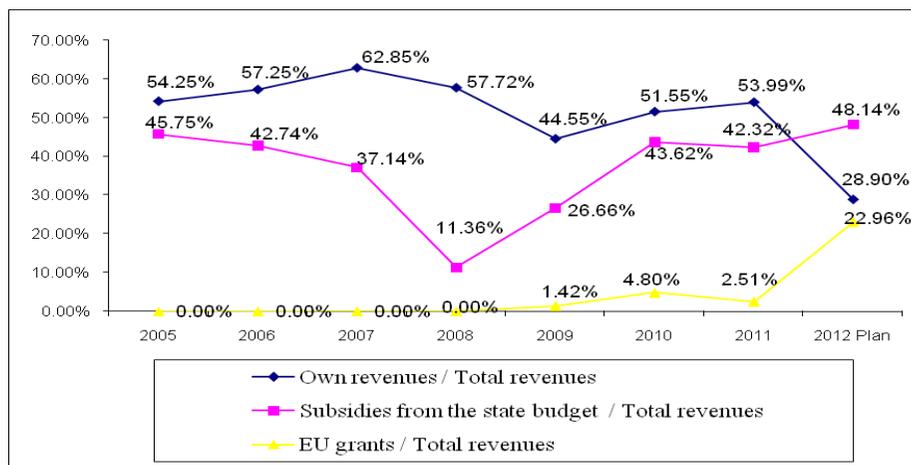
Indicator on the grants attracted - since 2009, Oradea recorded entries of amounts received from the European Union as a result of project proposals submitted to attract structural funds. Their share in total city income was relatively low in budget years 2009 - 2011, but for 2012 it is estimated a significant value of 22.96%. This represents an enormous help to the local budget, with the possibility of significant investments without using own revenues.



Sursa Source: Elaborated by the author according to Oradea City Hall's data

Figure 4. Evolution of Indicator on the grants attracted

The following Figure presents a comparative evolution of the three fundamental indicators of local government revenues: indicator of own revenues, subsidies from the state budget, and



Source: Elaborated by the author according to Oradea City Hall's data

Figure 5. Comparative evolution of own revenues indicator, subsidies from the state budget and European grants

and also the indicator on grants from the European Union. One can notice see a drastic fall in property income, but offset by the significant increase of grants obtained for Oradea's municipality projects, mainly investments.

III. Conclusions

After examining the local revenues indicators we can conclude that their evolution is divergent and does not allow a clear identification of the local economy situation. On one hand we noticed

an alarming decrease in Oradea's autonomy from the state budget through a drastic reduction with 46.73% share of own revenues in total revenues during 2005-2012. This was determined by a decrease of property tax revenues, shares deducted from income tax, and mainly of capital revenues.

Besides this, the indicator on subsidies from the state budget registered in 2012 its highest value from the analyzed period, predicting an increase in financial dependence of Oradea municipality to the state budget and the county council budget.

On the other hand, Oradea municipality has managed to attract large sums of money from the EU and the Romanian Government in the form of grants for mainly infrastructure investment, as a percentage of 22.96% of total local revenues, reducing the pressure on revenue own to cover these investments. Continuing to attract grants to the local level is in our opinion the key to Oradea's economic development, especially in light of local authority action.

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THE CONTRIBUTION OF BUSINESS CONFIDENCE INDICATORS IN SHORT-TERM FORECASTING OF ECONOMIC DEVELOPMENT

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Abstract

In this paper we study the usefulness of using confidence indicators derived from business surveys in the assessment of the state of economy and in short-term forecasting. For this purpose, we consider the relationship between the industrial confidence indicator and industrial production index in Romania and other European Union member states. We apply graphic methods to analyze the dynamics of variables considered, cointegration and causality tests, as well as the synchronization analysis of cyclical patterns of the confidence indicator and the industrial production index. The cyclic component of data series is extracted with Hodrick-Prescott filter and the identification of turning points is made with Bry – Boschan procedure. The results indicate that the industrial confidence indicator provides important information on the status and evolution of economic activity, although significant differences were found between the countries analyzed. For Romania, the confidence indicator is not Granger-cause for the reference series and the cycles of the two series do not have a strong synchronization, which restrict the use of the confidence indicator in assessing and forecasting the country's economic activity.

Keywords: confidence indicators, industrial production index, Granger causality test, Hodrick-Prescott filter, Bry-Boschan procedure.

JEL Classification: C22, C53

I. Introduction

The confidence indicators obtained by means of the business and consumer survey have the role to evaluate and forecast on a short term the status of the economic activity, by economic sectors and as a whole. These indicators are built on the company managers' subjective responses to a series of questions regarding the past and future status of their own activity. One may conclude that, although in many circumstances it provides very useful results, it is still limited by the data quality.

In this paper, we analyze the information provided by the industrial confidence indicator, being the most used indicator in business research. The economic activity is represented by the index of industrial production that, unlike the gross domestic product (GDP) reported quarterly or yearly, has the advantage of being monthly reported.

The hypothesis stating that between the confidence indicator and the reference series there are significant relationships, is verified by means of graphical methods, Johansen cointegration tests (Johansen 1991), Granger causality tests (Granger, 1969), the analysis of the turning points of the business cycles (Bry and Boschan 1991).

The data are analyzed for Romania and other EU (27) member states: Germany, Italy, France. Since in 2005 some modifications have been brought to the computation methodology of confidence indicators aiming to harmonize the data at EU (27) level, the analysis is conducted for the period January 2005-November 2011. The data are taken from the Eurostat website and are processed using the Eviews software program.

II. A brief review of the literature

In the specialty literature there are numerous works focused on the analysis of the confidence indicators input to the short-term analysis and forecast of the benchmark macroeconomic indicators. Even if many authors state that the confidence indicators have valuable contributions

to the evaluation and forecast of the economic activity, the results obtained are contradictory for different confidence indicators or for different countries.

The authors Santero and Westerlund (1996) studied for a sample composed of 11 world countries, the relationship between various forms of confidence indicators in industry and consumption and macro-economic variables, such as GDP, the industrial production growth and some aggregate demand components. The analysis used cross correlation coefficients, Granger causality tests, turning points of business cycle. The authors' conclusion was that the results obtained for individual countries are difficult to generalize since the indicators convey different information and have a different time-relationship with economic variables in each country.

The relationship between the industrial confidence indicator and the industrial production index was also studied by P. Bengoechea and G.P. Quiros (2004), who proposed a new methodology for dating the business cycle in the euro area economy by means of the industrial confidence indicator considered as a key variable in the identification of the current and future states of the euro area economy.

While several authors such as G. Bruno and M. Malgarini (2002) test the predictive capacity of confidence indicators for the reference series from industry, retail trade, constructions and consumption by using a dynamic factor model, other authors such as A. Paradiso, B.B. Rao and P. Margani (2011) study the relationship between the confidence indicator (CII) and several macroeconomic indicators (GDP, short-term interest rate, industrial production index) in an inverse order, explaining CII in relation to the variables under consideration, by means of the Error Correction Model (ECM).

Other important research in this field was carried out by J. Vanhaelen, L. Dresse (2000), P. Hüfner and M. Schröder (2002), J. Goggin (2008).

III. Research methodology

The preliminary data analysis is conducted by means of graphical methods and Augmented Dickey-Fuller stationarity tests.

The variables cointegration brings an important advantage when undertaking the forecasts through the Error Correction Model (ECM). The verification of the cointegration hypothesis between the confidence indicators and the reference series is performed by means of the Johansen test.

The preciseness of forecasts is obviously improved by the use in the model of Granger-cause variables for the dependent variable. The causality among variables is verified by means of the Granger test (Granger 1969: 424-438). The most difficult problem of the Granger causality test consists in demonstrating the cointegration of the variables and also the estimation of the VAR model when the variables are integrated. The version proposed by Toda – Yamamoto relaxes the stationary hypothesis, through a statistical inference methodology which offers valid estimation parameters even if the VAR model is not cointegrated.

The main function of the confidence indicators resides in forecasting the changes within the economic activity. In this respect, useful information about the relationships between the confidence indicators and the reference series is obtained from the analysis of the turning points of the business cycles. The cyclic component of the data series is extracted by means of the Hodrick-Prescott filter, using Bry-Boschan procedure. In the present paper, we use the definition of the business cycle offered by Burns and Mitchell (1946), according to which, for monthly data, the minimum length of a cycle is comprised between 16 and 22 months, while its maximum duration is between 100 and 106 months. A peak in a monthly series occurs at the time t if:

$$[(y_t - y_{t-7}) > 0, (y_t - y_{t-8}) > 0] \text{ and } [(y_{t+7} - y_t) < 0, (y_{t+8} - y_t) < 0],$$

and a cyclical trough occurs at the time t if:

$$[(y_t - y_{t-7}) < 0, (y_t - y_{t-8}) < 0] \text{ and } [(y_{t+7} - y_t) > 0, (y_{t+8} - y_t) > 0].$$

Taking into account their significance, the confidence indicators are used in forecasts both as a coincident indicator, if they change their tendency at the same time with the reference series, and as a leading indicator, if they change their tendency in advance, systematically anticipating the evolution of the reference series and, therefore, forecasting the appearance of the expansions and of the recessions (Meşter 2007: 129-130).

In order to examine the extent of synchronization between the cycles of confidence indicator and reference series, we use the concordance index developed by Harding and Pagan (2002). The concordance index, written as I_{XY} , is computed using the relation:

$$I_{XY} = \frac{1}{T} \left[\sum_{t=1}^T D_t^X D_t^Y + \sum_{t=1}^T (1 - D_t^X)(1 - D_t^Y) \right]$$

where: D_t^X and D_t^Y are dummy variables, having the value 0, if X, respectively Y, are in the recession phase at the t moment and the value 1, if X, respectively Y, are in the expansion stage at the t moment.

IV. Description of the data

The confidence indicators belong to the category of composite indicators obtained by the processing of data from the business and consumer surveys, which are conducted in different sectors of the economy: industry, services, construction and retail trade, as well as consumption. Each confidence indicator is calculated as the arithmetic mean of balances of answers to specific questions selected from the question sets of individual surveys so as to be as correlated as possible to the reference series in the field.

The industrial confidence indicator is the arithmetic average of the balances (in percentage points) of the answers to the questions on production expectations, order books and stocks of finished products (the last with inverted sign). The selection of questions was guided by the aim of achieving an as highly as possible coincident correlation of the confidence indicator with a reference series, such as the industrial production index (European Commission 2007: pp. 16-18). Balances are calculated for the answers to each question as the difference between the positive answers and the negative answers measured in percentages from the total number of answers. The comparability of confidence indicators at EU level is ensured by the joint methodology on the carrying out of business and consumer surveys at the EU (27) member states' level.

In the paper, the economic activity is represented by the industrial production index, expressed as IPI_c, where "c" is the symbol of the country for which the analysis is undertaken: Romania – RO, Germany – DE, Italy – IT, France – FR. The industrial confidence indicator is rendered as CII_c.

V. The results of the research

a) *The preliminary analysis of the data.* The nature and form of the data dynamics are researched by means of a graph and using the ADF stationarity tests.

The graphical analysis of the dynamics of industrial production index in relation to the industry confidence indicator highlights a strong correlation between these variables for France and Italy (Fig. no 3 and 4). In Romania, the two data series are weakly correlated for the entire period under analysis (Fig. no 1), while in Germany a better synchronicity of data can be noticed, after the beginning of the economic crisis which occurred in 2008 (Fig. no. 2).

The results of the ADF tests indicate that all the data series analyzed are non-stationary, integrated of order one, excepting the industry confidence indicator in Germany, which is stationary.

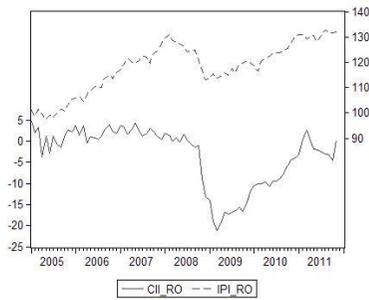


Fig. no 1 The dynamics for IPI_RO and CII_RO
Source: Made by the author

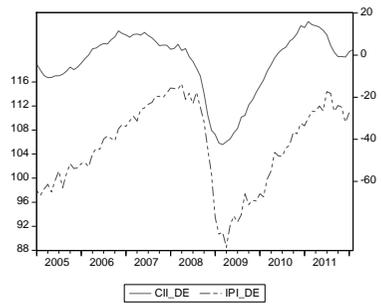


Fig. no 2 The dynamics for IPI_DE and CII_DE
Source: Made by the author

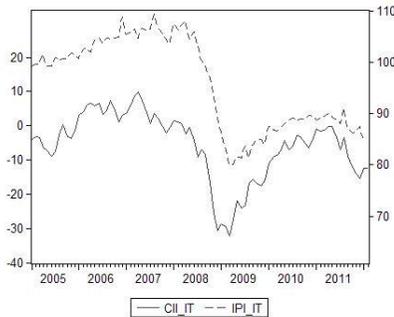


Fig. no 3 The dynamics for IPI_IT and CII_IT
Source: Made by the author

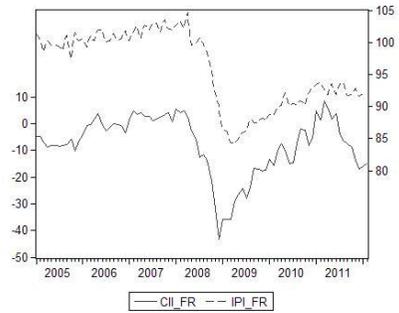


Fig. no 4 The dynamics for IPI_FR and CII_FR
Source: Made by the author

b) *Cointegration and causality tests.* The Johansen cointegration test is applied between the pair variables CII_c and IPI_c integrated of order one, for the countries: Romania, Italy and France. According to the results obtained, the pairs of variables corresponding to Italy and France are cointegrated (Table no 2). The Granger causality test applied for the cointegrated variables indicates that the confidence indicator is Granger-cause for the industrial production index for the two countries, Italy (Prob.=0.001) and France (Prob.=0.000). when applying the Toda-Yamamoto causality test for the variable pairs corresponding to Romania and Germany, the Schwartz criterion was used in order to identify the optimum lag of the VAR model; it was obtained that CII is Granger-cause for IPI in Germany (Prob_{DE}=0.000), but not for Romania (Prob_{RO}=0.063).

Table no. 2 Results of Johansen cointegration Test

Variables	Hypothesised No. of CE(s)	Trace statistic	5% Critical value	Prob.
IPI_RO and CII_RO	None	6.252	15.495	0.665
	At most 1	1.885	3.841	0.170
IPI_IT and CII_IT	None	18.560	15.495	0.017
	At most 1	2.889	3.840	0.089
IPI_FR and CII_FR	None	19.244	13.495	0.0130
	At most 1	2.495	3.841	0.1142

Source: Results obtained by processing the data by means of the Eviews program. Made by the author.

c) *Concordance analysis between cyclical patterns of industrial confidence indicators and industrial production index.* The cyclic component of the analyzed data series is extracted by

means of the Hodrick-Prescott filter. The identification of the cyclical turning points for the variables analyzed is performed through the Bry - Boschan procedure (Table no. 3).

Table no. 3 Turning points in the business cycles of CII and IPI, in Romania and other member states of EU (27)

Country	Industrial confidence indicator		Industrial production index	
	Minimum	Maximum	Minimum	Maximum
Romania	2005/06	2008/04	2005/07	2008/02
	2009/03	2011/03	2008/12	2011/08
Germany	2005/11	2008/03	2005/08	2008/08
	2009/03	2011/02	2009/10	2011/07
Italy	2005/06	2008/05	2005/06	2008/04
	2009/06	2011/04	2009/03	2011/08
France	2005/11	2008/05	2005/10	2008/04
	2008/12	2011/03	2009/03	2011/02

Source: Made by the author.

Taking into consideration that the confidence indicators are built so as to obtain immediately information about the evolution of the economic activity, it is desirable that the turning points of the cycle for the confidence in industry should coincide or precede the turning points of the business cycle defined by industrial production index. In our analysis, we do not expect such synchronizations for the moment of the economic and financial crisis break-out in 2008, that the company managers could not have possibly foresee. This hypothesis is confirmed for Romania, Italy and France, where the beginning of the economic crisis is felt by CII a month or two later than IPI. The length of the recession stage caused by the economic crisis was correctly indicated only by CII in France, which anticipated with 3 months the trough level registered by IPI in March 2009.

In Romania, CII forecasts with a month the trough level in 2005 and with 5 months the peak level in 2011. In Germany, CII forecasts with 7 months the trough level from the year 2009 and with 5 months the peak level in 2011. In Italy and France, the turning points of CII are synchronized or anticipated all the turning points of IPI, with at the most 3 months.

The concordance of the cycles of CII and IPI is measured by means of the concordance index proposed by Harding and Pagan (Table no. 4). According to the results obtained, there is a high concordance between the cycles of CII and IPI, for Italy and France and a weaker concordance for Romania and Germany.

Table no. 4 The values of Harding and Pagan's indices between business cycles of CII and IPI, in Romania and other member states of EU(27)

Country	$I_{CII-IPI}$
Romania	0.7590
Germany	0.7108
Italy	0.9518
France	0.9638

Source: Made by the author.

The results of the causality and concordance analysis between the CII and IPI cycles were coherent for Romania, Italy and France. In Germany, even if the causality tests showed that IPI is Granger-cause for IPI, the concordance between the cyclic stages for CII and IPI is quite weak, as it was also indicated by the comparative graphical representation of the two data series.

VI. Conclusion

The graphical analysis has shown the fact that, for all considered countries, the industrial confidence indicator (CII) significantly reflects most of the major changes in the dynamics of the industrial production index (IPI). Thus, being available before the official statistics, CII is useful in identifying the significant changes in the evolution of economic activity, reflected by IPI. On the other side, we can notice that the small changes of IPI in the period between the important turning points are weakly reflected in the changes of CII, which requires precaution when using this indicator for short-term forecasting

According to Granger cointegration and causality tests, the confidence indicator complements the past values of IPI with important information for forecasting, in France and Italy. In Romania, CII is not Granger-cause for IPI, meaning that it does not contain useful information for forecasting economic activity. In order to assess the usefulness of using confidence indicators for forecasting economic activity, we studied the cyclical turning points, verifying if these are coincident or lagged between the data series of CII and IPI. The concordance index of Harding and Pagan displays good cycles' synchronization of CII and IPI for France and Italy.

All the methods used have led to coherent results, showing that CII has an important contribution in forecasting IPI in France and Italy, and a less significant one in Romania and Germany. To conclude, the results of the studies regarding the contribution of the industrial confidence indicator in assessing and forecasting the economic activity have few common points from one country to another and cannot be generalized.

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STYLIZED FACTS OF ROMANIAN BUSINESS CYCLE. THE LITERATURE (I)

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If the more or less regulate moves of the macroeconomic variables are accepted by the economists as a reality, the problem of measuring the aggregate level of the economy in direct correlation with these fluctuations is much more difficult, due to the numerous variables involved.

The way these variables move in time is very different from a period to another as well as from a country to another. While some variables have already reached their maximum level, others are on their descendent slope. This is the reason why the measurement problem of the aggregate level of the macroeconomic activity deserves our attention. Finding the patterns macroeconomic variables move together and influence each other is important both as a theoretical challenge, but for its practical utility as well.

Depending on the result of the measurement process, the authorities are able to conduct their economic policies. More precisely, the monetary or fiscal authority will act differently if the economy is in recession or in expansion. These are the reasons for which a very important phase in the study of the cycle is its descriptive analysis, which is realized by focusing on certain aspects, such as: the length and magnitude, the correlation of the economic variables with the reference series, the study of the cyclical indicators, the analysis of the relative variability of economic series, the diagnose and prevision based on the cyclical indicators.

The first part of this paper presents the relevant literature regarding the evolution of business cycle models as well as the stylized facts of business cycles. In the second part of the paper we'll deal with the most frequent decomposing techniques as well as with the stylized facts for Romania's business cycle. Finally, these stylized facts are used to validate a real business cycle model for the Romanian economy.

Keywords: business cycles, stylized facts, comovements

JEL codes: E12

Describing Business Cycles

In order to understand why economies are subject to business cycles, it is important to have a good grasp on the empirical regularities (and irregularities) of the key macroeconomic variables that fluctuate as the economy contracts and expands.

One purpose of this paper is to present the quantitative aspects of business cycles, more precisely the depth and duration of both individual and average economic contractions and expansions. The second is to describe the qualitative aspects of business cycles - how different macroeconomic variables move in relation to each other during contractions and expansions. A good understanding of the business cycle data will provide some basic empirical facts that will be used to evaluate the competing theories as well as models that attempt to explain the causes of the cyclical evolution of economies or to provide some forecasts for the future evolution of economies.

Some basic facts

Business cycles are a controversial topic that has been subject to many debates. Economists have not found a consensus on the causes of the cyclical evolution of the economies, the impulses that generate the succession of the phases of a cycle or the propagation methods. Using a variety of econometric techniques, economists have studied a wide range of empirical regularities in macroeconomic fluctuations and business cycles across countries. These stylized facts have often been used as an empirical basis for formulating theoretical models of the business cycle and as a way to discriminate among different types of models.

In the following paragraphs we will make a very short literature review of the evolution of the theories that explain the cyclical evolution of economies as well as their characteristics.

The classical economists were the first to try to give an explanation of the cyclical moves of the macroeconomic variables, but they blamed cycles on exogenous factors, such as war. Jean Charles de Sismondi (1819) was the one that tried for the first time to give a systematic exposition of economic crisis and he believed that the causes of business cycles were overproduction and underconsumption, which were caused in particular by wealth inequalities.

The vision of the classical theory was dramatically contradicted by the realities of the Great Depression. As a response, the Keynesian Macroeconomic models of the 1940's were the first to attain a certain level of explicitness and empirical accuracy. Yet the ability of these models to imitate actual economies has almost nothing to do with their ability to make accurate forecasts, to evaluate how behavior would have differed had certain policies been different in specified ways. The Keynesian paradigm, which reached its highest status toward the end of the 60's, was contradicted by the realities of the market economies so they failed to predict the crises from the 70's. Keynesian models, constructed by simply codifying the decision rules that agents found useful over some previous sample period, without explaining why these rules are used, proved to be of no use in predicting the consequences of policy changes.

Thus we witnessed the resurrection of the controversy between the classical and the Keynesist theories, which lead to a rivalry between two schools, the Real Business Cycles School and the New Keynesian School.

Real business cycles approach originated in the pioneering work of Kydland and Prescott (1982) and Long and Plosser (1983). As Minford and Sofat (2004) argue, this literature was an outgrowth of the equilibrium strategy for business cycle analysis initiated by Lucas (1972, 1973, 1975) and extended by Barro (1976, 1981), but differs from them in two critical aspects. First, RBC models place much more emphasis on mechanisms involving cycle propagation, that is, spreading over time of the effects of a shock and second RBC models emphasize the extent to which shocks that initiate the cycles are real-as opposed to- monetary in origin. Comprehensive reviews of the RBC research by McCallum (1989) and Plosser (1989) have illustrated that despite a number of unresolved issues, the approach successfully explains some of the key empirical regularities that characterize economic fluctuations.

The greatest advantage of the RBC approach is that the structural equations of the model have been derived via an optimization, so that the parameters of the model (preferences and technology) can be regarded as truly "structural" (Minford and Sofat: 2004). We are talking here about an equilibrium model, which is by definition constructed to predict how agents with stable tastes and technology will choose to respond to a new situation and that can be used to analyze how certain macroeconomic variables are likely to respond to economic shocks (Minford and Sofat: 2004). Many extensions have been made to the traditional RBC models, particularly the role of government – Mankiw (1989), Christiano and Eichenbaum (1992), role of money - King and Plosser (1984), Cooley and Hansen (1989).

Stylized facts of business cycles. Cyclical behavior of significant macroeconomic variables

What general properties and relationships can be gathered from studying business cycle data? Documenting the stylized facts or broad regularities on macroeconomic fluctuations could be useful for a number of reasons. The identification of these regularities could be useful for analyzing whether similar empirical regularities are observed across countries with different income levels (Agenor, McDermott, Prasad, 2000). These stylised facts could provide an empirical basis for constructing analytical models of short-run fluctuations that incorporate features particularly important to developing countries. In addition, these findings may have important policy implications, they may also be crucial for designing stabilization and adjustment programs (Agenor, McDermott, Prasad, 2000).

Even though an impressive amount of data about recessions and expansions had been collected over the years, several basic facts are essential in order to truly understand the properties of a

business cycle (Knoop, 2010). These are presented as follows. *Business cycles are not cyclical.* The term *business cycle* is a misnomer, because it implies that recessions and expansions follow a regular, predictable pattern. The length of one business cycle is not a reliable indicator of the length of the next business cycle. *Business cycles are not symmetrical.* Recessions tend to be characterized by larger changes in output than expansions. Thus, as a general rule, recessions tend to be shorter but with sharper changes in GDP, while expansions tend to be longer but with more gradual changes in GDP. *Business cycles have not changed dramatically over time.* Recessions are somewhat shorter but expansions are significantly longer in the post war period than in the past. This means that recessions have been less frequent than they were in previous eras, though this result has been largely driven by two long expansions in the 1980s and 1990s (Knoop, 2010). *The components of GDP exhibit much different behaviors than GDP itself.* The components of GDP are consumption, investment, government purchases, and net exports. Investment and durable consumption are highly volatile and change more than output over the business cycle, investment has also played a significant part in many of the theories of business cycles. As Knoop argues, government purchases are acyclical and not very volatile. Net exports are slightly countercyclical, meaning that net exports tend to rise during recessions and offset some of the falls in output. However, net exports are not a reliable indicator of peaks and troughs in GDP. *Business cycles are associated with big changes in the labor market.* Unemployment is strongly countercyclical, and changes in employment are much larger during recessions than the changes in other inputs into production. This seems to suggest that any plausible theory of business cycles has to give a prominent role to the cyclical behavior of the labor market (Knoop, 2010).

In order to evaluate and compare competing business cycle models, the evolution of most significant variables has been studied by economists – these variables are unemployment rate, inflation rate, the consumer price index, real wages, interest rates, capacity utilization, productivity, stock prices and the money supply. Out of these, unemployment rate is proved to be countercyclical, wages are acyclical, the rest of the indicators being procyclical and leading indicators.

A quick analysis of GDP and other macroeconomic variables show us that they have a certain common behavior during time, this property being called simultaneous movement or comovement. We are able to classify these movements into 3 different types: *procyclical movements*, if variables move simultaneously, *acyclical movements*, if there is no obvious correlation between the two series and *countercyclical movements*, if the series have a similar behavior but with a certain time lag. A graphical representation of two variables will ease the identification of the variable type. Here are the three particular situations’ graphical representation:

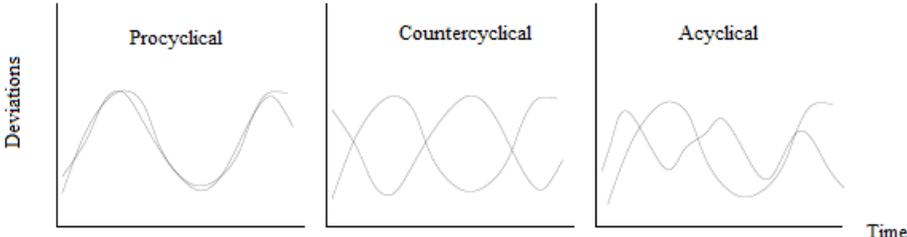


Fig. no. 1. Simultaneous movements of macroeconomic variables
 Source: the author

The scatterplot is another graph used for the identification of different correlations between GDP and other significant macroeconomic variables:

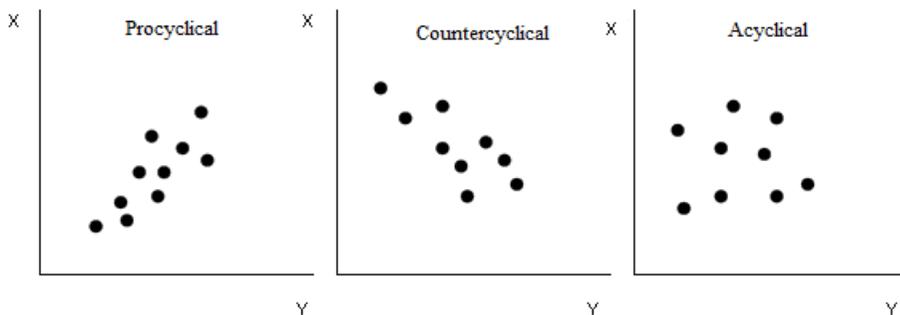


Fig. no. 2. Simultaneous movements of macroeconomic variables – identification using the scatterplot

Source: the author

Not all the variables have the same amplitude. We will compare the series' amplitude with the one of GDP chronogramme - Figure no. 3 shows two particular cases.

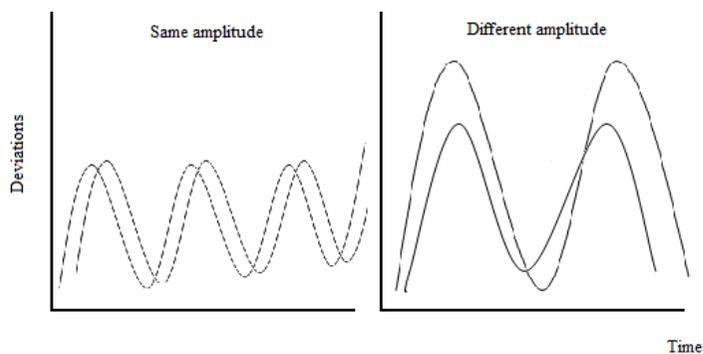


Fig. no. 3. Business cycle amplitude

Source: the author

The time extent of business cycles is different, but as a general rule it ranges from 2 to 8 years. The length of the business cycle is in positive correlation with its persistence – the longer the cycle, the higher the its persistence, as seen in Figure no. 4.

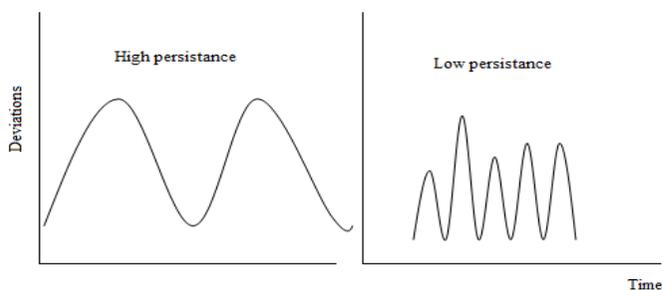


Fig. no. 4. Business cycle persistence

Source: the author

These graphs are relevant only if they are represented for the macroeconomic aggregates. Unfortunately, hystorical data does not have the same intuitive evolution. When analyzing these

graphs, we search inevitably the turning points (upper or lower ones), comparing them with different variables – their frequency, their correlation in time. When using real data, the turning points are quite difficult to identify, so we need supplementary analysis instruments, in order to reveal the stylised facts of business cycles, and these instruments are statistical ones.

For example, standard deviation measures the volatility of macroeconomic series, as it shows the extent to which series vary from their mean. The higher the standard deviation of a variable, the higher its volatility. Correlation measures the simultaneous movement of two variables. With values that range from -1 to 1, it shows the direction of the relationship between the series. A negative value of the correlation coefficient shows a disincronisation. If the correlation of GDP with another series is close to 1, it proves that the variable is procyclical, while a value close to -1 indicates a countercyclical series. When the correlation coefficient is close to 0, it proves that the series is acyclical. We should also mention here that a correlation that is close to 1 does not indicate that the series are equivalent, as their standard deviation might be significantly different. With the help of these two instruments we will be able to identify the stylised facts of business cycles:

- Comovement: it will be revealed using the correlation of particular macroeconomic series with the GDP as well as with other aggregate variables.
- Amplitude: the standard deviation of a certain variable will not provide useful information unless it is compared to the one of the GDP. In this regard, the comparison between different variables standard deviation will reveal which series is more or less volatile.
- The persistance or the frequency: one of the methods of measuring it is the correlation between a certain variable's values with the its lagged values.
- Simultaneous or lagged deviations are revealed using the correlation coefficient for the simultaneous and lagged series. If the lagged series correlation coefficient is higher than that of the simultaneous series, the variables are lagged.

Even though we have presented the main instruments for the analysis of hystorical data, these are not sufficient, as they might not be relevant, for numerous reasons. In order to reveal the true evolution of variables, several decomposition techniques are being used. These techniques, which have as a purpose the separation of the components of macroeconomic variables (trend, cyclical, seasonal and residual component) will be presented in the second part of this paper.

Conclusions

A number of different models developed over the past 250 years have attempted to explain the nature and causes of recessions and depressions. A significant part of these models generate predictions that are more or less consistent with the empirical data. The first part of this paper has presented the relevant literature regarding the evolution of business cycle models as well as the stylized facts of business cycles. In the second part of the paper we'll deal with the most frequent decomposing techniques as well as with the stylized facts for Romania's business cycle. Finally, these stylized facts are used to validate a real business cycle model for the Romanian economy.

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SOCIAL AND ECONOMIC FACTORS AFFECTING POPULATION IN ROMANIA

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As a result of the fact that at the end of 2011, in Romania, was conducted the Population and Houses Census, many studies were focused on the demographic evolution from our country. Our paper is focused on the factors that are influencing the evolution of population in Romania, in order to explain the evolution of demographics. The study was conducted on a 20 years timespan, using statistical data that are characterizing the macroeconomic and demographic environment between 1990 and 2010.

To achieve our goals, we will use the statistical methods to analyze the data released (time series and cross section data) by the National Institute of Statistics. We will try to find some correlations between the evolution of population and social (natural increase of population, net migration) and economic factors (employment, average net wage, GDP).

We conclude sustaining that the increase of emigrants and the ageing phenomenon in last 20 years decreased the number of population, while the increase of employment and GDP are two factors that have a positive influence on the population evolution. The average net wage may have two types of effects: an increase of the wage may represent an opportunity for some families to cover easily the cost of having a child, while for others, the opportunity of gaining higher wages may change their working behavior determining them to focus on career and postponing the birth of a child.

Keywords: population, natural increase of the population, migration, employment, net wage, GDP

JEL codes: J11, E24

Introduction

A major component of today is quality of life. All of us need a quality life, because contemporary society focuses directly on life and on social development. There are many years since the world is carrying out research and publishes studies regarding the quality of life, closely linked to social and economic indicators, namely with national and social policies leading to improving existing in people's lives.

In modern times, society had to ensure the greatest happiness, to influence contemporary economic theory and contemporary social policies. The issue of life is best taken in the twentieth century; the other fields of knowledge, so that sociology will take much of the social factors of society and the individual changes. Measuring quality of life is subjective and objective approaches, pursuing a wide range of sizes. Current perception is complex and multidimensional based on progress in all areas, economic components being very important and considered.

We believe that population with physical and economic characteristics, outline the main coordinates of a country and is a component of the indicators of quality of life. As a result, our purpose is to highlight the socio-economic factors that influence the evolution of population in our country.

In order to achieve our purpose, we structured the paper as it follows: in the literature review we present the findings obtained in some representative papers on this topic, in the methodology we describe the instruments and the method used in the analysis, while the results and discussions section enhances our main results we obtained during our analysis. The paper ends with conclusions.

Literature review

Studying the literature, we find out that most of the previous researches were focused on the impact of social factors on the population evolution. There are also, papers where the authors'

studied the impact of economic factors on population evolution. In some of these articles, the authors have studied the relationship between urbanization and industrial structure (Komei Sasaki, Taku Ito, Sotaro Kunihiisa, Michihiro Kaiyama, 1997; Sovani, 1964; Gugler, 1982), between urbanization and urban concentration (Henderson, 1980), between urban concentration and economic development (Rosen, Resnick, 1980; Wheaton, Shishido, 1981) and between economic development and income distribution (Kuznets, 1955; Williamson, 1965; Mera, 1975). The underlying hypothesis is that the greater an economy is industrialized or a higher level of urbanization in developing countries cause migration from rural to urban areas, which will increase the national unemployment rate because of limited job opportunities in urban areas. The economic efficiency is increased by agglomeration economy in the early stage of urbanization, while agglomeration diseconomy prevails in the late or mature stage, so as to lower the economic efficiency. Regional income disparity increases in the early stage of development and decreases in the late stage of development.

Vasile V. (2004) shows us that increasing population is influenced by several demographic, economic, social and political factors that covered distinct periods of different intensity or significance. The low birth rate, associated with a total fertility rate fewer than 2 after 1990, caused the diminution in the proportion of the youth. The reduction in the demographic dependence ratio due to the decrease in the segment covered by the young persons caused economic and social problems. There will be less and less working age people to support economically the inactive ones, that is the adults must face a heavier social burden as they provide for their families, the education of the young generation and financial support to the pensioners. The size of the demographic imbalance measured by the ageing index is more serious the more so as it shows a higher dynamics. If in 1992, the number of elderly to 1000 children was only 722, in 2002 this value increased at 1098 persons, an increase by more than 50 percent in 10 years (Vasile V., 2004:9). The population's spatial mobility in order to adapt to the labor market needs and to balance the labor market throughout the country is low. Romania's population prefers commutation and/or temporary circulatory migration to residence/household movement. Inside the country about 6.7 million people migrated at least once in their lifetime, while over the period 1992-2000 about 197 thousand people emigrated and 75 thousand repatriated themselves and the annual flows were decreasing (Vasile V, 2004:9-10).

Romania's labor potential is one of the pillars of the sustainable development of the society in the third millennium. The completion of the economic and social reforms and the functional effectiveness of the economy in the post-transition period depend to a great extent on the nation's productive capability as well.

The National Institute of Statistics confirms in the population projections (reviewed in 2003) the continuation of the population ageing. Until 2025 the number of less than 15 years age people diminishes by about 1.3 million and the number of the elderly increases by 130 thousand. Therefore, the young persons will account for 14.8 percent of all population in 2010 and only 12.9 percent in 2025, while the elderly account for 19.8 percent and 22.5 percent, respectively (INS, Projections, 2004:7). The share of the "60 and over" population increases to a greater extent in 2025 when among the elderly we find even more "very old" people. The population reduction and accentuate ageing trend will bring about the medium-age increase by at least 8 years until 2025 and other 4-6 years until 2050.

The effects will be stronger on the labor market both directly by changing the age structure in favor of the elderly, and indirectly by increasing economic dependence rate of the old people (INS, Projections, 2004:9). The population of 65 years and over will reach about 4 million in 2025 and about 5 million in 2050, and its share in all population will be one-fifth and one quarter, respectively (Vasile V., 2004:17). According to EU population projections 2008 – 2060, the old age dependency ratio is projected to be 65.3 in the case of Romania. In other words, there would

be only two persons of working age for every person aged 65 or more in 2060, compared with four persons to one today (EU, 2008).

Methodology

In order to identify the factors that are influencing the evolution of population in Romania, we decided to use statistical instruments - we studied the correlations between the number of people and different social and economic indicators.

In our study we employed two types of data. Firstly we used time series analysis to detect the impact of socio-economic factors on population evolution and secondly, we developed a cross section data analysis (using county data) with the purpose of identifying the impact of social and economic factors on the number of people in the same macroeconomic environment.

Both time series and cross section data we used in our paper are available at National Institute of Statistics from Romania in Tempo Online section and in Statistical Yearbooks. Time series data cover the time span between 1990 and 2010, while the cross section data describe the county situation in 2009. In the case of cross section analysis we have eliminated the municipality Bucharest because we consider that being the capital of Romania has different characteristics than the other 41 counties.

Results and discussions

Analyzing the evolution of population in Romania, we observe that we are facing a phenomenon of population decrease (Fig.1). The number of people is determined by the natural increase of the population (the difference between live-births and deaths) and the net rate of migration. Also there are a number of economic factors which affects the population growth, like GDP evolution, employment and net wage.



Fig. 1. Population evolution in Romania

Source: realized by the authors using NIS data

We will begin our analysis studying the effects of social factors on population evolution. Usually, the yearly values of people are determined by the NIS adding to the population from previous year the natural increase of population and the net value of migration. We have an exception in the years when we have a census (like 1992, 2002 and 2012 in Romania), when the data series are updated with the values obtained from the census. This is the reason why in these years may appear serious differences between the values computed using the usual formula and

the census values. For example, according to NIS, in the 2012 census we had a difference of approximately 1 million persons between the census value and the population from current statistics (NIS 2012:3). In our view, these differences are due to the unrecorded migration.

According to economic rules, an increase in the number of emigrants will reduce the net value of migration, reducing the population number. As a result of statistical analysis of time series, we conclude that the wage and the age of population represent two main determinants of emigration. We have determined a statistically significant relationship (at the 99% confidence level) between the number of emigrants and the evolution of average net wage, the correlation coefficient being equal with -0.921 . According to our model, an increase of 1% in the average net wage will generate a reduction of 0.219% in the number of emigrants. Also, R-Squared statistics indicates that the model as fitted explains 84.91% of the variability of emigration.

Since 1992, the natural increase of population had in Romania a negative effect on the population, reducing each year the number of Romanians. Unfortunately, it seems that the

phenomenon will continue to sustain the reduction of population, because of aging population. According to our calculation, every time the average age of population is increasing 1 year, the natural increase of population will decrease 11552.7 persons. The model is statistically significant at the 99% confidence level and explains 41.1987% of the variability in the natural increase of population.

There is also good news. We have studied the relationship between employment and natural increase of population and we concluded that there is a strong relationship between variables, the correlation coefficient being 0.81048, an increase of employment by 1000 persons will ameliorate the value of natural increase of population in Romania by 27.01 persons (the model is statistically significant at the 99% confidence level). Usually, a positive evolution of employment is associated with economic growth, when the chances for the young families to obtain higher revenues increase. As a result of a better economic and social perspective, the number of births

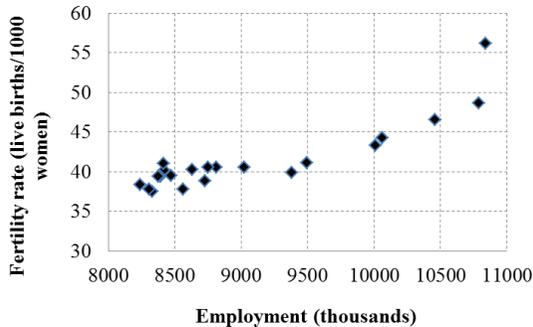


Fig. 2. Fertility rate and employment (1990 – 2010)

Source: realized by the authors using NIS data

increases (Fig. 2). Our conclusion is sustained by the relationship identified between the evolution of fertility rate (live births / 1000 women) and employment. During the time span 1990 – 2010, every time the level of employment increased by 1%, the level of fertility rate increased by 0.93% (the model is statistically significant at the 99% confidence level). Unfortunately, the increase of net wage has a negative effect on the evolution of fertility rate, suggesting that in some situations, women choose to develop a career and to postpone the birth of a child (the average age of mother at the first birth has increased in the last 10 years from 23.7 years in 2000 at 26 years in 2010 (NIS

2012:62)). Our calculations suggest that an increase by 1% in net wage will generate a decrease by 0.03253% in fertility rate.

The effects of employment and net wage evolution on the population can be analyzed directly using statistical instruments.

Regarding the relationship between employment and population we prove one more time the hypothesis enounced previously: the increase of employment determines the increase of population (see fig. 3 and 4). We verify this idea using to types of data. Firstly, analyzing time series data we conclude that an increase by 1% of employment will increase by 0.239% the number of population. Moreover, studying the cross section data, we may conclude that at the county level, an increase by 1% of employment will increase the population by 0.884%. As a result, we believe that people tend to migrate to the counties (towns) that generate more jobs, here the population increasing more rapidly.

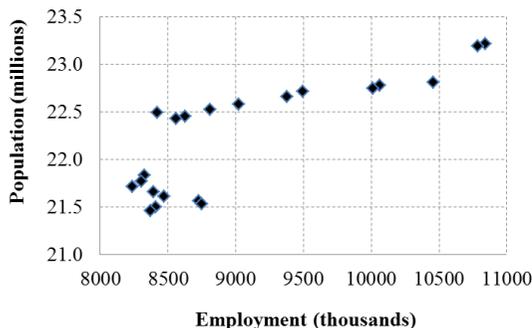


Fig. 3. Population and employment (1990 –

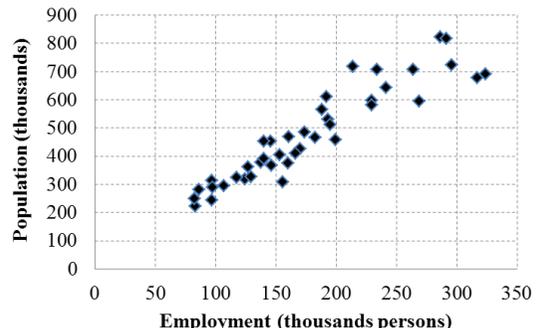


Fig. 4. Population and employment - county

2010)

Source: realized by the authors' using NIS data

values

Source: realized by the authors' using NIS data

The effects of net wage evolution are different when we analyze time series than cross section data (as we can see in figures 5 and 6).

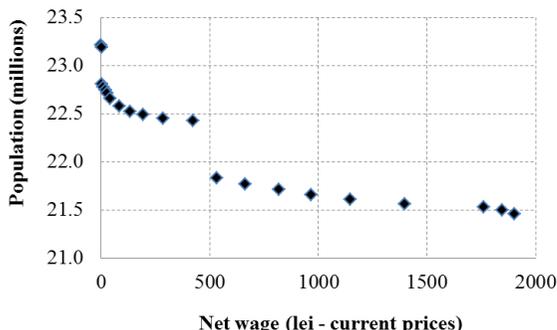


Fig. 5. Population and net wage (1990 – 2010)
Source: realized by the authors' using NIS data

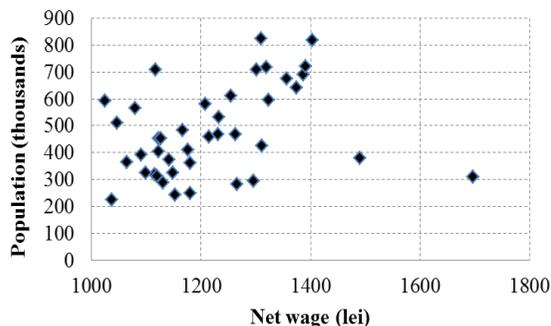


Fig. 6. Population and net wage - county values
Source: realized by the authors' using NIS data

During the time span 1990 – 2010, the increase of net wage had a negative impact on the fertility rate (as we saw previously). The opportunity of gaining higher wages change the working behavior of many people, some of them neglecting their private life. According to our model, an increase of the net wage by 1% determined a decrease by 0.00941% of population. On the other side, studying the relationship in the case of counties, we obtained that an increase of net wage by 1% will increase the population by 522965 people. This conclusion relates with the idea we mentioned previously, that people tend to migrate to the counties that generate more jobs. In these counties, the labor market tends to be more competitive: we have more jobs and in the same time we have more people who are willing to work, people that are well educated and skilled. As a result they will obtain higher wages and will have better perspectives.

We are obtaining similar results (as in the case of net wage) when we are analyzing the relationship between GDP evolution on population (as we can see in figures 7 and 8).

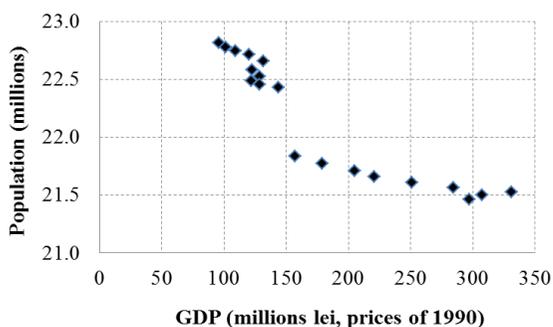


Fig. 7. Population and GDP (1990 – 2010)
Source: realized by the authors' using NIS data

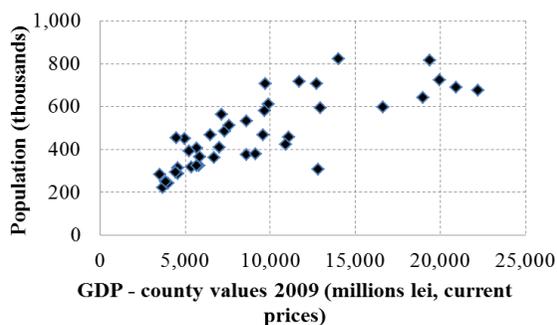


Fig. 8. Population vs. GDP – county values
Source: realized by the authors' using NIS data

We observe that during time, as GDP increased, the number of population decreased (fig. 7). We believe that one cause is the fact that the intensification of economic activity increased the number of hours worked and the efforts of employees. Also, more opportunities for career development or the fear of losing their job (during the economic downturn since 2008) have

determined many families to think one more time before having a child. According to our model, an increase of GDP by 1% decreased the number of population by 0.0581%. In contrast, when we analyze the cross section data, we can see clearly that the counties that generate a higher GDP tend to have a higher population, because they have more job opportunities and better jobs (as we saw previously). So, an increase of GDP by 1% will increase (attract new people) by 0.555% the population of that county.

Conclusions

Demographic evolution is facing a decreasing phenomenon, because of the natural increase of the population and the net rate of migration. Also there are a number of economic factors which affects the population growth, like GDP evolution, employment and net wage. Using the statistical data, we verified that an increase in the number of emigrants will reduce the population number. In the case of Romania, the number of emigrants is influenced by the evolution of average net wage - an increase in the net average wage will generate a reduction in the number of emigrants. Since 1992, the natural increase of population had in Romania a negative effect on the population, reducing each year the numbers of Romanians – an increase of the average age of population will decrease the natural increase of population. Unfortunately, according to current demographic evolutions it seems that this phenomenon will continue to sustain the reduction of population also in the next years.

The good news in the case of population evolution is the fact that an increase of employment will ameliorate the value of natural increase of population in Romania. A positive evolution of employment is associated with economic growth and with better economic and social perspectives, aspects that will sustain the increase in the number of births. Another proof for this positive relationship is the fact that people tend to migrate to the counties that generate more jobs and that have a highest GDP. Unfortunately, the intensification of economic activity increased the opportunities for a career, or simply for a job, the desire to have a child being left after.

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SECTION: FINANCES, BANKING AND ACCOUNTING

SUB-SECTION: FINANCES

INVESTMENT FUNDS' PERFORMANCE AND ECONOMIC GROWTH

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In this paper we examine the performance of investment funds during the period 2006-2010, intending to comprise the portfolio performance's dynamics before, during and after the present economic and financial crises climax. We categorize investment funds according to their investment strategy and geographical focus and distinguish a number of 11 classes. In order to analyze their returns' dynamics, we create a fund performance index for each category using principal components method. The instability created in financial system in 2007 had a direct impact on institutional investors' portfolios regardless of investment strategy, effects that have rapidly propagated on real economy. Analyzing index's dynamics correlated with economic growth we conclude that financial and economic environment react in the same direction, but with a certain time delay, to instability factors. We also underline the major impact of boom and bust evolution of financial markets on real economy, cause of the current economic and financial crises.

Keywords: investment funds, portfolio performance, economic growth, crises, investment strategy

JEL Classification: G20, G23, G29

Introduction

One of the important roles of institutional investors is given by the fact that they contribute to the overall efficiency of the financial sector. (Merton, Bodie, 1995) Taking into account this aspect, institutional investors also contribute to the global economic growth. The institutional investors' role of attracting and allocating their resources induces the increase of financial market liquidity, introduction of new financial instruments and products, development of trading strategies and arbitrage and cross-border diversification of portfolios with direct effects on the economic environment. (Harichandra, K, Thangavelu, S, 2004)

One of the issues debated in the specialty literature is the strong correlation between the financial sector and the economic one, the interdependencies between these two leading to propagation of shocks occurring in any of the two environments. To analyze these interdependencies, we employ a comparative method of the institutional investors' performance during 2006-2010 to the gross domestic product growth rate, reference to geographical area and the institutional investors' portfolio-formation strategy.

Data

The study uses data from Thompson Reuters – Lipper database that includes information on annual returns during 2006-2010 for a total of 122.700 investment funds. To reflect the investment strategy and geographical focus, we proceeded to the selection of the following categories of institutional investors:

- Europe-oriented equity investment funds, with the total value of assets held more than 0.1 billion USD, Number of funds 469;
- U.S.-oriented equity investment funds, with the total value of assets held more than 1 billion USD, Number of funds 694;
- ASIA-oriented equity investment funds, with the total value of assets held more than 0.1 billion USD, Number of funds 365;
- Europe-oriented bond investment funds, with the total value of assets held more than 0.1 billion USD, Number of funds 146;
- U.S.-oriented bond investment funds, with the total value of assets held more than 1 billion USD, Number of funds 310;

- ASIA-oriented bond investment funds, with the total value of assets held more than 0.1 billion USD, Number of funds 48;
- Europe-oriented mixed investment funds, with the total value of assets held more than 0.1 billion USD, Number of funds 131;
- U.S.-oriented mixed investment funds, with the total value of assets held more than 1 billion USD, Number of funds 161;
- ASIA-oriented mixed investment funds, with the total value of assets held more than 0.1 billion USD, Number of funds 34;
- global monetary funds, with the total value of assets held more than 1 billion USD, Number of funds 480;
- other types of funds, with the total value of assets held more than 1 billion USD, Number of funds 116.

Of all the entities resulting from the application of filters to each category, there were eliminated funds that do not register data for the entire period observed 2006-2010.

Methodology

In order to reflect the behavior of each group of investment funds, we create a fund performance index for each category using principal components method. Principal components analysis is a variable reduction procedure. The central idea of this analysis is to reduce the size of a set of interrelated variables, retaining as much as possible from the variation existing in the dataset observed. This procedure is used in a variety of fields, from climatology to economics, genetics, psychology and quality control (Jolliffe, 2002).

This type of analysis models the variance structure of a set of observed variables using linear combinations of the variables. These linear combinations, or components, are used in subsequent analysis, and combination coefficients (or weights) are used in interpreting these components.

The principal components of a set of variables are obtained by computing the eigenvalue and decomposing the variance of the observed matrix (Johnson and Wichtern (1992)). The first principal component represents the unit-length combination of the original variables with maximum variance. Subsequent principal components maximize variance among the lengths of linear combinations that are orthogonal to the previous components.

In terms of singular value decomposition, a matrix of data ($n \times p$) of rank r may be represented as:

$$Y = UDV' \quad (1)$$

U and V are orthonormal matrices of left singular and right singular vectors, and D is a diagonal matrix containing singular values.

More generally, we have:

$$Y = AB' \quad (2)$$

A is a ($n \times r$) matrix and B is a ($p \times r$) matrix, both of rank r and

$$A = n_2^\beta U D^{1-\alpha} \quad (3)$$

$$B = n_2^{-\beta} V D^\alpha \quad (4)$$

So $0 \leq \alpha \leq 1$ is a factor that adjusts the relative weight of the left singular vector (observations) and right singular vector (variables), and the term n involving β are scaling factors where $\beta \in \{0, \alpha\}$

Basic options for computing the values A and the corresponding weights B imply the appropriate choice of the parameter α and the scaling parameter β .

In the context of principal components calculation, let Σ be the dispersion matrix of Y , and perform the decomposition of eigenvalues:

$$\Sigma = L \Lambda L' \quad (5)$$

We may set: $U = YLD^{-1}$, $V = L$, $D = (n\Lambda)I/2$ so that:

$$A = n_2^\beta YLD^{-\alpha} \quad (6)$$

$$B = n_2^{-\beta} LD^\alpha \quad (7)$$

A may be interpreted as the weighted values of principal components and B as the weights of principal components

Results

By analyzing the index dynamics for each category in relation to the economic growth dynamics, we see that institutional investors whose investment focus is Europe, the trend is that of sharp increase in the equity funds' performance until 2007, in 2008 they registered a significant correction and reached a historical minimum. A similar dynamic is given by the fluctuation of the three indexes represented, the index of equity investment funds, bond funds and mixed funds, 2008 representing a significant decrease of the outcomes. The most important losses are registered in stock markets, which are most affected by the turbulences seen since the end of 2007, reaching a historical minimum in 2008. This phenomena can be explained by the panic created on stock markets worldwide, retail and institutional investors seeking to close their open positions on stocks based on the uncertainty of companies' capacity to recover.

Thus, in 2008 international stock markets registered one of the most severe declines in history, international market capitalization suffered a 50% correction, initial public offerings (IPOs) were halved while total trading volume remained at a similar level of 2007. This situation was aggravated by the failure of U.S. Lehman Brothers investment bank in September 2008, an event that caused an extremely negative reaction of stock markets which in a period of about two months had a 40% correction at global level, and remained at minimal levels until the end of year. Stock market volatility remained high in 2009, when in the first two months suffered a decrease by 12%, followed by an increase of 15% starting from April 2009. The end of 2009 represented an increase of nearly 50% of market capitalization, but it is only a partial recovery of losses incurred in the previous year. In the first half of 2010, stock markets experienced a correction of about 7%, remaining well below the highs reached in 2007.

Comparing the index dynamics of investment funds and dynamics of macroeconomic indicator of economic growth, we observe a similar, but delayed behavior of the economic environment, emphasizing the significant influence of financial environment on real economy by transmitting the financial crisis in the real economy. (Figure no. 1)

Another important element to note is the de-correlation of the observed funds' yields from the real economy results, the first ones registering over two-figure positive values during periods of growth and appropriate corrections during trend-reversal periods, with the decrease of 47% of equity markets in 2008 occurring after five consecutive years of growth. This feature reveals exactly the boom and bust period in the evolution of financial instruments' prices.

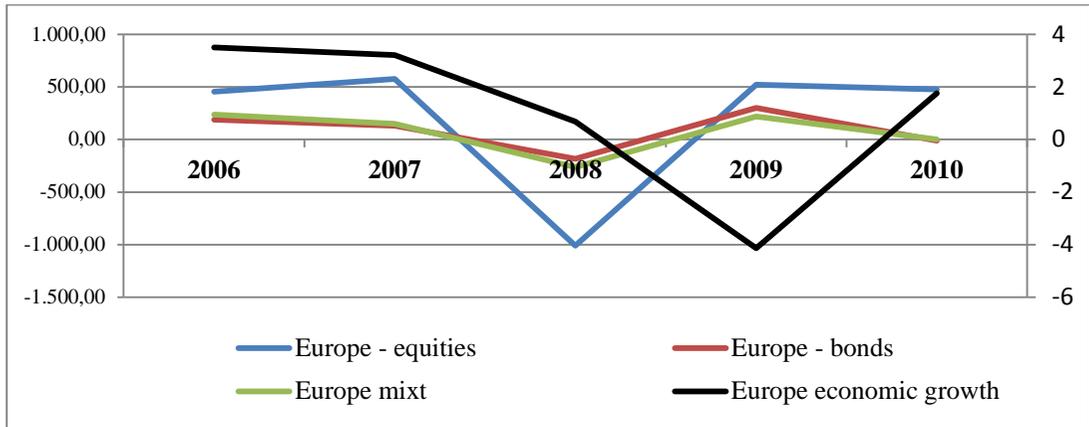


Figure no. 1 Comparative dynamics of performance indexes for Europe-oriented investment funds and economic growth during 2006-2010

Source: Author's calculations based on data provided by Thomson Reuters - Lipper, IMF database for data on economic growth

We also observe similar developments in the case of investment funds with investment horizon in the United States, although the period 2006-2007 is a slight tendency of performance index correction of all types of institutional investors observed, all indexes registering a significant decline in 2008 and a recovery since 2009. The year 2010 marked a new correction for all three indexes observed. We notice the same delayed response from the economic environment, the strong interconnections between the two causing a negative growth in 2009 (Figure 2)

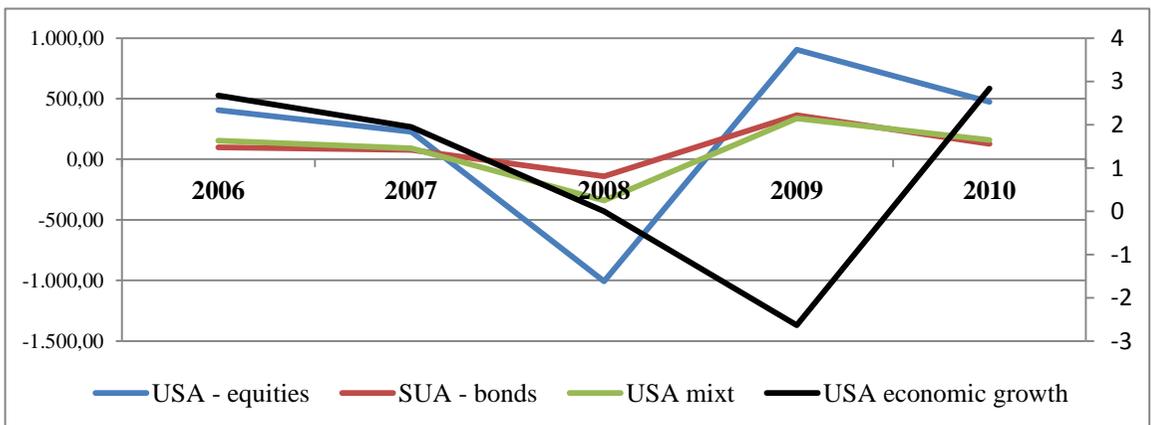


Figure no. 2 Comparative dynamics of performance indexes for U.S.-oriented investment funds and economic growth during 2006-2010

Source: Author's calculations based on data provided by Thomson Reuters - Lipper, IMF database for data on economic growth

We found an interesting evolution for investment funds whose investment area is Asia, mainly due to the dynamics of bond funds registering increased returns in 2008, their correction being highlighted only in 2009, simultaneously with economic growth correction. As far as it concerns bond market performance, we point out that volatility is lower than in equity markets. The attractiveness of bonds as a form of investment has increased in recent years given the fact that institutional investors seek less risky investments in less volatile markets. Risk aversion and preference for quality determined an increase in demand for bonds, especially in countries seen

as more financially stable. On the other hand, corporate bonds offered a potential increased yield during this period, reaching record levels in 2008 followed by a correction in 2009 (The City UK, 2010). The dynamics of equity and mixed funds' indexes is similar to that of other areas, these indexes reaching a minimum in 2008, a recovery in 2009 and a new correction in 2010. (Figure no. 3)

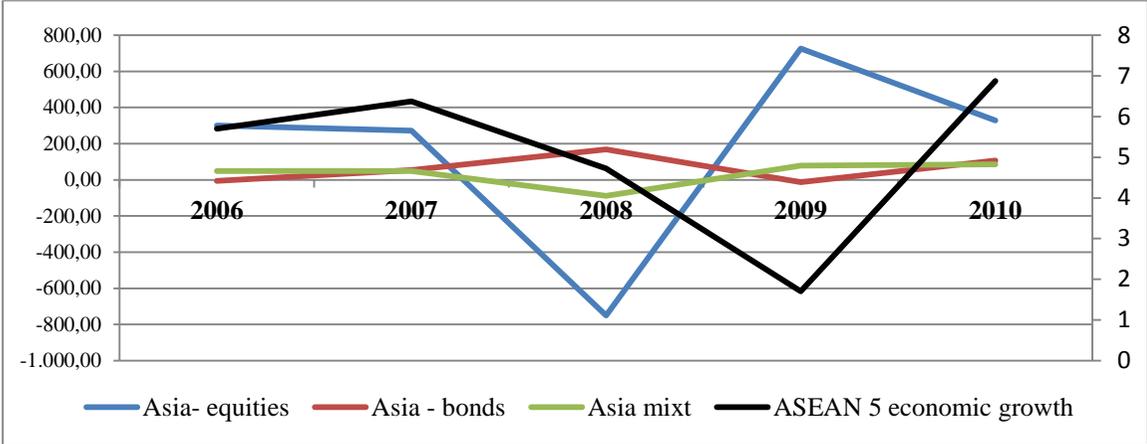


Figure no. 3 Comparative dynamics of performance indexes for U.S.-oriented investment funds and economic growth in 2006-2010

Source: Author's calculations based on data provided by Thomson Reuters - Lipper, IMF database for data on economic growth

In terms of monetary funds and other funds, 2008 represents a minimum for the indexes of the two classes observed. By comparing the evolution of these investors to the global economic growth, we observe a decrease in the real economy since 2008, and a recovery in the second half of that year, this behavior corresponding over time to the general evolution of performance indexes for all selected categories of investors. Regarding the two classes presented in Figure no. 4, we highlight the sharp downward trend of performance indexes in 2010 due to the volatility created by the financial and economic instability experienced in the current period.

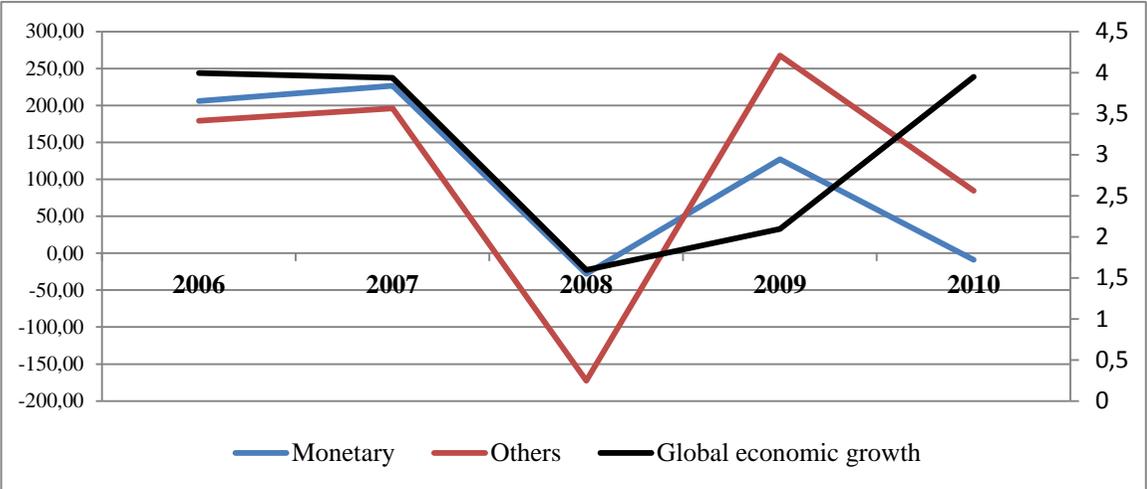


Figure no. 4 Comparative dynamics of performance indexes for monetary funds and other funds and economic growth in 2006-2010

Conclusions

The most important aspect to note in this comparative analysis is that, as explained before, the instability created in the financial system worldwide has immediate repercussions on all institutional investors' portfolios, regardless of their employment category. These effects have propagated to the real economy as the comparative dynamics presented clearly reflects this aspect. Therefore, we conclude that the financial environment and the real economy react in the same direction, with a certain time delay, to the moments of volatility created, pointing out the major impact of financial market dynamics, characterized by the boom and bust phenomenon, on real economy, an aspect considered as one of the causes triggering the current economic and financial crisis.

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A MODEL OF RATING FOR BANKS IN ROMANIA

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Abstract. In the paper the authors present a model of rating for the banking system. Thus we took into account the records of 11 banks in Romania, based on annual financial reports. The model classified the banks in seven categories according with notes used by Standard Poor's and Moody's rating Agencies.

Key Words: rating, Basel III, bankruptcy

JEL Classification: G21

1. Introduction

In the recent research many authors tried to develop models of rating for economic entities and also for the banking system. Also the Central Bank classified the Romanian banking system into 5 rating categories, from 1 (maximum) to 5 (minimum).

Thus between 2003 and 2010 non bank was classified in rating 1, around 60% took rating 2. That's why we consider that a new rating model based on Basel III norms will be useful for the bankers.

2. Method and Results

The rating model was developed from tests conducted on 11 banks. In this model have been analyzed many financial indicators that ensure coverage of all financial issues that impact on future business and profits.

Among the analyzed indicators financial ratios for liquidity and performance were selected.

In the model thus created I have established seven rating categories designed based on the new Basel III Norms (Supervision Basel Committee on Banking, 2010: 44) as follows:

	Rating	Score
Minimum Risk	AAA	12
Reduced Risk	AA	11
Reduced - Medium Risk	A	10
Medium Risk	BBB	9
Medium - High Risk	BB	8
High Risk	B	7
Bankruptcy	CCC	6

- “AAA” Category - financial performance is *great*, the risk is minimal. It is considered to maintain in the future the financial performance at a high level;
- “AA” Category - financial performance is *good*, thus the risk is reduced, the results of the cooperative are stable in the short term;
- “A” Category – financial performance is *above average*, satisfactory, the risk is fluctuating between low and medium;
- “BBB” Category – financial performance is at an *average* level compared to the optimal result, risk is *medium*;
- “BB” Category – financial performance is reduced *below medium* or records negative results, the risk is increasing from a medium to a higher level;
- “B” Category – financial performance are *weak*, poor, presents a *high* risk;
- “CCC” Category – financial performance is *very weak*, with high risk of bankruptcy.

Classification in any of the above categories is based on financial performance analysis, depending on the score for each indicator presented in the table below.

Financial security intervals and their scores have been established taking into consideration the new Basel III Norms and the banking practice in our country.

Table no.1 Scores for indicators presented in the model

(Long and Medium term loans +Equity) /Investments ($\geq 1,25$)	$\geq 1,25$	>1	>0
	3	2	1
Equity / Total Liabilities ($\geq 15\%$)	$\geq 15\%$	$\leq 10\%$	$>10\%$
	3	2	1
Total Expenses/ Turnover ($\leq 5\%$)	$\leq 5\%$	$\geq 10\%$	$<10\%$
	3	2	1
Cash Flow / Total Assets ($\geq 3, 5\%$)	$\geq 4\%$	$\leq 3\%$	$< 3\%$
	3	2	1

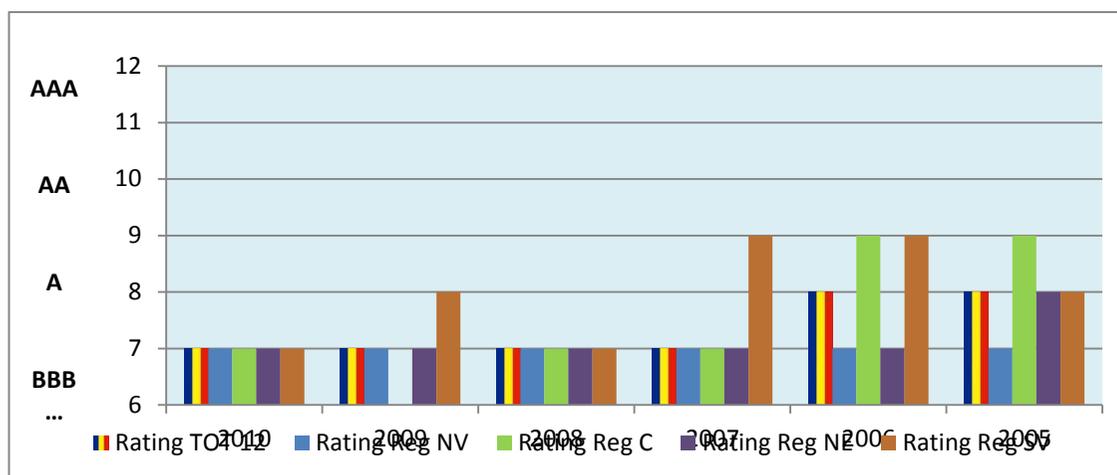
Source: Personal Calculation

The results recorded by the 11 banks as well as for each region are presented below.

Table no.2 Performance categories, limits and scores representative for the Rating Mod

indicators	Year		Year		Year		Year		Year		Year	
	2006		2007		2008		2009		2010		2011	
		%		%		%		%		%		%
BALANCE SHEET DATA												
Placements	99.944.491	85%	73.079.856	85%	124.373.445	87%	169.921.487	84%	176.154.362	84%	196.111.973	86%
Other Current Assets	1.302.956	1%	819.505	1%	1.135.605	1%	1.490.642	1%	1.690.026	1%	769.295	0%
Fixed Assets	16.020.810	14%	11.764.304	14%	18.197.535	13%	30.966.910	15%	31.032.080	15%	31.430.039	14%
TOTAL ASSETS	117.268.257	100%	85.663.665	100%	143.706.585	100%	202.379.039	100%	208.876.468	100%	228.311.308	100%
Short term Loans	6.397.332	5%	7.191.914	8%	8.898.573	6%	13.266.122	7%	15.935.424	8%	5.252.660	2%
Medium and long term loans	75.002.639	64%	51.288.186	60%	87.514.653	61%	115.200.891	57%	117.347.201	56%	143.238.616	63%
Equity	35.868.286	31%	27.183.565	32%	47.293.359	33%	73.912.026	37%	75.593.843	36%	79.820.031	35%
TOTAL LIABILITIES	117.268.257	100%	85.663.665	100%	143.706.585	100%	202.379.039	100%	208.876.468	100%	228.311.307	100%
DATA FROM PROFIT AND LOSS ACCOUNT												
Turnover	19.647.339		15.521.519		21.751.848		29.670.515		30.121.317		31.869.201	
Borrowing Costs	6.560.067		4.838.006		7.602.055		11.288.475		12.405.185		11.153.760	
Results	4.048.418		2.574.402		2.682.452		2.501.958		1.713.801		2.279.259	
Main Indicators			Value	Scoring	Value	Scoring	Value	Scoring	Value	Scoring	Value	Scoring
DTL+CP/ Placements (>= 1,25)	1,11	2	1,07	2	1,08	2	1,11	2	1,10	2	1,14	2
CP/ Tot. Liabilities (>= 15%)	30,59%	3	31,73%	3	32,91%	3	36,52%	3	36,19%	3	34,96%	3
Ch TOT/ CA (<= 5%)	33,39%	1	31,17%	1	34,95%	1	38,05%	1	41,18%	1	35,00%	1
Cash Flow / Total Assets (>= 3, 5%)	3,45%	2	3,01%	2	1,87%	1	1,24%	1	0,82%	1	1,00%	1
TOTAL Score	8		8		7		7		7		7	
RATING >>>>>	BB		BB		B		B		B		B	
Region NW	B		B		B		B		B		B	
Region C	BBB		BBB		B		B		CCC		B	
Region NE	BB		B		B		B		B		B	
Region SW	BB		BBB		BBB		B		BB		B	

Source: Own Calculation



Source: Personal Illustration

Figure no.1 The rating of the analyzed cooperative banks

I can draw the following conclusions from the above table and chart:

- in the period 2007-2010, analyzed banks both per total and on each region fall in the rating of “B”, except for banks located in the centre regions (rating “CCC” in 2009) and those located in region southwest which in 2007 registered rating “BBB” and in 2009 have been rated “BB”;
- in 2005-2006 period the development was the following:
 - “BB” score has been registered per total banks
 - The banks in the north-west region have been rated “B”;
 - The banks in the center region have been rated “BBB” for the entire period, while the banks in the southwest region showed an improvement of qualification from “BB” in 2005 to “BBB” in 2006;
 - The banks located in the north-east region have downgraded the rating to “B” in 2006 from “BB” in 2005.

3. Conclusion.

Comparing the results obtained using the CAMPL system and the rating model we found that between them there is a similarity in that the rating “3” recorded by CAMEL system and rating “BB” and “B”, this meaning a combination of deficiencies that may vary between moderate and severe requiring careful concern from internal organs in charge of supervision and from the Romanian National Bank.

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A NEUROECONOMIC APPROACH OF TAX BEHAVIOR

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Governments around the world register substantial losses due to tax non-compliance behavior. Whether it is tax avoidance or tax evasion, non-compliance has repercussions on the whole society because it mitigates the quality of the provision of public goods. Nevertheless, the level of tax compliance is significantly higher than the classical tax evasion model of Allingham and Sandmo (1972) predicts. A manifold of theoretical and empirical studies invalidate the assumptions of the classical model by trying to give answers to one of the most intriguing questions: Why people pay taxes? Taking into consideration these realities, we summarize some of the findings related to tax behavior within the emerging new field of neuroeconomics. Using state-of-the-art technology (non-invasive brain stimulation, non-invasive measurement of brain activity, pharmacological interventions to raise or lower the activity of neurotransmitters, eye-tracking or skin conductance response), neuroeconomics steps on the scene to give insights on the reasons for which taxpayers display a certain tax behavior. According to the neuroeconomics mainstream literature, emotions guide the decision-making process when outcomes are uncertain with regards to rewards and losses. At neural level, the amygdala triggers bodily states related to reward and loss and the ventromedial prefrontal cortex reenacts past experiences of reward and loss to predict future outcomes. Some taxpayers who decide to engage in tax evasion experience a positive feeling when anticipating the profit from dodging taxes, feeling that is triggered by the amygdala. Other taxpayers don't engage in tax evasion because they want to avoid negative feelings (shame, guilt, regret). Oxytocin facilitates dopamine release which is a positive physiological motivation for cooperation. As a consequence, taxpayers' trust levels increase and, with it, increases the propensity to comply with the tax law. Besides summarizing neuroeconomics findings related to tax behavior, we also draw attention on some policy implications which may derive from neuroeconomics studies and may assist authorities in raising tax compliance levels. Tax evasion is showed to decrease in trustful environments where tax authorities facilitate compliance process and where taxpayers believe their true earnings can be accurately estimated by tax authorities. Tax evasion also decreases when tax authorities publicly denounce tax offenders.

Keywords: neuroeconomics, tax compliance, trust, oxytocin, eye-tracking

JEL Codes: D87; G02; G28; H26

1. Introduction

When talking about paying tax liabilities, two main types of tax behavior can emerge: compliance and non-compliance. According to Franzoni (2000: 54), compliance behavior encompasses simultaneously the following features: 1) true reporting of the tax base; 2) correct computation of the liability; 3) timely filing of the return; 4) timely payment of the amounts due. Any deviations from the aforementioned features results in non-compliance behavior. Going into depth with the analysis, each main type of compliance can be divided into two sub-types. Tax compliance can be *voluntary* or *enforced*, depending on the nature of factors that influence taxpayers' behavior, i.e., trust in authorities or power of authorities (Kirchler 2007; Kirchler, Hoelzl and Wahl 2008). Tax non-compliance can take either the form of *tax avoidance* or of *tax evasion*, depending on the legality degree of taxpayers' activities, i.e., legal activities or illegal activities. In many countries around the world, the phenomena of tax avoidance and tax evasion reach high levels. Yet, these levels are not as high as the classical model of tax evasion predicts (Allingham and Sandmo 1972) because not all taxpayers are rational utility maximizers. As Alm and Torgler (2009: 635) notice: "Still, the puzzle of tax compliance is not why there is so much

cheating. Instead, the real puzzle is why there is so little cheating. Typically, the percent of all individual income tax returns that are audited is often less than 1% and the penalties on even fraudulent evasion are only a fraction of unpaid taxes. Virtually all economic models of taxpayer behavior conclude that there should be much more tax evasion than is actually observed. However, most people pay most of their taxes most of the time”. The present study briefly describes the mechanisms behind decisions related to tax behavior from the neuroeconomic perspective, with the aim of highlighting some policy implications that might contribute to generalize compliance behavior among taxpayers. The remainder of the article has the following structure. Section 2 tackles the key features of neuroeconomics studies. Section 3 describes neuroeconomics results regarding tax behavior and their policy implications. Section 4 highlights the main conclusions of the study.

2. Neuroeconomics: the scientific field of the “economic brain”

One of the newest field among social sciences is *neuroeconomics*, a hybrid between neuroscience, experimental economics and psychology which studies the neural basis of economic decisions. From its appearance in the late 1990s (Glimcher et al. 2009), neuroeconomics caused quite a stir with opinions going from high appraisals and optimistic assessments (Camerer, Loewenstein and Prelec 2004, 2005; Park and Zak 2007; Schultz 2008), cautious conclusions (Bernheim 2008, 2009; Purdy 2006) to harsh critique and deeply rooted skepticism (Gul and Pesendorfer 2008). Nevertheless, neuroeconomics followed its path by: using state-of-the-art technology like *non-invasive brain stimulation* (e.g., transcranial magnetic stimulation– TMS; transcranial direct current stimulation– tDCS), *non-invasive measurement of brain activity* (e.g., functional Magnetic Resonance Imaging– fMRI; Electroencephalography– EEG; Magnetoencephalography – MEG; Positron emission tomography– PET), *pharmacological interventions* to raise or lower the activity of a neurotransmitter (e.g., oxytocin, serotonin), *eye-tracking* (e.g., infrared light cameras), *skin conductance response* (SCR), and applying these techniques to experimental economics game-formats (Smith and Huettel 2010).

According to Fehr and Rangel (2011: 3-4), neuroeconomics investigates three basic questions: a) which are the variables computed by the brain to reach different types of decisions and in what way do they relate to behavioral outcomes; b) how does neurobiology implement and constrain these computations; c) which are the implications of this knowledge for understanding behavior in different contexts (economic, business, legal, political, clinical, etc.). The ultimate goal of neuroeconomics is to provide substantial evidence that will assist economists in developing models based on more realistic assumptions about the decision-making process (Arieli, Ben-Ami and Rubinstein 2009; Zak 2004).

3. Tax behavior from the neuroeconomic perspective: findings and policy implications

Because they examine economic decisions, neuroeconomics studies also focus on tax behavior as an attempt to give more insights into one of the most puzzling economic questions: why people pay taxes (Chorvat 2007). In the case of compliance versus non-compliance, some interesting insights are revealed by the somatic marker hypothesis. This influential neuroeconomics theory states that emotions play an important role in taking decisions whose outcomes are uncertain with regards to rewards and losses (Damasio 1994). According to the theory, bodily states related to different emotions are elicited during decision-making to “mark” some options as advantageous and others as disadvantageous. At the brain level, the amygdala and the ventromedial prefrontal cortex (vmPFC) play distinct but connected roles: the amygdala triggers emotional/bodily states in response to rewards and losses, the vmPFC reenacts past experiences relating to these rewards and losses to predict future rewards (Bechara and Damasio 2005). When taxpayers engage in tax evasion, they are ready to incur the costs of being audited because the profit obtained from not

paying taxes makes them feel good, i.e., the amygdala triggers a positive emotion (Kahn et al. 2002; Zweig 2007; Zweig 2008).

Like any classical public goods game with non-excludable and non-rival benefits, taxpaying is no stranger to free-riding, i.e., benefiting from public services without paying, on the efforts of compliant taxpayers. As the optimal allocation of the public good is conditioned by taxpayers' willingness to contribute to the common pool, free-riding propensity could be diminished if governments knew every taxpayer's valuation of the good. Knowing this, governments could compute the optimal level of public goods and tax people proportionally to the benefits they get from these public goods, making sure the benefits exceed the costs (Krajbich et al. 2009: 596). In the attempt to solve the free-rider problem, Krajbich et al. (2009) designed a neurally informed mechanism. By using fMRI, they showed that when it is possible to read subjective states with an accuracy degree ranging from 60%-90% and when tax payments and final outcomes depend on both individuals reported values and neural readings, free-riding decreases dramatically. Indeed, subjects revealed their true values nearly 100% of the time and the public good was provided at a level of 93%. In this case, the only prerequisite is that subjects believe their values can be predicted with sufficient accuracy by technology. Regarding this interesting result, governments could ensure a proper provision of the public goods and a decrease in tax evasion if taxpayers believed their true earnings can be accurately estimated by tax authorities.

One of the groundbreaking discoveries in neuroeconomics is the role oxytocin or "the morale molecule" (Zak 2012) has in facilitating human relationships. Oxytocin is a neuropeptide naturally produced by the hypothalamus. When people trust others, the oxytocin level increases, the midbrain releases a neurotransmitter called dopamine which lowers individuals' anxiety levels and makes people experience a pleasant sensation when cooperating (including with strangers). Due to this sensation, people tend to repeat cooperative behaviors. Studies show that a high level of oxytocin is associated with trustworthiness (Kosfeld et al. 2005; Zak, Kurzban and Matzner 2004, 2005) and it facilitates dopamine release which is a positive physiological motivation for cooperation. Based on these findings, it could be stated that if state authorities would create an environment based on mutual trust and cooperation, taxpayers would be inclined to fully contribute to public funds and tax evasion would be abated.

Regarding the use of eye-tracking in tax related issues, one interesting experiment comes from the corporation *Realeyes* (with headquarters in the US and United Kingdom) specialized in using computer vision to read people's faces and measure their emotions. In order to find out whether UK council websites are designed to ease taxpaying processes, Realeyes asked 54 taxpayers to pay taxes on six different council websites and eye-tracked them. Based on the emotions experienced by the taxpayers that were registered by the eye-tracking devices, the researchers concluded that the UK public sector websites had room for improvement. Three out of the six websites provided a clear and graphically pleasant menu which made taxpaying experience less burdening and facilitated compliance. The clarity of menus also contributed to the lessening of phone calls and e-mails which were addressed to the civil servants and generally implied a lot of time and money. The worst websites had an ambiguous design and very complicated menus. The bright colors used to highlight important information disoriented taxpayers who associated the colored sections with banner ads and disregarded the information. These websites also had a high average of the view to click time (time elapsed between fixating a correct area and clicking on it), which was twice as high compared to the efficient websites and emphasized their unfriendly design. The study had an important echo in the media. As a consequence, after the disclosure of the results one of the 6 councils immediately redesigned the webpage in a user-friendlier manner. Apart from rationality, emotions also play an important role in decision-making (Coricelli, Dolan and Sirigu 2007). Coricelli et al. (2007) conducted a tax game experiment in which they measured emotions by skin conductance response (SCR) to test the hypothesis that evading taxes

elicits emotions in tax evaders. The experiment had a within-subjects design with two treatments, a first one with monetary sanctions (fines) and a second one with both monetary and non-monetary sanctions (public picture display of tax evaders). The results showed that the relationship between compliance and punishment was mediated by emotions. The amplitude of SCR was higher when underreporting than when complying, especially in the second treatment when evasion decreased significantly. For the subjects reporting between 26% and 75% of their income, the second treatment was more arousing and the strong impact of public picture display was interpreted as shame. According to their study, compliance can be influenced by taxpayers' willingness to avoid negative emotions (shame, regret, guilt). Also, an environment where tax evasion is publicly displayed increases compliance more than an environment with only monetary sanctions. Due to the fact that tax evaders seem to experience negative social emotions, governments could implement policies threatening to denounce cheaters publicly to reduce evasion.

Besides substantial evidence from empirical studies, there are also theoretical approaches. In an article about tax compliance and the neuroeconomics of intertemporal choice, Chorvat (2007) argues that the relationship between the timing of tax payments and the decision of paying taxes impacts on tax compliance more than the standard exponential discounting would predict. This is due to the fact that taxpayers display inconsistent time preferences and apply hyperbolic discounting. Namely, they exhibit higher discount rates between periods of time closer to the current period compared to periods of time in the future. According to Chorvat, tax compliance can be consistently improved by separating the time at which tax returns are filed from the time taxes are paid or refunded.

4. Conclusion

As taxes are ubiquitous in everyone's life, they constitute an endless source for scientific research. Following the stream of literature on tax compliance provided by the social sciences, neuroeconomics offers new insights into the way taxpayers decide whether to comply or not with the tax law. Neuroeconomics studies report that decision-making process is guided by emotions in situations when taxpayers feel uncertain about rewards and losses. These emotions are triggered by the increasing neural activity in the amygdala and the ventromedial prefrontal cortex. The thought of obtaining a profit from not paying taxes makes some taxpayers experience positive emotions and engage in tax evasion. Others fully comply because they don't want to be publicly exposed and experience negative feelings. Some interesting findings state that oxytocin facilitates compliance by increasing taxpayers' trust levels. Although research methodology used in neuroeconomics studies is often criticized by mainstream economists, researchers can benefit from neuroeconomics findings by using neurobiology for developing better models of economic behavior. Neuroeconomics not only can aid future research, but also tax authorities in their attempt to raise compliance levels and decrease tax evasion propensity. Several studies show that the phenomenon of tax evasion is lessened when authorities ensure a trustful environment based on mutual cooperation, in which they denounce tax offenders and are believed to estimate accurately taxpayers' earnings.

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THEORETICAL CONSIDERATIONS ON THE ISSUES AND GENERAL VALID RULES FOR LOCAL TAXES AND FEES ACCORDING TO TITLE IX OF THE FISCAL CODE AND POINTS FROM METHODOLOGICAL NORMS OF APPLIANCE THE FISCAL CODE TITLE IX: DEFINITIONS.

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To operate in complex and real problems of determining the amount of local taxes, specialized inspectors from local administration services, but also the taxpayers, must have regard to a number of issues and general rules apply across the spectrum, in general, of local taxes. Based legal matter in this issue of principle is found in the Romanian Fiscal Code, Title IX and points from the Methodological Norms of the Fiscal Code, referring of Title IX.

Trying a systematization of issues of local taxes through the Fiscal Code provisions, Title IX and its implementing Norms, we concluded that the issues and generally applicable rules for local taxes are found, scattered, over different articles of Title IX and during various points of the Methodological Norms of application of the Fiscal Code provisions relating to Title IX.

In the analysis we did, we concluded that the issues and general rules applicable for local taxes are grouped into three categories namely: a first group, comprising mainly with issues and rules theory, including here a series of definitions, principles underlying the establishment of local taxes and special to their calculation, as they result from the comparative analysis of art.247 Fiscal Code Section 1-10, 14 and 15 of the Norms of Fiscal Code, the provisions of Title IX. A second category of issues and generally applicable rules applicable for local taxes is considering issues related primarily to the role of - specifically local - in the domain of local taxes, and in the third category of issues and rules generally valid applicable are the local taxes relate to budgetary nature.

Throughout this article, we detail aspects of the first category, the related issues and general rules applicable for local taxes, mainly theoretical, and for this category, we will insist on clarifying the definitions given in Article 247 Fiscal Code and the contents of paragraphs 1-10, 14 and 15 of the Methodological Norms of the Fiscal Code provisions relating to Title IX.

Keywords: fiscal code, local taxes, local fees, Romania.

JEL Classification: H2, H3.

In art. **247 Fiscal Code** are given several definitions in order to clarify the content of the various expressions used by the legislator to clarify the meaning. Thus:

a) **The rank** of a settlement relates to the rank assigned to a city law⁴⁰.

To identify areas and their classification into tiers of cities, is considering cumulatively, the following provisions:

a) The provisions of Law no. 2/1968 on the administrative organization of the territory of Romania, republished with subsequent amendments⁴¹;

b) The provisions of Law no. 351/2001 concerning the approval of National planning arrange - Section IV - Localities network, published in the Official Monitor of Romania, Part I, no. 408 of July 24, 2001, as amended and supplemented⁴².

⁴⁰ See Methodological Norms of Fiscal Code, point 1, paragraph a), regarding Title IX, Fiscal Code.

⁴¹ According to Methodological Norms of Fiscal Code, point 1, paragraph b), regarding Title IX, Fiscal Code.

⁴² See Methodological Norms of Fiscal Code, point 2, paragraph a) – f), regarding Title IX, Fiscal Code.

According to Law no. 351/2001, the hierarchy of functional urban and rural locality, is as follows⁴³:

- a) **rank 0** - Romania's capital, city of European significance;
- b) **rank I** - cities of national importance, with potential influence at European level;
- c) **rank II** - important cities counties, county or balancing role in the network of settlements;
- d) **rank III** - cities;
- e) **rank IV** - villages common residence;
- f) **rank V** - villages of communes and villages belonging to cities and towns.

In application of Title IX according to the Fiscal Code and Law no. 2/1968, **localities of cities and towns** are assigned the same rank with those of cities and municipalities in whose administrative territory is⁴⁴.

b) **Areas of the city**⁴⁵ - areas are set by the local council depending on land to the center position of city and other specific elements of administrative - territorial units, utility networks according to documentation planning and urbanism, agricultural registers real estate cadastre specific records - municipal or other records which may affect agricultural land or land value.

According to section 4, paragraph 1) and 2) Methodological Norms of Fiscal Code, on Title IX, **delimitation and determining their number**, in the inter villana, and extra villana limits, are determined by adopted by local councils (according to art. 247, paragraph b), Fiscal Code), according to the criteria listed.

Number of built-up areas in inter villana may be equal or different with the number of areas extra villana limits.

Identify areas (both in inter villana, and extra villana limits), is made by the letters A, B, C, D⁴⁶.

If the administrative unit required **zoning changes**, local councils can take decisions in this regard only in May (month 5 of the current fiscal year) for the following fiscal year. Failure of changes in zoning in May corresponds to the respective local councils option of maintaining the existing boundaries of the areas for the next fiscal year⁴⁷.

If during the fiscal year changes localities **rank** or the **limits** within intra villana and extra villana, where applicable, the **tax on buildings** - for individuals (PF) and **land tax** for both PF and legal persons (PJ) changes under the new scale of the village or the new boundaries of the built / terrain, where applicable, as of January 1 of the following fiscal year.

In the above situation, **building tax** and **land tax** due is determined, by default, by the specialized department of the local authorities, not to file another tax return after it has previously been made, informing the taxpayers of the rank change town or built-up limits, as appropriate⁴⁸.

In case of Bucharest, functions provided in Norms of Fiscal Code, applicable to Title IX, paragraphs 4 and 6, paragraph 1) and paragraph 3) are met by the General Council of Bucharest⁴⁹.

To ensure stability in the delimitation of zones, it is recommended that data be multiannual.

If the **number of areas** intra villana is the same number of extra villana areas, it's used the following corespondence (direct corespondence)⁵⁰:

- a) The intra villana area A has as corespondent in the extra villana A area;
- b) The intra villana area B has as corespondent in the extra villana B area;
- c) The intra villana area C has as corespondent in the extra villana C area;
- d) The intra villana area D has as corespondent in the extra villana D area.

⁴³ According to Methodological Norms of Fiscal Code, point 3, regarding Title IX, Fiscal Code.

⁴⁴ See art.247, lit.b), Fiscal Code.

⁴⁵ See Methodological Norms of Fiscal Code, point 5, regarding Title IX, Fiscal Code.

⁴⁶ According to Methodological Norms of Fiscal Code, point 6, paragraph 1), regarding Title IX, Fiscal Code.

⁴⁷ Idem. point 6, paragraph 3).

⁴⁸ Methodological Norms of Fiscal Code, regarding Title IX, point 7.

⁴⁹ Methodological Norms of Fiscal Code, regarding Title IX, point 9, paragraph 1).

⁵⁰ Idem, point 9, paragraph 2).

At the administrative units - where specific elements allow demarcation of less than 4 areas, local councils can do this, only as follows⁵¹:

- a) if it delimits three zones, this are: Zone A, Zone B and Zone C;
- b) if it separates in two zones, this are: Zone A and Zone B;
- c) if one area is delimited, this is the area A.

In cases where the number of **areas** intra villana is different from the number extra villana **areas**, the correlation between areas is as follows⁵²:

- a) in intra villana its delimited only area A area, and the extra villana delimited areas are: A, B, C and D. For this case, any part of the terrain is only correspondent of the built area A;
- b) in intra villana its delimited A and B areas, and the extra villana delimited areas are: A, B, C and D. For this case, the extra villana A area is corespondent of area A intra villana, and any of the areas B, C and D from extra villana area only have corresponding in B intra villana;
- c) in intra villana its delimited A, B and C areas, and the extra villana delimited areas are: A, B, C and D. For this case, the extra villana A area is corespondent of area A intra villana, the extra villana B area is corespondent of area B intra villana and any other areas C and D extra villana have only correspondent of the intra villana area C;
- d) in intra villana its delimited A, B, C and D area, and the extra villana delimited areas are: A, B, C and D. For this case, the extra villana A area is corespondent of area A intra villana, the extra villana B area is corespondent of area B intra villana, and any of the areas C and D intra villana are corresponding only to extra villana area C;
- e) in intra villana its delimited A, B, C and D area, and the extra villana delimited areas are: A and B. For this case, the extra villana A area is corespondent of area A intra villana, and any of the areas B, C and D intra villana have corresponding to B extra villana only;
- f) in intra villana its delimited A, B, C and D area, and the extra villana only area A. For this case, any of the areas intra villana have correspondent area A extra villana only.

The provisions of point 9, paragraph 3) Methodological Norms of Fiscal Code - Title IX, detailed above in points a) - f) are collated in tabular form as follows⁵³:

	INTRA VILLANA		Correspondence of areas in case the area numbers of intra villana is different of extra villana	EXTRA VILLANA	
	Option	Area		Option	Area
Paragraph a)	X	A		A	X
		B		B	X
		C		C	X
		D		D	X
Paragraph b)	X	A		A	X
	X	B		B	X
		C		C	X
		D		D	X
Paragraph c)	X	A		A	X
	X	B		B	X
	X	C		C	X
		D		D	X
Paragraph d)	X	A		A	X
	X	B		B	X
	X	C		C	X

⁵¹ Idem, point 9, paragraph 3).

⁵² Methodological Norms of Fiscal Code, regarding Title IX, point 9, paragraph 5).

⁵³ Methodological Norms of Fiscal Code, regarding Title IX, point 9, paragraph 4).

	X	D		D	X
Paragraph e)	X	A		A →	X
	X	B		B →	X
	X	C	↑	C	X
	X	D	↑	D	X
Paragraph f)	X	A		A →	X
	X	B	↑	B	X
	X	C	↑	C	X
	X	D	↑	D	X

When calculating the **tax on land located intra villana**, registered at the agricultural register at **other category than land with buildings** (see art. 258, paragraph 1) - 4) Fiscal Code), the **areas** identified by roman numerals have the following equivalences : I area equivalent area A, II area equivalent of area B, area III equivalent to the C, area IV equivalent to the D.

Note that this equivalence is used for areas extra villana outside city limits, established in 2003, for 2004⁵⁴.

Under paragraph 10 of the Methodological Norms of Fiscal Code - Title IX, the dictionary meaning of words and actions including use in the work setting, control and collection of local taxes are to be approved by order of the Minister of Public Finance and Minister of Administration and interior.

c) **Street Nomenclature** - is, according to art.247, paragraph c), Fiscal Code, **the list** contains the names of all streets in an administrative - territorial identification numbers on each street side buildings and the owner of the ownership of each building. Street Nomenclature is organized every rural and urban unit is primary evidence used to award home address / residence of the individual, the registered legal entity and each building, land and / or building.

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STUDY ON THE SOLVENCY OF ROMANIAN COMPANIES

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Abstract. In this paper the authors describe how the analysis of solvency to prevent bankruptcy of Romanian companies. In this respect safety intervals are identified by the authors after analyzing the financial condition of more than 900 Romanian companies.

Key words: solvency, assets, liabilities, financiers

Jel classification: G32

1. Introduction

Lately more and more Romanian companies went bankrupt. One of the reasons is the poor solvency of these companies. Hence, to prevent entry into insolvency present results of a survey of 900 companies from all sectors of activity, we determined which times best Romanian companies solvency.

2. Literature review

The literature solvency is a favorite subject of all specialists in the country and abroad. Thus, many American professors, show that long-term debt and solvency analysis evaluate the level of risk borne by a firm, changes over time, and risk relative to comparable investments. A higher proportion of debt relative to equity increases the riskness of the firm.

According with other specialists solvency relates to a long-run perspective of a company's ability to pay its debts and whether it is going concern.

In Hennie van Greuning opinion, solvency represents the risk related to the volatility of income flows often described as business risk (resulting from volatility related to operating income, sales and operating leverage) and financial risk (resulting from the impact of the use of debt on equity returns as measured by debt ratios and cash flow coverage).

Other American author considers that the capital structure of an enterprise consists of debt and equity funds. The sources and composition of the two types of capital determine to a considerable extent the financial stability and long-term solvency of the firm. Equity capital is risk capital, and the return on investment to an investor is subject to many uncertainties. Debt capital must be paid on specific date, usually with interest, if the firm is to survive.

Solvency is an important factor in the analysis of a company's financial statements. Solvency refers to a company's long-run financial viability and its ability to cover long-term obligations. All business activities of a company-financing, investing and operating- affect a company's solvency. One of most important components of solvency analysis in the composition of a company's capital structure.

3. Method and results

Solvency thus expresses the ability of companies to cover all debts (bank, suppliers, budget, etc.) by making all its assets.

An important solvency ratio is the financial leverage ratio. This indicator measures the relation between total assets and the common equity capital that finances assets. It is expressed as:

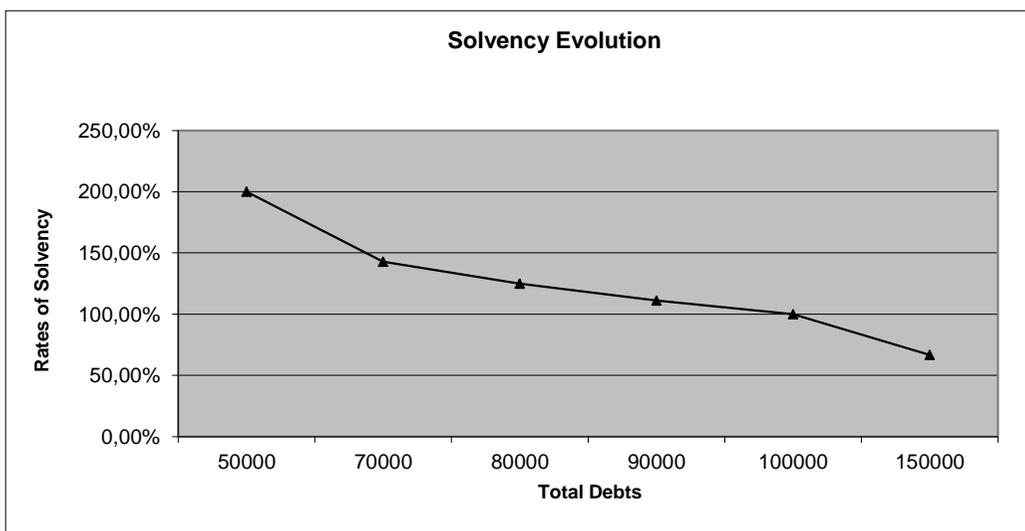
$$\text{Financial leverage ratio} = \frac{\text{Total assets}}{\text{Common equity capital or Total debts}} \times 100 \quad (1)$$

The indicator is directly influenced by economic sectors, the complexity of technology, manufacturing cycle. Thus, in industries indicator value will be higher and the trading activity will be lower. Regardless of the situation must be analyzed indicator value higher than one.

Another method of analysis is the degree of financial solvency assets from external sources. In this case the share of total debt should not exceed 50% of total assets to recoverable resources available at any time.

The analysis undertaken have established solvency of weight evolution of total debt in total assets, assuming no uncertain assets, is as follows:

Figure 1:



Source :

The differences are significant to the sector of the company. A solvency of 110% is considered acceptable in the commercial sector, but weak in other sectors of national economy. This difference is due to the nature of the trade, where goods are purchased with the payment term, substantially increasing the company's total debt. From research conducted on the models we identified intervals bank liquidity safety by sector as shown in Annex 1. Comparative analysis by industry liquidity is another dimension of research undertaken. To make a comparison, we randomly selected a total of nine hundred Romanian enterprises, which are representative for the following branches: Trade, Transportation and Manufacturing. For each branch we chose three hundred companies in the banking sense, are considered companies with good liquidity (A), three hundred companies with an acceptable liquidity (B) and three hundred have reduced liquidity (C). Also just to capture the reality of the economy as we presented in two forms of liquidity development. The times are not necessarily the same as the date for the nine hundred companies because we considered it important trend that follows their development over time within the same industries in the table below.

Table 1: Evolution solvency in Romanian companies

Sector	Trade			Transportation			Production		
Ratios	A	B	C	A	B	C	A	B	C

	%	%	%	%	%	%	%	%	%
First period Solvency	340,1	137,7	129,7	164,3	143,3	124,8	323,9	178,8	177,6
Second period Solvency	233,6	194,8	116,5	165,3	149,0	149,5	239,1	190,3	112,2
Third period Solvency	232,2	169,8	125,2	192,7	189,2	173,0	251,0	197,0	138,1

Source: Own calculus

Based on information presented in Annex 1 on solvency supported by donors ranges, we can say that the situation presented, all businesses in category "A" has a good solvency, well above the accepted limit of 120%. It also notes that the solvency ratio considered "very good" in other sections (transport, ie production) is registered to trade half of solvency. The situation is because trading companies in the sector working with commercial loans that the company's total debt increased exponentially.

Thus, the situation of the category "A" may be due to:

- low level of total debt, which can mean both a higher inventory turnover rate and the existence of a stock of goods enough;
- high level of equity.

The companies in category "C", considered as having a degree of solvency inappropriate situation indicator may be due to:

- high total debt;
- low level of equity.

Total debt levels can be caused both by firm-specific trade credits trading, leases, bank loans and the associated loans. Indicator to improve the situation: adjust incoming and outgoing freight, calling the alternative financing lease made for longer periods, giving up lending sources short-term investments, exclusive use of company resources, recording the associated debt is the most often a "tactic" of members who want to withdraw money from the company for alternative uses.

3. Conclusions

And relying on the information presented in Annex 1 on solvency supported by donors ranges, we can say that the situation presented all companies in all categories have a very good solvency. This is mainly due to ignorance and bad debts recoverable stocks that are not treated as such by society. Theoretically, any stock that exceeds the average capitalization of stocks should be treated as "stock recoverable" and sold subpreț, variation is not part of the practice of Romanian companies.

Also, the indicator is high and that Romanian companies tend to accumulate assets as part of "certain assets" of the company (this may take including service vehicles and other productive assets), leading to a high of total assets. Firms with less than 100% solvency are considered insolvent, and major risk for both investors and financiers.

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Table 2:

Sectors	High Solvency	Good Solvency	Solvency acceptable	Low solvency	Insolvency
Trade	$S \geq 120\%$	$120\% > S \geq 110\%$	$110\% > S \geq 105\%$	$105\% > S \geq 100\%$	$S < 100\%$
Chemical	$S \geq 150\%$	$150\% > S \geq 120\%$	$120\% > S \geq 110\%$	$110\% > S \geq 100\%$	$S < 100\%$
Mining and quarrying	$S \geq 150\%$	$150\% > S \geq 120\%$	$120\% > S \geq 110\%$	$110\% > S \geq 100\%$	$S < 100\%$
Computing equipment industry, Electrical	$S \geq 130\%$	$130\% > S \geq 120\%$	$120\% > S \geq 110\%$	$110\% > S \geq 100\%$	$S < 100\%$
Transport industry	$S \geq 130\%$	$130\% > S \geq 120\%$	$120\% > S \geq 110\%$	$110\% > S \geq 100\%$	$S < 100\%$
Textile and leather	$S \geq 140\%$	$140\% > S \geq 120\%$	$120\% > S \geq 110\%$	$110\% > S \geq 100\%$	$S < 100\%$
Agriculture	$S \geq 115\%$	$115\% > S \geq 110\%$	$110\% > S \geq 105\%$	$105\% > S \geq 100\%$	$S < 100\%$
Construction and other branches	$S \geq 130\%$	$130\% > S \geq 120\%$	$120\% > S \geq 110\%$	$110\% > S \geq 100\%$	$S < 100\%$
Metallurgy	$S \geq 130\%$	$130\% > S \geq 120\%$	$120\% > S \geq 110\%$	$110\% > S \geq 100\%$	$S < 100\%$
Wood industry	$S \geq 130\%$	$130\% > S \geq 120\%$	$120\% > S \geq 110\%$	$110\% > S \geq 100\%$	$S < 100\%$
Leasing	$S \geq 125\%$	$125\% > S \geq 115\%$	$115\% > S \geq 105\%$	$105\% > S \geq 100\%$	$S < 100\%$

Own

Source:
Calculus

INSURANCE CONTRACTS BASED ON INDICES, A STEP TOWARDS WEATHER DERIVATIVES

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The aim of this paper is to analyze the methodology of structuring an index based insurance contract.

The weather has always been the biggest risk factor in agriculture, affecting all aspects of the economic sectors. In the developed countries of the world, there is a significant number of rain-dependent farmers.

To gain insight into potential growth of weather markets in developed countries, we are going to analyze the case of India. In 2003, Basix microfinance company in Hyderabad and ICICI Lombard insurance company in Mumbai have launched a pilot weather insurance, which had as basic index phenomena for Mahabubnagar district of Andhra Pradesh. Further detail can be found in the full-paper.

In the paper we will enumerate the appropriate steps in the determining the necessity for the use of index based insurances. The appropriate stages are making a comparison between index based insurances and traditional insurances, and optimizing the use of weather indices in insurance contracts.

In order for the contracts to be successful, the recommended steps are: developing a product based in an index, and after the we need to plan and implement the contract. In planning the implementation it is needed that we: identify the risks and areas where they manifest, then identify the best distribution channels; after this we can develop a prototype of the contract. The next step would be the testing of the negotiability of the contract, then the contract is opened to be finalized. After this the index based insurance contract can be introduced to the market, but the program needs monitoring in order to insure its successfulness.

In order for the market and contract to grow the necessary step are: having access to the necessary meteorological data, determine the optimal way of integrating the contract in the existing economical context, technical feasibility, property rights and the legal framework.

In the end, the aim is to familiarize the literacy field and potential beneficiaries of such products and to provide some way to address this market for investment purposes, showing a bridge-point between the traditional insurances and the more elaborated weather derivatives.

Keywords: insurance based on indices, Basix, CRMG, weather indice, insurance contracts

JEL: G22

The weather has always been the biggest risk factor in agriculture, affecting all aspects of the economic sectors. In the economy of the developed countries there is a significant proportion of rain-dependent farmers. There is a variety of cultures, production methods and agricultural management techniques that can minimize risk factors, but farmers will always be affected by uncontrollable factors such as rain fall or thermal variations, which may have a significant negative impact on the quality and quantity of seasons harvest.

World Report on Development of 2008 reiterated the importance and the role played by agriculture in the context of the world development. The report highlighted the needs for access to financial resources and for reduction of exposure of farmers to uninsurable risks, in order to create effective development strategies. Risk management products, such as insurances, are considered to be the most important because they facilitate access to financial services. Lending and saving more can stimulate the use of innovative technologies or activities that provide increased receipts. Following the example of agriculture, farmers could

benefit from investing in large-scale agricultural activities, if the weather elements are treated properly. Thus, specific agricultural companies have limited access to financial services and agricultural activities at a rate of profitability in the short term are limited.

In response to these problems and in order to boost international market formation for weather risk, the Risk Management team of the Department for Agriculture and Rural Development World Bank (World Bank Commodity Risk Management Group (CRMG)) began to build up a project to develop insurance contracts based on weather indices. These contracts based on weather indices can't replace traditional policies or other means of risk prevention - such as selection or use of innovative technologies, crop diversification, moisture conservation techniques, yet it provides a complementary mean to protect farmers. Thus, the 2003 CRMG has provided national and commercial entities technical assistance for developing and implementing these tools. CRMG has focused on determining the potential effectiveness of these insurance contracts based on indices forecasts for farms and farmers in developed countries, trying to determine the feasibility, sustainability and scale for implementation.

To gain insight into potential growth markets in developed countries weather, we are going to analyze the case of India. In 2003, Basix microfinance company in Hyderabad and ICICI Lombard insurance company in Mumbai have launched a pilot weather insurance, with had as basic index phenomena for Mahabubnagar district of Andhra Pradesh. This program has received technical assistance from the CRMG. The program sold 230 contracts for beaver and peanut farms, to be protected against drought. Thus, in 2006 Basix had sold insurance contracts and contracts based on rainfall index and multi-threaten weather contracts (including temperature and humidity them) to over 11,000 customers across India, and continued to develop its network of customers interested in insurances based on weather indices. Basix and ICICI efforts have led to the creation of an innovative insurance product developed in record time, with notable success; their work also catalyzed the insurance market in India.

Since 2004, four insurance companies sold insurance policies to farmers and the weather risk forecasted in India was anchored in the international market risk. Since 2005, a private sector company of India began installing automatic weather stations in over 400 branch network to supplement the Indian Meteorological Department and to support the development of market risk information. In 2007, after distributing subsidies for insurance contracts based on weather indices by the Indian Government, more than 600.000 Indian farmers have purchased such contracts through AICI (Agricultural Insurance Corporation of India). The total amounts registered premiums of over 30 million dollars(\$).

Given all the basic lessons of CRMGs problems encountered so far, we can see three main issues to be considered in sustainability studies of insurance contracts based on weather indices and risk management in the related market. They are: • the need for appropriate insurance indices, • the need for the definition of key points in their implementation, • the need to clearly depict the pre-requisites.

When is the appropriate time to apply an index-based insurance?

1. Insurance Insurance-based versus traditional indices

Traditional insurance based on the principle of compensation, where losses are measured either in terms of area affected by the event (at the place) or the perspective taken on crop yields. These products, although appropriate in some contexts, have limited scope for both the insurer and the insured. Farmer behavior and activities may affect the likelihood of the event or damages caused, or might transform the insurance product in a high probability event. To overcome these challenges, a comprehensive monitoring and administrative efforts are required, thus increasing costs. Without stability and efficiency, opportunities for the insurer and for reinsurance portfolios would be affected.

Insurance contracts based on weather indices work differently from traditional insurances. Contracts on indices can be used only if risks have spatial correlation, such as drought. These are not applicable to idiosyncratic risk, and hail and pests that affect crops of one farmer. Allowances are not paid based on performance deficits registered by firms, but by signs of deficiency strong correlation with factors that can be used to estimate losses. These indices, based mostly on weather, are insurance contracts for predefined time intervals and are used to determine the necessary compensation to be calculated based on contract parameters.

2. Connection with the use of insurance contracts based on indices

Insurance contracts based on indices are a method to reduce agricultural risks, financial risks and logistical relations. Contracts based on weather indices are a risk management tool that provide alternatives to farmers in developed countries and re intended to be used to complement traditional risk management techniques. There are other risks to which farmers are exposed, but those are not correlated with time and can't be structured as indices. The real value of insurance contracts based on indices reach their true potential if they are accompanied by other instruments of risk management or investment opportunities. For this reason, insurance-based indices, like any insurance product, should be integrated into risk management structures organized for farmers.

3. Customers

Various types of indices based approaches have become attractive on the insurance market in developed countries but also in emerging countries. These contracts are flexible and structured to deal with risks at all levels: individual, companies and governments. Even the farmers (because they are objective of the study) accessing time risk management structures can have a significant impact on the timing of when and where the product would be used. Two basic uses for these insurance contracts are to provide farmers insurance products type "retail" (individual insurance) or alternatively make an institutional risk management (portfolio insurance) or other means of pooling risk. But the primary problem is to find a network of trusted and widely spread agents in rural areas.

4. Using weather indices based contracts

Introducing the index based weather insurance can create obligations to customers, besides having their most pressing problems to resolve. Where index insurance support can address the primary risk is important to work with clients who have the power to integrate a new financial product in current operations and are able to manage other risks that may appear.

What are the key elements to implement these contracts?

1 Develop an insurance product based on an index

Identifying a measurable time index, which is strongly correlated with losses for a given crop farmers, is the most critical in developing a risk management program. An index of weather can be built using any combination of meteorological variables in a time interval and any number of meteorological stations able to highlight the risk in agriculture in the given geographical area. Common variables include temperature and precipitation. After collecting weather data, the design of an index will require analysis of how meteorological variables have no influence on yield or long-term analysis of key factors since experts (such as agro-meteorologists and farmers), referring to crop growth model using weather variables as inputs for yield estimates.

An index of "good" must have the sensitivity of crops from the weather during various stages of development, biological and physiological characteristics of crops and soil properties. If a sufficient degree of correlation is established between weather index, quality and crop yield, a farmer can provide production or quality differences, by purchasing a contract that pays damages in case of specified weather events.

A good contract will work well in terms of agro-meteorological conditions, it offers protection for customers at a price they can afford. The aim is to cover the contract or to smoothen fluctuations in income for a farmer.

2 Planning and implementation

Highly critical design contracts are only one component of the program development process needed to start a successful initiative for insurance while. While this approach is still evolving and must be adapted to each country and customer profile, there are seven basic components of the implementation of pilot programs, which must be undertaken to develop a product that not only helps in technical terms, but also asks and has affordability for customers.

1. Identify potential pilot areas and a risk assessment. Where applicable, the order of these two components of the first step can be reversed. If an area is "a priori" defined as a pilot area, there the steps are:

- identify your target area and clientele for the pilot program, including culture, weather station and potential clients. Ex: regional agricultural map.

- to conduct a rapid assessment of initial risk, the available data and the risks to customers and cultures.

2. Identifying distribution channels to reach end users. Identification of an institution like a bank, farmers organization, agricultural contracting business, which can be cost effective, but also to provide insurance products to farmers. This institution must be both attractive enough to reach customers and have the organizational capacity to deal with a new financial product. For a portfolio of insurance, this is relatively simple and requires identifying the institution holding portfolio risk.

3. Contract prototypes: prototype design contracts for the weather station and customers. The objective of this step is to design a contract that can act on customer risk, while taking into account the premium that a customer is willing to pay a level of complexity of coverage in which all stakeholders are satisfied.

4. Testing negotiability of contracts and products (contracts): prototype discussion with potential customers and shareholders to determine their interest in insurance, willingness to pay for contracts and how closely related are the initial contracts to their estimated risks. Since the initial contracts are only prototypes, this is a critical step to determine if the product is properly designed and justifies the demand for the product.

5. Finalize design of insurance contracts: Review and finalize contract structure, based on market research and discussions with the customers. Once contracts are finalized, measures need to be established in order to define risk factors for insurers and reinsurers and prepare contract documentation.

6. Product market: the product market through delivery channels, different pilot areas. At a retail level, in order for individual farmers to buy this kind of product, they need to clearly understand their limitations, meaning a basic risk.

7. Pilot monitoring program: The project will try to detect any unexpected results, determined by lack of all stakeholders / participants fulfilled of their commitments and will result in timely execution of the contract, if the debts are owed to the farmer.

What are the necessary conditions for market growth?

Sustainable growth and the future insurance market depend on their availability and demand. But before those problems of supply and demand can be taken into account, the necessary conditions for market development should be established. While in many countries, some of these conditions have been met in other investments, in market infrastructure contracts reliable indices will be needed. Key issues discussed are: data collection infrastructure, technical feasibility, clients and their integration in the chain of economic activities, property rights, the legal framework.

Infrastructure for making meteorological observations and data collection

Insurance contracts based on weather indices require the presence of a dense network, safe and properly equipped weather stations that provide long-term, clear, error free and historically consistent records. However, the size of the program of implementation of insurance contracts based on weather indices is limited by the density of the weather station network. A dense, safe and well-developed meteorological stations means that:

- a) insurance products can be indexed by weather monitoring stations that are representative for clients, so that basis risk is low;
- b) a large numbers of customers for the insurance product can be attracted.

Therefore, investment in meteorological services is necessary to expand the potential market. More than ever, opportunities and technologies exist and can allow strengthening and modernization of meteorological and historical data, without incurring significant cost. Combining data recorded by satellite and earth stations reports offers a new opportunity to expand the scope of an index-based products.

Customers and their integration in the chain of economic activities

Often, while it is technically feasible to develop a risk management tool based on an index of weather, operational challenges to reach end users can be insurmountable. Defining a "client group" seeking product in a place where he could be sustainable is critical and is one of the most difficult aspects of insurance products in rural areas, in terms of marketing. An insurance contract with a base index is viable if there is a value proposition for the farmer, when linked to credit, market access and other services.

Ownership

Many of the insurance contracts based on weather indices were based on donor resources, expertise in design, contract and program implementation. While this system worked for initiative programs (pilot), sustainability implies and requires the transfer of these capabilities of local actors. Efforts are needed to ensure that local stakeholders have access to indexes and design skills required of the contract. The purpose of this transfer is to facilitate the qualitative and transfer of ownership and control of market development by stakeholders in the market to reflect their own business rules and risk preferences.

Conclusions

Insurance contracts based on indices may raise some problems that limited the use of traditional insurance programs in developing countries and provides an opportunity to expand risk management tools, available to customers in these countries. Customers that manage their own risk can lead to better earnings and possibly access credits which should lead to investment in culture - yields, use of advanced technology and access to more profitable markets. However the evidence-based weather insurance, not a "goldfish" for agricultural development and the experience so far is not sufficient to fully determine how it will affect development. Weather index insurance products have higher costs in advance, given to only a limited aspect of production risks and can be coupled with complementary investments in agricultural technology, marketing, financing and more extensive insurance options that are sustainable and can encourage new farmers to significantly improve the economic welfare of traditional farmers.

However, it is hoped that the availability of innovative risk management products, where implementation is appropriate, will lead to the possibility of elimination of the risks that traditionally had limited investment in agriculture.

As you can see, insurance products based on indices are similar to Weather Derivatives, both based on the underlying weather index. The difference between them is due to the fact that weather derivatives are "stock" traded and contracts based on indices are insurance products designed to "complement" standard traditional contracts.

The aim is to familiarize the literacy field and potential beneficiaries with such products and to provide some way to address this market for investment purposes. New players, in particular of "emerging community" will contribute to the development of such products - insurance contracts based on an index, perfecting and refining a sector. Future applications of these contracts will expand understanding of risk management and the forms through which weather can promote economic development.

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FINANCIAL STABILITY – THE PRE-REQUISIT OF A SUCCESSFUL FINANCIAL ACTIVITY

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Essential component of social life, the economic activity is faced with the problems of permanent balance. General economic balance implies the existence of a correspondence between needs for material goods and goods possibly available; needs for labor force and manpower available; needs for financial resources and opportunities for their procurement; between revenues of the population and their possible coverage with goods and services; between needs for foreign currency resources and those potentially available in given circumstances. We believe that the financial balance of an company must reflect, through financing rates, the method of ensuring, allocating and using financial resources, on the one hand, and the economic-financial results obtained from the activity performed on the other hand, as well as reflect the relation between cash flows generated by operation activities, by investments and financing, on the one hand, and cash flows used for these activities, on the other hand.

The financial balance study, according to "Cross-border research programme - performance indicators of entities in the Bihor- Hajdu Bihar Euro-region" - HURO/0901/204/2.2.3 was based on the basis of financial reporting for the years 2008-2010 for a number of 50 companies grouped in the representative activity sectors contributing to the county's GDP performance as follows: Processing industry, Building, Building materials industry, Light industry, Agricultural products processing, Forestry and wood-processing industry, Commerce, Tourism services, Transport services. The calculation of balance indicators for the examined Bihor county companies are presented in the tables from the second chapter and briefly interpreted.

It is important to note that companies which are representative for the economy of the Bihor county, possess 93,7% of the total subscribed and used capital, given that the number of public limited companies is 330 and represents only 1%, while the number of private limited companies is 21644 and represents 66,7% of the total of companies. In the same period, Hungary was on the first position by the number of companies with foreign capital, representing 1639 companies with registered capital of 21.6 million Euros.

Key words: G30, G32, O16, C63, C61

JEL Codes: Corporate finance, Financial Statements, Financial Stability

1. Introduction – Methodological Approach and Literature Review

Essential component of social life, the economic activity is faced with the problems of permanent balance. General economic balance implies the existence of a correspondence between needs for material goods and goods possibly available; needs for labor force and manpower available; needs for financial resources and opportunities for their procurement; between revenues of the population and their possible coverage with goods and services; between needs for foreign currency resources and those potentially available in given circumstances. There is a volume and a structure of resources - material, human, financial, monetary and of foreign currency nature – corresponding to the needs and possibilities of the national economy in a given period (Văcărel et al, 2000).

According to the content of economic processes and the way of expressing results of economic activities, economic balance may appear under various forms (Kirițescu, 1982).

a) *Material economic balances*, which expresses the relative correspondence between general offer and general demand in terms of quantity, structure and quality.

b) *Value economic balance*, which expresses, in cash standards, the relative correspondence between various value structures of economic outcomes and efforts put in their achievement, under various forms:

- monetary balance, which consists of the existence or the creation, by regulatory measures, of an optimum report between the mass of money in circulation and the amount of money needed for the normal carrying out of all economic operations which are performed through money;
- financial balance, which reflects the equivalence between the financial resources necessary for the achievement of set objectives and effective possibilities of procurement of these resources;
- foreign currency balance, which represents the correspondence that must exist between foreign currency cash in-flows and cash out-flows of a country.

The definition of economic equilibrium shows that it is difficult to achieve: the existence of mechanisms that allow businesses to adapt activities so as to achieve spontaneous reduction of imbalances (Zăpodeanu, 2002).

A company's financial balance has an important role, whereas the operation of the company implies the existence of correlations between financial applications and the resources for meeting them (Droj, 2010).

Activity continuity determines the improvement and the perfecting of the economic management and it is carried out in the context of an uninterrupted string of interrelations of stability trends with instability factors. Romanian specialized literature focuses thoroughly on the concept and methods of execution, considering financial stability to be:

- equality between income and expense, which expresses the „equality between financial resources and economic means necessary for the deployment of operation and sales long and short-term activities” (Mihai, 1999).
- relation between capital needs and possibilities for their procurement on the one hand, which can be defined, from the point of view of capital use as “capitals advanced in the circuit, on the one hand, and collected capitals, which can be re-advanced or reimbursed, depending on the situation” (Giurgiu, 1995).
- component of the general balance of an company, identified under two forms: “financial balance of the activity and investment balance, i.e. between financial resources and their use” (Bătrâncea, 2000).
- balance reminds of the idea of “harmony between the various elements of a financial field system through the harmonization of resources with needs, reflected in the balance sheet; harmony is presented depending on two principles of balance sheet creation - functional and patrimonial”(Vintilă, 2005).
- equality that must exist “between resources and the need for resources, and between income and expense “(Onofrei, 2004).
- component of economic balance, “financial balance is given by the equality between economic capital and forming resources, between cash-ins and cash-outs, between funds and resources” (Hada, 1999).
- the balance sheet is the instrument of reflection of the financial balance at the end of the year, the material (through assets) reflection of the way in which equity and loans are used.
- the financial and economic balance must be understood as a set of correlations formed in the process of capital rotation. This balance can and must be predetermined by in the financing table and performed every financial year (Radu, 1999).

To conclude, we believe that the financial balance of an company must reflect, through financing rates, the method of ensuring, allocating and using financial resources, on the one hand, and the economic-financial results obtained from the activity performed on the other hand, as well as reflect the relation between cash flows generated by operation activities, by investments and financing, on the one hand, and cash flows used for these activities, on the other hand.

2. Applied Case study – Financial stability for companies located in Bihor – Hajdu Bihar Euro-Region

Financial analysis aims to highlight, on the one hand, the methods of performing the financial balance on the long term and short-term (which is the purpose of the balance analysis) and, on the other hand, the steps of cash generation, of profitability of the company (the purpose of the profit & loss account analysis). The balance sheet summarizes the company's financial position at a given moment, while the results account summarizes performance as a result of economic and financial flows in a given period. The balance sheet, established at the end of the management period, separately presents the elements of assets and debts, and equity of the company.

It is important to note that companies which are representative for the economy of the Bihor county, possess 93,7% of the total subscribed and used capital, given that the number of public limited companies is 330 and represents only 1%, while the number of private limited companies is 21644 and represents 66,7% of the total of companies. In the same period, Hungary was on the first position by the number of companies with foreign capital, representing 1639 companies with registered capital of 21.6 million Euros. The financial balance study, according to "Cross-border research programme - performance indicators of entities in the Bihor- Hajdu Bihar Euro-region" - HURO/0901/204/2.2.3 was based on the basis of financial reporting for the years 2008-2010 for a number of 50 companies grouped in the representative activity sectors contributing to the county's GDP performance as follows: Processing industry, Building, Building materials industry, Light industry, Agricultural products processing, Forestry and wood-processing industry, Commerce, Tourism services, Transport services. The calculation of balance indicators for the examined Bihor county companies are presented in the following tables:

Figure 1 The evolution of liquidity rates, profitability and financing of fixed assets – average per activity sectors

SECTOR	RATA LICHIDITĂȚII REDUSE			RATA RENTABILITĂȚII ECONOMICE			RATA ACTIVELOR IMOBILIZATE		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Processing industry	1,01	1,39	1,73	0,0534	0,0587	0,0675	1,13	1,18	1,23
Food industry	0,48	0,45	0,48	0,1195	0,0977	0,1080	1,77	1,84	1,78
Building	1,52	1,38	1,34	0,3182	0,2011	0,1710	1,24	1,40	1,63
Building materials	1,00	0,90	1,03	0,2351	0,2256	0,2383	1,09	1,04	1,10
Light industry	1,72	2,03	0,94	0,1957	0,1585	0,1677	1,95	2,35	1,68
Agricult. Products processing	0,71	0,76	0,85	0,1092	0,1396	0,1406	1,01	0,97	1,19
Forestry. Furniture industry	0,55	0,71	0,80	0,0673	0,0861	0,0579	1,82	1,99	1,72
Commerce	0,97	1,02	0,93	0,1069	0,1185	0,0844	1,82	1,91	1,82
Tourism services	1,01	2,26	2,55	0,1045	0,0859	0,0840	1,02	1,07	1,08
Transport services	0,46	0,44	0,46	0,1442	0,1879	0,1693	0,84	0,79	0,77
General average of activity sectors	0,89	0,93	0,92	0,1430	0,1374	0,1284	1,16	1,20	1,24

Source: Made by the author

Fig. 2 The evolution of FR, NFR, TN balance indicators

	CA	CPM	AIN	FR	NFR	TN
PLASTOR S.A.						
2008	64499468	40743157	32900947	7842210	8394361	-552151
2009	69117572	42443916	30958192	11485724	13100176	-1614452
2010	71261098	47396278	29394225	18002053	10048154	7953899
ZAHARUL S.A.						
2008	152868674	84320994	31028367	53292627	35562210	17730417
2009	207651321	96102669	38062293	58040376	64211020	-6170644
2010	240996777	111750955	46411315	65339640	57649298	7690342
SELINA S.R.L.						
2008	104335410	32647802	24372178	8275624	21598166	-13322542
2009	104451320	36568082	24410533	12157529	23647620	-11490091
2010	133030941	46906915	24334515	22572400	35798549	-13226149
ADEPLAST S.R.L.						
2008	100114538	45342405	44671984	985483	12189672	-11204189
2009	114113719	99340101	105336650	-5694176	9859315	-15553491
2010	113589375	108595529	101710917	7174297	25493212	-18318915
LLOYD SHOES ROMANIA S.R.L.						
2008	97792385	22126029	2434078	19691951	16165476	3526475
2009	120384036	29096671	2273679	26822992	26324424	498568
2010	99212387	6178088	1727188	4450900	2574654	1876246
NUTRIENTUL S.A.						
2008	25649717	27183507	24027657	3155850	13703394	-10547544
2009	63007417	28583361	25268614	3314747	22896764	-19582017
2010	131916712	30803944	25358937	5445007	34157022	-2871201
LEMN FOREST TINCA S.R.L.						
2008	8322387	2884194	1005267	1878927	1774910	104107
2009	8821682	2956311	805695	2150616	2056645	93971
2010	9211035	2999812	770213	2229599	2038106	191493
COMAU ROMANIA S.R.L.						
2008	27418558	15254433	3146118	12108315	5640690	6467625
2009	31338562	18334222	5117389	13216833	5961598	7255235
2010	37962765	20019919	6561546	13458373	6291983	7166390
TURISM FELIX S.A.						
2008	55448042	181317283	180732936	584437	-8832486	9416833
2009	52019303	208200219	202347567	5852652	-910590	6763242
2010	48499100	207054636	200118985	6935651	-2309092	9244743
FRIGOEXPRES S.A.						
2008	74530771	92126725	114299801	-22173076	-9775142	-12397934
2009	74318985	74879388	102623505	-27744117	-9789229	-17954888
2010	59949981	67046566	95904632	-28858066	-14825907	-14032159

Source: Made by the author

The financing rate of fixed assets, the general average of activity sectors (Figure 1) recorded supra unitary values of 1,16 in 2008 and 1,24 in 2010, except for the transport sector, which recorded sub unitary declining values, from 0,24 in 2008 to 0,77 in 2010.

Supra unitary values reflect the existence of a working capital at the end of the financial year, as an outcome of the coverage of permanent expenses (fixed assets) with permanent sources; respect of financial balance rules and existence of surplus of permanent sources usable for the financing of temporary needs of permanent nature, are thus possible.

The analysis of absolute values of balance indicators (Table II) for most representative companies in each activity sector, generally confirms the conclusions of the analysis of fixed assets financing rates.

The analysis of working capital in absolute values confirms its existence as positive value, except for the Frigoexpres S.A. company in the transport services sector, where there is generally, the possibility for self-financing and respect of financial balance rules.

The working capital need, as main indicator of financial balance, has recorded positive values, except for S.C. FRIGOEXPRES S.A. in the transport services sector and S.C. FELIX S.A. in the tourism sector, which confirms the fact that circulating assets have partially been financed through temporary sources. The negative values recorded by the two companies confirm the full financing of circulating assets through temporary sources, and operation debts. These negative values of the working capital need may be interpreted as an advanced collection of payments of the value of contracted services; there is a beneficial disparity between the liquidity of circulating assets and the payability of debts.

The analysis of net treasury as synthesis indicator of financial balance confirms the fact that permanent sources surplus reflected by the working capital has only partially covered the circulating assets financial needs, which led to a negative net treasury in companies in the processing industry -S.C. PLASTOR S.A., building – S.C SELINA SRL, building materials - S.C ADEPLAST S.A., agricultural products processing - S.C. NUTRIENTUL S.A. In conclusion, the analyzed companies have respected the financing principles according to which negative treasuries were covered by short-term credits, except for S.C. FRIGOEXPRES S.A in the transport services sector, where financial imbalance resulting in a negative treasury was generated because of the non-respect of financing principles, where, for the financing of fixed assets, temporary sources have been used (negative working capital need), creating the possibility of a liquidity crisis

Figure 3 focusing on the evolution of NFR coverage rates and FRN, NFR rotation speeds

SECTOR	FR/NFR			FR/CA x 360			NFR/CA x 360		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Processing industry	1,0268	0,9195	1,0383	89,25	117,95	139,89	86,92	128,27	134,74
Food industry	1,2639	0,8859	0,9327	98,58	82,86	83,04	77,00	93,54	89,03
Building	1,1507	1,5264	1,3097	49,81	64,28	77,60	43,28	42,12	59,25
Building materials	0,3954	0,2603	0,4282	17,10	11,92	34,86	43,25	45,77	81,42
Light industry	1,1898	1,0697	1,2102	66,17	76,12	37,58	55,61	71,47	31,05
Agricult. Products processing	0,0424	-	0,1704	2,00	-	13,28	46,55	62,67	77,95
Forestry. Furniture industry	0,6600	0,6393	0,7405	59,98	54,21	48,98	90,87	84,79	66,15
Commerce	2,7268	1,9897	1,9053	65,56	89,85	61,39	24,04	45,15	32,22
Tourism services	-	3,1591	5,6066	17,98	60,38	75,30	-	19,11	13,43
Transport Services	-	-	-	-	-	-	-	-	-
General average of activity sectors	1,0111	0,8368	0,8367	42,98	48,17	50,96	42,51	58,50	60,91

Source: Made by the author

Under the circumstances of the economic crisis, this situation has been engendered by the engagement of investments (the purchase of transportation vehicles in leasing) in the period prior to the crisis, with a debt maturity date taking place in the analyzed period, when crisis led to the decline in the volume of activity and of profitability previously forecast for the repayment of

contracted debts. The analysis of the coverage level through own sources – working capital, and of needs related to operation activities – NFR, in the case of the average per activity sector (Table III), confirms a decline of this indicator, from supraunitary value of 1,01 in 2008 to subunitary value of 0,83 in 2010. The analysis also confirms the conclusions of the balance indicators analysis.

The analysis of FR and NFR rotation durations based on turnover, confirms an abasement of financial balance conditions. Although the average per activity sectors, in 2008, confirm a balance between FR and NFR rotations (42,98; 42,51 days), in 2010 the rotation duration of working capital became lower than the NFR's one (850,96; 60,91 days), which reflects the decrease in the financing capacities, in general, of owned resources, and the increase of external financing resources.

Conclusions

Essential component of social life, the economic activity is faced with the problems of permanent balance. General economic balance implies the existence of a correspondence between needs for material goods and goods possibly available; needs for labor force and manpower available; needs for financial resources and opportunities for their procurement; between revenues of the population and their possible coverage with goods and services; between needs for foreign currency resources and those potentially available in given circumstances. We believe that the financial balance of an company must reflect, through financing rates, the method of ensuring, allocating and using financial resources, on the one hand, and the economic-financial results obtained from the activity performed on the other hand, as well as reflect the relation between cash flows generated by operation activities, by investments and financing, on the one hand, and cash flows used for these activities, on the other hand. The financial balance study, according to "Cross-border research programme – performance indicators of entities in the Bihor- Hajdu Bihar Euro-region" – HURO/0901/204/2.2.3 was based on the financial reporting for the years 2008-2010 for a number of 50 companies grouped in the representative activity sectors contributing to the county's GDP performance as follows: Processing industry, Building, Building materials industry, Light industry, Agricultural products processing, Forestry and wood-processing industry, Commerce, Tourism services, Transport services. It is important to note that companies which are representative for the economy of the Bihor county, possess 93,7% of the total subscribed and used capital, given that the number of public limited companies is 330 and represents only 1%, while the number of private limited companies is 21644 and represents 66,7% of the total of companies. In the same period, Hungary was on the first position by the number of companies with foreign capital, representing 1639 companies with registered capital of 21.6 million Euros.

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MONEY LAUNDERING TYPOLOGIES SPECIFIC TO ROMANIA

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Money laundering is a process by which some people render or try to render a legal appearance to some profits obtained illegally by criminals who, without being compromised, will afterwards benefit from the respective incomes.

In this context, the issue of money laundering, comprising a wide spectrum of directions, namely: the main landmarks regarding the appearance of “dirty” money and its laundering; the money laundering mechanism which mainly involves its A) the placement the initial movement of money, in order to change its form or place and to place it outside the authorities’ coverage area of applying the law. For the incomes in cash which are permanently cashed, there are valid the first techniques used by the mafia groups in 1920 in the USA. Illegal money is mixed with money legally obtained from businesses which involve cash receipts. B) Stratification (or investment) represents the second stage of money laundering in which the money circulates within different companies, corporations and financial institutions, physically, by deposit or electronic transfer. One aims to physically move the money to other entities in order to separate it from its illegal source in an attempt to disguise its origin. In most of the cases, the first concern after committing the basic infraction is to transfer money abroad. The basic rule is that the person whose funds have to be transferred should not assume this risk. At the international level there are networks of professional couriers who take over the transfer action and provide the delivery of money abroad, at the established place and then its integration, respectively the return of clean money to the offender in order to be used as legally obtained money; regulations regarding money laundering, at international level (Convention from Vienna, Recommendations of the International Financial Group - GAFI 40 + 8 Special Recommendations regarding Terrorism Financing, European Union Directives) as well as at the national level; essential characteristics of the activity to prevent and fight against money laundering in Romania, which is mainly the responsibility of the National Department for Money Laundering Prevention and Control - ONPCSB, as well as the financial analysis of the activity to prevent and combat money laundering in Romania within 1999-2011, identifying the specific typologies of money laundering; the connection between money laundering and terrorism financing.

Key words: fiscal evasion, underground economy, corruption, taxes, fraud

J.E.L.cassification: G0,G15,G33,H26,H3

1.Introduction

Money laundering is a process that gives or tries to give an appearance of legality of profits obtained illegally by criminals without being compromised further receive such income.

Offenders of different categories, either drugs or firearms traffickers, merchandise smugglers or one of the various types of professionals in frauds, have to launder the money which comes from their infractions, for two reasons. The first one is that the track of the money itself can become evidence against the infraction perpetrator; the second reason is that the money itself can be the target of the investigation and confiscation.

Money laundering schemes have a series of **particularities** determined by:

-Jurisdiction in which the money laundering takes place. The offenders act according to certain favourable or restrictive conditions of the legislation and customs of the respective place.

-Illegal funds generating infraction. Sometimes, the generating infraction creates a special “style” of the money laundering, by transferring its own characteristics to the laundering process. An eloquent example is that of laundering the funds from fiscal evasion.

-Transnational character. A series of characteristics are given by the fact that money laundering takes place inside the national borders or the money crosses several jurisdictions. Offenders adapt their operation method in order to be able to successfully slip through the barriers which accompany the external transfers of different amounts of money. In 2003, in Romania, such a “star” scheme was the laundering of money from substitution of petrol products.

2.Laundering of funds illegally obtained from substitution of petrol products

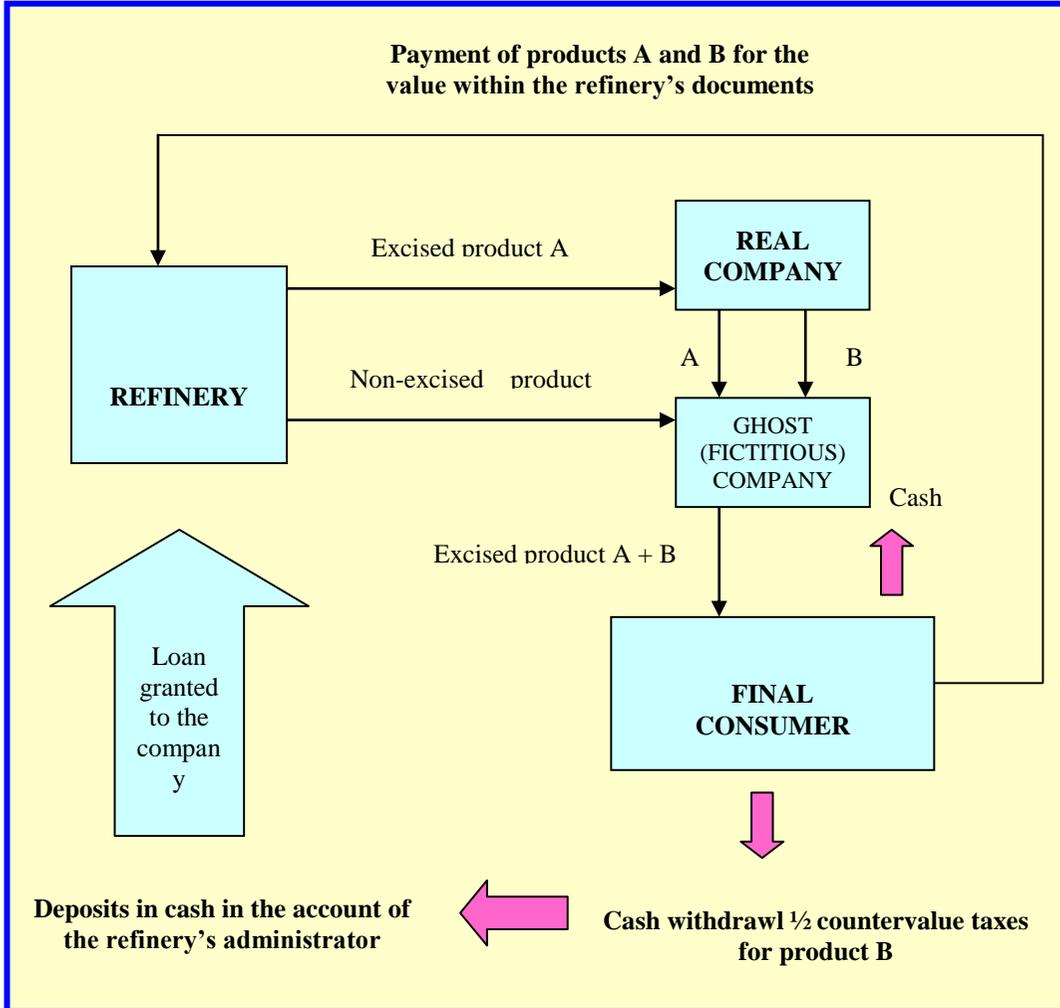
The general scheme of obtaining and then laundering the illegal funds from illegal fuel trade is based on the differentiated overcharge of different petrol products.

A characteristic specific to all the cases regarding laundering of money from substitution of petrol products is the intense use of “ghost (fictitious)” companies, both from the point of view of the number of such companies involved in a scheme, as well as from the point of view of their importance in finalizing the fraud, which takes place as follows:

1. a real company purchases from the refinery two products: product A- excised and product B – non-excised. Generally the proportion is favourable to the inferior fuel: 20% product A and 80% product B. Operation is apparently carried out correctly in that it is registered within the accounting, taxes are paid according to the law etc. Then the real company sells the same quantity of petrol products, in the same structure and quality to a fictitious company which does not pay any taxes to the state and in most of the cases it has a fictitious office;
2. within the fictitious “ghost” company takes place the substitution process, in that product B is added different additives and the whole quantity of fuel (A+B) is delivered to the gas station as superior fuel, with taxes. Then it is sold to the final consumer;
3. after receiving the counter-value of the fuel, the amount of money representing taxes regarding product B (sold as product of A quality) is divided in two between the offenders:
 - half of it is withdrawn in cash from the petrol station’s accounts and deposited into the personal accounts of the refinery’s administrator. This lends his own company (the refinery or another one) and then he can withdraw the laundered amounts, in the form of a reimbursed loan previously granted to this;
 - the other half is also withdrawn in cash and split between the people involved from the side of the real company, the “ghost” company and the gas station.

Diagram No. 2.10

Scheme of laundering funds illicitly obtained from substituting petrol products



It is important to mention the fact that the payment of the fuels' counter-value to the refinery is performed for the values written within the accounting documents concluded between this and the real company, but the payment is performed directly from the gas station, without following the track of the merchandise.

3.Laundering of the money from the illicit trade of petrol products and fraud at the expense of the state budget

Within a period of three months, four trading companies (X, Y, Z and T), having as object of the company "(direct) petrol products trade", commercialized products amounting to 330 billion lei, 85 billion lei representing excises.

In order to comply with the legal stipulations with regard to commercialization of petrol products, respectively to prove that the anticipated payment of the excise taxes to the refinery was performed (special deposit), the four companies carried out a series of fictitious operations, which led to a prejudice of approximately 100 billion lei.

Refinery B received 85 billion lei from refinery A, representing the counter-value of the unprocessed oil. These funds were transferred to the companies X, Y, Z and T in the form of “service providing” and “counter-value of the materials”. During the same days, these returned the funds in the form of “excise taxes”, and in the end, refinery B returned the 85 billion lei to refinery A, as “financing”.

Within a few months, the state budget was prejudiced with important amounts, respectively the 100 billion lei:

- 85 billion lei – excise taxes related to petrol products, received but not transferred to the budget;
- 15 billion lei – VAT related to “service providing” and “counter-value of the materials” fictitious invoices

These funds were mainly laundered by the purchase of movable and immovable goods.

By these operations which aimed to point out different fictitious commercial relationships besides the prejudice of approximately 100 billion lei caused to the budget, there were commercialized excised mineral oils, without previously paying the excise taxes for the special deposit.

4. Laundering of money from illegal VAT reimbursement following different overvalued exports

Based on a Report of suspicious transactions received by the Department from a reporting bank, it was established that an exporter received USD 800,000 from abroad. The same day the amount was exchanged into lei and transferred into the account of Company X as “counter-value of the merchandise” (a total of 18 billion lei).

Based on the export documents it was established that the exporter delivered used machines abroad for a price of USD 1000 per kg (the equivalent of 2.5 mil. lei/kg).

Analysing the commercial flow it was found that the exporter purchased the used machines for the price of 2,500,000 lei, from a “ghost” (fictitious) company X, which does not operate within the declared registered office, and did not fill in the declarations regarding the payment obligations to the state budget and the accounting balance sheets, associate of the company is an Arab citizen B who has never come to Romania.

On behalf of the fictitious company X acted as empowered person the administrator of the exporter – natural person A. In its turn, the fictitious company X purchased the used machines from a producer, for a price of 250,000 lei per kg. Therefore, the first step of the fraud was the overestimation of the price by the fictitious company X from 250,000 lei/kg to 2,500,000 lei/kg.

Based on the further analysis it was pointed out that the payment for the merchandise to the producer for the price of 250,000 lei/kg, 2 billion lei in total, was performed by the exporter, not by means of bank instruments but in cash. The amount received from the exporter by the fictitious company X was transferred based on fictitious invoices to another fictitious company Y, which does not operate within the declared registered office and did not fill in the declarations regarding the payment obligations to the state budget.

In its turn, the fictitious company Y transferred the money abroad in the form of advance payment for different products which were never imported and the advanced payment was never repatriated. It is worth mentioning the fact that the empowered person on behalf of the fictitious company Y is the exporter’s administrator, also empowered on behalf of the fictitious company X.

Based on the described operations, the exporter benefited from 3.8 billion lei representing the VAT reimbursement related to the exports performed; the money was transferred to the fictitious company X, as “counter-value merchandise”.

Based on different fictitious loan contracts, the fictitious company X transferred the 3.8 billion lei into the personal account of personal of the company’s associate, the Arab citizen B (fictitious person), with the justification “loan reimbursement to the associate”; then the

money was withdrawn in cash by the exporter's administrator – natural person A, empowered for the fictitious citizen B's account.

While the fictitious company X did not pay the collected VAT and the income tax related to profit obtained from selling merchandises for an overvalued price, the exporter benefited from the 3.8 billion lei representing the VAT reimbursement related to the exports, amount which, by the operations previously mentioned, was laundered, appearing to be amounts from legal sources (loan reimbursement).

5. Conclusions

A key element in the fight against money laundering and terrorist financing is the need for monitoring and assessing countries on international standards. Mutual evaluations by FATF, IMF and World Bank is a vital mechanism for ensuring that the FATF Recommendations are effectively implemented by all states. At the EU level have been taken several actions and documents were developed significance in money laundering. Of these, two documents have a special place: (C) November 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, called Strasbourg Convention, supplemented by Council Decision of 26 December 2001 on money laundering, the identification, tracing, stop, seizure and confiscation assets and earnings of offenses

(D) Council Directive. 308 of June 1991 on prevention of the use of the financial system for money laundering, amended by Council Directive. 97 of December 2001. Financial institution privacy laws should be designed to not hinder the fight against money laundering. Institutions, directors and employees must inform the authorities responsible for combating money laundering on its own initiative or when observing actions that indicate money laundering. From this point of view, money is more than just smuggling money or the simple act of hiding dirty funds. In this context a distinction is made between technical - which are the individual proceedings - and the scheme - which involves a series of interrelated procedures to an end. Techniques and schemes can be grafted on the mechanisms of the institutions, usually banks or other financial-type (national lotteries, gambling, slot machines, casinos, horse racing etc..). It is also highlighted difficulty in identifying money laundering and distinction, in practice, the existence and disguise hiding / concealing the nature of money. Thus, if the money resulting from a criminal law and hindered by their owner spends his or her moderation and anonymous transfer to a country where the jurisdiction does not apply sanctions against the illegal origin of money, these funds can hardly be described as clean money. In this case, is actually talking to the authorities of hiding money in the country where the basic offense and where such actions are sanctioned by law. If this money but are given a legitimate origin, even in the country where the offense and which by law are established sanctions against their origin (dirty), then talk about money really wash - that nature was disguised.

While carrying out the activity to prevent and combat money laundering, it was found out that in certain periods there are certain "star" schemes, in that they are frequently used within a certain period of time, and then the offenders stop using them and come up with new ones.

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COMPETITION VERSUS COLLUSION: THE PARALLEL BEHAVIOUR IN THE ABSENCE OF THE SYMETRY ASSUMPTION

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Cartel detection is usually viewed as a key task of competition authorities. A special case of cartel is the parallel behaviour in terms of price selling. This type of behaviour is difficult to assess and its analysis has not always conclusive results. For evaluating such behaviour the data available are compared with theoretical values obtained by using a competitive or a collusive model. When different competitive or collusive models are considered, for the simplicity of calculations the economists use the symmetry assumption of costs and quantities produced / sold. This assumption has the disadvantage that the theoretical values obtained may deviate significantly from actual values (the real values on the market), which can sometimes lead to ambiguous results.

The present paper analyses the parallel behaviour of economic agents in the absence of the symmetry assumption and study the identification of the model in this conditions.

Keywords: parallel behaviour, Cournot competition, collusion, identification symmetry hipotesis

JEL Classification codes: D 43, K21, L13, L41

In the context of economic globalization, the emergence of European economic area, the abolition of duties assigned to this area, the economic crisis and other such factors, the competitiveness of companies is increasingly important. To meet the competitive pressures and the economic crisis, companies should consider a significant reduction in production costs, a more active concern for innovation for a better adaptation to consumer demands, in other words to improve their competitiveness.

Besides the development of the competitiveness, the companies have another solution to deal with these pressures: making anticompetitive agreements aimed at fixing prices, sharing markets, limiting production etc. These agreements are particularly harmful because the companies involved do not act differently but as a single entity thus seeking to extract as much as possible from the consumer surplus to increase their own profits.

Even if today we can say the economic crisis is ended and it will follow a period of economic growth, the competition authorities should pay attention to possible anticompetitive agreements made during the crisis and that are maintained today. The globalization of the economy gives many companies the opportunity to motivate that prices charged are at the same level as in other countries, without taking into account the specificities of each market and the costs of / the opportunities for export activities, including the effects of these activities on the price level of the foreign markets.

The parallel behaviour in terms of price evolution is explained by the companies, generally by factors such as prices of similar products on foreign markets or shocks to the costs of production / sales on the background of charges approximately identical to those of the rival firms. Such arguments do not take into account the independence of the economic strategies of the firms or their motivation to develop their business and to maximize their individual profits. For example, due to a high degree of substitutability an operator can keep unchanged the selling price while its

competitors decide to operate a price increasing. This decision would result in an increase in the quantity sold which will result in a reduction in production costs due to the scale effect. Because the lack of competition due to a parallel behaviour has always economic arguments more or less strong, the anticompetitive agreements that have as object such behaviour are very difficult to prove.

Literature review

The *Wood Pulp*⁵⁵ case is one of the cases in which the European Commission attempted to analyse the parallel behaviour of the companies. . Such cases have a high degree of difficulty as the competition law does not prohibit an intelligent adaptation of the companies to the market conditions.

The European Court of Justice (ECJ) has stated that it is not prohibited to the economic operators to adapt "intelligently" to certain situations which exist on the market or which may be presumed to exist in the future (the case *Wood Pulp II*).

In 1981, forty-three defendants (six Canadian wood pulp producers, ten American, eleven Finnish, ten Swedish, one Norwegian, one Portuguese and one Spanish producer, plus the US Pulp, Paper and Paperboard Export Association, the Finnish Common Sales Agency and the Swedish Association of Wood Pulp Producers) were informed that the European Commission had found evidence of collusive behaviour with regard to the selling prices to the European paper producers. The main evidence given was the fact that, from 1975 to 1981, these prices moved in a parallel way from quarter to quarter.

On 19 December 1984, the Commission imposed fines on thirty-nine companies, but on 31 March 1993 ECJ annulled the Commission's decision and most of the fines⁵⁶. Later this case has been intensively analysed by economists (both practitioners and theoreticians). All of these analyses are based on the results of the application of a competitive model (generally the Cournot model) and a collusive model on the existing data on the market.

For example Louis Philips considers more appropriate to use a super game in which the first period is characterized by the existence of a cartel and subsequent periods are characterized by existence of repressive reaction behaviour as a Cournot type competition.

In the economic literature there are many articles and papers that analyse the parallel behaviour and its causes (purely economic or existence of an anticompetitive agreement). All of these papers use the available data and compared them with theoretical values obtained by using a competitive or a collusive model.

As a competitive model, generally is preferred the Cournot model. The Cournot model presumes that the market's players set simultaneously their quantities to be produced. Price is established by the market on the basis of the supply and demand (the sum of the sold quantities).

An important hypothesis used in these papers is the asymmetry assumption which simplifies the calculations necessary to identify further theoretical values but which is a very restrictive one and can leads to ambiguous results.

Methodology

Suppose that the competition authority is considering a market where observes the manifestation of a parallel behaviour (in terms of price evolution) and suspects that it is the result of an anticompetitive agreement between the companies on the market.

When different competitive or collusive models are considered, for the simplicity of calculations the economists use the symmetry assumption of costs and quantities produced / sold. This

⁵⁵ [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:61985J0089\(01\):EN:HTML](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:61985J0089(01):EN:HTML)

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assumption simplifies the calculations necessary to identify further theoretical values for the quantities sold, the selling price and profit firms in these models. In addition, its use allows creation of models easy to estimate, regardless of the number of companies suspected of being involved in the anticompetitive agreement.

The symmetry assumption has the disadvantage that the theoretical values obtained may deviate significantly from actual values, which can sometimes lead to ambiguous results (for example results that show the simultaneous existence of a cartel and competitive behaviour, which is impossible as following the working hypothesis).

To make an analogy, we can refer to this two different situations (using or not using the symmetry hypothesis) as to attempt to calculate the geometric mean of three numbers when we know the sum of this numbers. The geometric mean differs a lot if the numbers are equals (we have a maximum value of the geometric mean) or not. For this reason we need more information about these three numbers than their sum in order to have a better estimation of their geometric mean.

As a result of the above, the present paper analyses the parallel behaviour of economic agents in the absence of the symmetry assumption. The main task in such analysis is to study the identification of the model. In other words if the removal of the symmetry assumption has as consequence the impossibility of obtaining values for the models applied on the data, then our model is unidentified and we are unable to distinguish between the parallel behaviour and an anticompetitive agreement.

Cournot Competition

To facilitate the presentation of the economic model we assume that on an oligopolistic market there are 3 companies that produce goods / services, protected by the entry of new competitors and that the inverse demand functions are:

$$\begin{aligned} p_1 &= \alpha - \beta q_1 + \gamma p_2 + \delta p_3 \\ p_2 &= \alpha' - \beta' q_2 + \gamma' p_1 + \delta' p_3 \\ p_3 &= \alpha'' - \beta'' q_3 + \gamma'' p_1 + \delta'' p_2 \end{aligned}$$

It is obviously that the hypothesis on the number of firms operating in that market is not a restrictive one. The model can be applied to any number of operators but then we should consider individual demand functions for each of these companies so that all of them to form a system of linear equations compatible-determined (number of equations equals the number of variables, where the variables are represented by the selling prices).

The coefficients of this system can be identified by the econometric estimates of individual demand functions. After solving the above system we get that each of the three prices is a function of quantities sold by companies: $p_i = f(q_1, q_2, q_3)$.

If firms compete à la Cournot they aim to maximize their profit, without interest in the total profit obtained by all firms in the market. For this we have to solve the equation resulting from imposing the condition of maximizing the individual profit of the firms (c_i represent the average cost of the company i and its value is known):

$$\begin{aligned} \pi_i(q_i) &= q_i(p_i - c_i) \\ \pi_i(q_i) = \max &\Rightarrow \frac{\partial \pi_i(q_i)}{\partial q_i} = 0 \end{aligned}$$

After imposing conditions for maximize the individual profit, replacing the variable p_i with its value calculated above we get the following linear system of equations:

$$\begin{cases} q_1 = h_1(c_1, q_2, q_3) \\ q_2 = h_2(c_2, q_1, q_3) \\ q_3 = h_3(c_3, q_1, q_2) \end{cases}$$

Using this system solution, on the basis of the relationships that give the value for the company's i selling price depending on q_1 , q_2 and q_3 , we obtain the theoretical values of the selling price that would be practiced if the market companies would be compete *à la Cournot*.

Collusive behaviour

In a market where the economic agents conclude anticompetitive agreements, for the analysis of market supply and demand they must be regarded as a single entity. Because the companies act like a single one, for the collusive model is important the total output of the market and not the individual output (the quantity sold by each of the companies).

The objective of this paper is to analyse the absence of the symmetry assumption which affect only the results of the competitive behaviour (Cournot competition). This is why we present the collusive behaviour just for illustrating the entire process of analysis of the parallel behaviour.

We assume that the inverse demand function is:

$$p_m = \alpha - \beta(q_1 + q_2 + q_3)$$

If companies decide to collude, their objective will be to maximize the total profit on the market and to establish market share / production. For this, we have to solve the equation resulting from imposing the condition for maximizing the total profit on the market (p_m and c_m represents the average price on the market, respectively the average cost on the market and they are known):

$$\Pi(Q) = \max \Rightarrow \frac{\partial \Pi(Q)}{\partial Q} = 0$$

$$\Pi(Q) = Q(p_m - c_m)$$

After solving this equation, on the basis of the market quotas existent before the agreement (or other such *initial conditions*) we obtain the theoretical values for the selling price and sold quantity for the situation where the companies on the market collude.

Case study

For study the difference between the results of parallel behaviour analysis with and without the symmetry assumption, we used data generated for an oligopolistic market with three competitors. When data were generated, has been considered a market with Cournot competition.

In a real situation the analyst does not know if the market is characterized by competition between the firms or by an agreement between them. He observes only the parallelism of selling prices, the sold quantities and the costs for each of the companies. Thus, to have a better understanding of the effects of the symmetry assumption's absence, we preferred to generate the data in accordance with a Cournot competition behaviour. The selling prices on this market are $(p_1, p_2, p_3) = (7.87, 8.02, 8.1)$.

The values for theoretical selling prices obtained in the situation when the symmetry hypothesis is used are: $(p_1, p_2, p_3) = (7.26, 7.37, 7.41)$. For this we have to estimate the inverse demand function (as a result of the symmetry assumption we will have a single function, the total demand function) and to impose the condition for maximizing the individual profits (due to the symmetry hypothesis there will result a single equation to solve).

If we eliminate the symmetry assumption, the numbers of unknown parameters is increasing (there are as many different quantities sold as the firms that compose the oligopoly). As we stated

before, to surpass this inconvenient we have to estimate each of the individual inverse demand functions and to solve the obtained system (in variables p_1 , p_2 and p_3). After these steps we get:

$$\begin{aligned}p_1 &= 14.8564 - 0.0448q_1 - 0.0049q_2 - 0.0224q_3 \\p_2 &= 15.0474 - 0.0453q_1 - 0.0051q_2 - 0.0228q_3 \\p_3 &= 15.1537 - 0.0456q_1 - 0.00502q_2 - 0.0238q_3\end{aligned}$$

In order to find the theoretical values of the selling prices we have to find first the theoretical values of the sold quantities. For this we have to impose the conditions for maximizing the individual profits. Solving the new linear system of equations, we are able to calculate the theoretical values for the sold quantities and to substitute them in the above system. Finally we obtained the following values for the selling prices: $(p_1, p_2, p_3) = (7.63, 7.64, 7.69)$.

It is obviously that results obtained in the absence of the symmetry assumption are closer to the real values and they represent a better estimation than the results obtained if the symmetry assumption is maintained.

Conclusions

The use of the symmetry hypothesis in the analysis of the behaviour of market's players is a very restrictive one and the results obtained may differ significantly from the real values. This is why we have to be very careful when we try to assimilate the parallel behaviour observed in the market with a competitive or a collusive one.

We performed an analysis of the parallel behaviour relaxing the symmetry assumption. We proved that the model is still identified in this case and the theoretical values estimated for the selling prices are closer to the real values than if we maintain the symmetry assumption. This aspect is a very important one because sometimes it may represent the difference between assessing the parallel behaviour obtained as a competitive or a collusive one.

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GREAT BRITAIN AND GERMANY SUPREME AUDIT INSTITUTIONS

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Overall progress recorded in contemporary society, has increased at the same time the aspirations and expectations of the population, marked by phenomena which are based on the financial policy of the Executive. Of course, for the legislature to know the financial activity carried out by the Executive Board, in each State was established a Supreme Audit Institution (SAI), whose independence is guaranteed by the Constitution, as it is in Germany, or by law, as is the case of the United Kingdom. The variety of powers of supreme audit, is the result of various economic areas, each demonstrations through specific activities and suitable approaches to organizational cultures, which gives them their distinct identities. The work is conducted under the public responsibility with an emphasis on developing and improving continuously audit methodologies to present best practices. The two supreme institutions operate according to an annual plan of action which includes financial audit or regularity and performance auditing actions, and additional Federal Court of Audit of Germany practice preventive control institutions contained in its area of activity. By tradition, the role of supreme consists of the evaluation as regards the legality and regularity of financial management and accounting, but since the 80's but it was noticeable trend internationally to audit performance or "value for money" (United Kingdom), since the latter refers to the essence of the problem and is the final attainment of the envisaged at the time of allocation of resources. The topic researched is distinguished by originality, marked being the fact that a area so important as that of external public audit is least known works, and I wish to point out the vacuum bibliographic Supreme Audit Institutions experience in the international arena and beyond. Research methodology consists in the evaluation of resources in the area, using foreign literature. For the study of the subject of this material have been followed the official sites of the Federal Court of Audit of Germany and of the National Audit Office of United Kindom, including consulting on hypothetical case studies submitted by the specialists of the two institutions on the occasion of seminars held at the Romanian Court of Auditors. This work focuses on developing institutional development, role, experience and traditions performed in the field of external public audit, as well as their relationship with the Parliament, including the measures taken as a result of recovery audit reports. Thus, the supreme institutions analysed may constitute "models" for Romania's economic reality. In our opinion, any "model" should be adapted to the situation on the field and in this case the model becomes the solution. An assessment of the current business of the supreme audit institutions, we ask where is heading and how they will look in the future. Perhaps the future will provide this response.

Keywords: Supreme Audit institutions, financial audits, performance audit, annual report, the new public management

JEL classification: M42

1. Introduction

Supreme Audit Institutions (SAI) of all democratic states in the modern world, united in INTOSAI, are fundamental state institutions, have institutional independence, have stability and the activity results are materialized in reports whose format and presentation have evolved in time, with a strong professional character due to the accession to the International Standards of Supreme Audit Institutions (ISSAI). Also the main activity objectives are legality and regularity use of public and private property funds and state economy, efficiency, and effectiveness of financial management, each one of these has the same degree of importance. Legislative and executive knowledge of all economic activities that takes place in the economic systems, as its development conditions, firstly results from the requirement of ensuring a permanent background information, which would provide the constitution basis, structure, practical implementation and tracking decisions, related to actual status of operations approved by the Executive Board. On it's turn, public opinion shows an increased interest for budgetary policy, especially, in the

distribution of resources accordingly to priorities, their use with maximum economic and social efficiency, in order to ensure a balance needs-resources.

From studies performed on the bibliographic resources it appears that the 27 Supreme Audit Institutions from U.E member states, although it varies greatly in structure and as organization and operation manner , the essence of attribution remains the same - the examination and reporting related to use of the public funds. Thus, in the U. E. there are four main categories of SAI, distinguished, primarily, by legal status and the institutional leadership, as follows:

Description category SAI	27 SAI of Members States U.E.
“The Supreme Courts of Audit” with a juridical function	Belgium, France, Greece, Italy, Spain, Portugal
“Collegial Structures” without juridical attributions	Czech Republic, Germany, Luxembourg, Netherlands, Slovakia, Romania
“Independent audit offices” presided by a Chairman or General Auditor.	Bulgaria, Cyprus, Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, Malta, Great Britain, Poland, Sweden, Hungary
“A distinct model”, presided by a President and the audit process is performed at central, regional and local level	Austria and Slovenia

Source : *Processed by the author after State Audit in the European Union, The National Audit Office, United Kingdom 2005, p.4.*

Certainly, the 27 SAIs require a comprehensive study, therefore for the current material, the objective of the study is the Federal Court of Audit of Germany (Federal Court), and the National Audit Office of the Great Britain (NAO). The motivation for the two chosen SAI sites consists into the following: its’ tradition and experience in the field of audit, its have different judicial structures and in the "Programme of vocational training for the staff of the Court of Auditors of Romania", in 2001 experts of NAO and, in 2006, the Federal Court specialists have shared from their knowledge and experience in financial audit performance domain due to seminars sustained by them in Romania.

2. Supreme Audit institutions organized as "Collegial Structures" with no juridical responsibilities

Although they are called Courts – Audit Federal Court of Germany, The Court of Auditors of the Grand Duchy of Luxembourg – these are organizations as College" type "with no juridical responsibilities. Because at the EU level there are no glossary of terms concerning the significance of public administration institutions, the ambiguity of the term "Court" attributed to these “Collegial Structures”, signifies rather the judicial competences of Supreme Audit Courts.

2.1. The Federal Court of Audit of Germany (Bundesrechnungshof)

It is "The Supreme Federal Authority" specialized on federal public audit domain, responsible for examining government operations and transactions, for reporting on its findings and advisory entities audited on the basis of experience gained, and as “ independent institution compared to the legislative, executive and judicial powers shall be subject only to the law”. (Bundesrechnungshof Act, 1985: 1). Statute of the Court, the juridical independence of the members in the exercise of its essential functions are sets by art. 114 section 2 of the German Constitution. Basically, the implementation of federal legislation and federal policies are made at the level of the Federal Laender which “have autonomy (its own Constitution containing certain principles laid down in the fundamental law of the German State, Parliament, Government and Administration) and the appropriate finance "(Gunlicks, 2007: 114) but are not sovereign. As the administrative leadership, the eight Federal Audit Offices, accordingly to the official website of the Federal Court (<http://bundesrechnungshof.de>) have structure, rights and obligations similar to

those of the Central Federal Court. Audit functions, subjects, criteria and procedures are provided in the federal budget Code (sections 88-114) (German federal budget code, 1969: 20-25), in conjunction with section J. Federal Court Audit provided in the budgetary system of the Federal Republic of Germany (Knörzner, T and Bunderministerium der finanzen, 2008: 47-51). According to the last two bibliographic references, the Federal Courts role is to examine the accounts from the federal government which is including all government agencies, special governmental funds and federal government enterprises, and private law enterprises accounts, which is administering federal governmental funds, which are not part of inside administration federal. Principles of activity of Federal Court consists in ex post audit of the entire financial management of public federal state, although Heller Karl and Wolff Hans-Jurgen believes that: “a full examination is not practically possible due to the size annual budget of Germany”, and of the relatively low number of officials (about 1300), according to the official website of the Federal Court previously mentioned. Even if it would use samples techniques, it would not cover the whole area of the various fields in order to be audited, or “ it may limit the scope of audits, and also and to not audited certain accounts “(Heller and Wolff 1996: 125-127). In order to eliminate de problems which may occur due to exclusion of certain entities auditing, the Federal Court appeals to the preventive control, although among SAIs, the few sites, which apply this type of operation of the institutions included in it’s area of activity. We mention here that those SAIs which apply preventive control. These are: Belgium, Greece, Italy, Portugal, all have in the its own structure the jurisdictional component.

Also, given the administrative reform and public finance, based on new public management(NPM), began in mid 1980s, in the English countries such as Great Britain and New Zealand, USA, Canada, Australia; process later extended in northern European States, Including Sweden, Finland and Norway, and the continental states, including the Netherlands and France, the federal Court has decided to implement this theory in Germany too. Certainly, the process took place gradually and was aimed primarily to introduce the idea of efficient management and active in the public sector, as Ogawa & Tanahashi argue that this theory is based on four fundamental principles, listed as follows: 1) decentralization of functions and authorities ; 2)market rules to be extended to public administration settings by introducing public-private partnership (PPP), 3) the approach based on evaluation of performance management on government executive agencies and 4) public accounting system based on engagement (accrual). (Ogawa,H., Tanahashi,K. 2008 : 50-52). Upon this subject, the Federal court specialists shared their experience in a course organized in 2006, at the Romania Accounts Court. As in Romania everything new is seen with skepticism, they must undergo four years to be adopted Law 178 of October 1, 2010, for public-private partnership, published in MO no. 676 of October 5, 2010, and Government Decision no.1239 of 8 December 2010, regarding the approval of Methodological Norms for applying Law 178/2012 as well as for the approval of the reorganization measures relating Central Unit to coordinate public-private partnership in the Ministry of Finance. In our opinion, this model represents a way of relaxation financial public sector, and the two parties involved in the contract (public-private) have limited obligations. However, common activity brings benefits on both sides – on the one hand, the public institution are for the community benefits, and on the other hand, private institutio, are established long term financial benefits (example: highway concessions in France, Italy, Spain).

Regarding the audit activity, the Federal court places ”both regular audits of compliance and financial management as well as performance audit” (Bundesrechnungshof 2005: 15) and on the basis of its findings may provide assistance both the Parliament and the Federal Government. In compliance auditing and regularly, the Federal court examines whether the receipt and payments were properly justified and supported by documents, if budget and capital accounts have been properly prepared in accordance with provisions and regulation in force. In recent years, focused on performance audit, particularly because it applies to the programs or other large scale projects,

and analyzes the appropriate use of funds, by providing an acceptable cost-benefits proportion. Activity results of the Federal Court considered as the "fundamental importance" – which refers to matters of general interest and „signifying financial impact on the federal budget" or in any other manner important decisions are contained in users "annual report to both Houses of Parliament and Federal Government "(Germany's SAI, 2005: 31-34) that is submits to discussion and decide to whether or not discharge the institution audited. Additionally, during the year, Federal Court establish "special reports" regarding the problems of great importance that believes that Parliament and federal Government should be informed without delay. The discharge procedure for the federal government is decided in the separate examination by the two Houses of Parliament (Bundestag and Bundesrat), the Federal Courts annual report. The discharge for the Federal Ministries of Lands is granted by the Federal Ministry of Finance and marks the end of fiscal year budget cycle. In our opinion, the Federal Court is a model for discharge in respect, because this is functioning as a college-type body without juridical responsibilities, discharging procedure is decided by specialized committees of both Houses of Parliament after examining the annual report of the Federal Court.

3. "Independent Audit Offices" presided by a Chairman or Auditor General.

In these SAIs, the supreme power and the most important decisions aimed at the institutional issues also the reports made for Parliament are taken by the Chairman or Auditor General.

3.1. The National Audit Office of Great Britain (National Audit Office-NAO)

Contrast to other countries in which the form of institutional organization, rights and obligations SAIs are provided in Constitution in Great Britain, NAO functions on the basis Audit Department Act of 1866, later modified by National Audit Act 1921 and 1983 applicable today. NAO is the supreme audit institution of public funds without jurisdictional responsibility, and has as objective "to help the nation spend wisely" (NAO 2011:8). Its main role companies benefiting from subsidies and other public bodies exercising responsibilities regarding administration public finances (NAO 2012:10). It also helps these organizations to improve their managerial performance for public services. Parliament (ie Queen, House of Commons and Lords) closely supervises the administration of public finances through NAO and accounting officers of accounts" personally liable to the Public Accounts Committee (PAC) of the House of Commons for how departmental resources have been engaged in the performing its functions" (Butler, Chris 1999:9) regardless of source of funds (national or European). As a results of the performed examinations, PAC makes a report that contains advises and recommendations which is sending to the government, with a copy of the NAO' s report. The government describes these recommendations and report measures taken. According to the Law department of Audit of 1866, Chapter 39, the head of NAO is heading completely " Comptroller General of the receipts and issues Treasury of His Majesty and Auditor General of public accounts", commonly used names is " Comptroller and Auditor General or C&AG " (National Audit Act 1866:2) suggesting that it plays an important role and wide powers over finances and the most important decisions which relating to the objectives and priorities of the institution in this field are taken unilaterally ,but the responsibility of income and expenditure forecast is submitted to Ministry of Finance. The amendments to the Law Audit National in 1983 to the Law in 1866 provided in chapter 44, part I (National Audit Act 1983:4) that the C&AG is head of the NAO , is an officer of the Parliament and in the light of his statutory position he has a high degree of independence. Also he decides upon the annual audit program, on the themes on which NAO will address under the aspect of performance, but accordingly to the 1983 Law he has no right to judge the quality of policy objectives, the examination refers only to the measures taken by departments in order to achieve duties established by the Government and approved by Parliament. NAOs strategy is made based on a 5-year installment plan, which is enhanced all the time as his running.

NAOs activity is carried under the sign of the public responsibility , therefore Ioan Bogdan, former President of the Court of Accounts of Romania, said in 1997, that is one of the “top SAIs” (CCR 1997:80), focusing on development and improvement permanently audit methodologies order to present best practices. Engaged exclusively financial audit and performance audit and through its activity aims lead to the saving funds. Financial audit engagement :

- is directed to” formulating independent and credible an opinion” according to International Standards of Supreme Audit Institutions (ISSAI) 1700 in conjunction with International Standard on Auditing (ISA) 700 – *The formation of an opinion and reporting on financial statements*, on the execution accounts and financial statements of public bodies.

- aims to the accuracy of financial and accounting documents and the legality and regularity of use of public resources (NAO(2001): 76).

According to the training materials provided by specialist NAO, during seminars held by them at the Court of Accounts of Romania in 2001, each mission like this is scheduled in order to respond broadly to the following two questions, namely: ”the funds allocated were used for the purposes approved by Parliament?” ,and ”financial operations are in the accordance with applicable law” (NAO(2001): 22, 62). During the financial audit engagement, auditors obtains evidence as convincing as possible, through reality and force of arguments, because the audit opinion formulated is expressed on behalf of C&AG which is signatory to all audit reports prepared by subordinated auditors. The purpose the task is in two ways:

-either the auditee receives letter in which gives the audit findings accompanied by recommendation or

-either the auditee receives ”audit certificate” (Sigma Papers no. 20,1997:142) and thus guarantees that the PAC can be based on financial statements.

NAO general practice is to comply with all aspects ISAs and Note practical 10. The latter refers to the ” audit financial statements of Great Britain central government sector” and present the context and the key factors of which auditors should consider in the audited financial statements (NAO. October, 2010). Also emphasizes the importance accorded to an audit mission, an objective that emerges from the Chapted 39, Art. 27 of the Act Audit in 1921, which reads: ”All accounts of execution will be reviewed by C&AG, which will provide himself a reasonable assurance that incomes were used only within the limits and for destinations approved by Parliament, and cost effective respected the law” (National Audit Act 1921).

Performance audit was introduced in the NAO activity with the Law of 1983, as a response to requests following terms PAC and NAO reports for system weakness or practices which led to charges that ignored the principle of proportionality. Since there is a definition established by law, the NAO has defined the concept of performance audit in elementary form, through phrase ”value for money” (NAO 2001:74) but paragraph II, section 6 of the Act since the audit 1983 states that in the practice be respected definitions of ” threes E – economy, effectiveness, efficiency ” internationally recognized.(National Audit Act 1983:4). By its nature, performance audit is focused directly on performance with emphasis on resources, achievements, results and expected impact. Lonsdale argues that behind the tracking reports, performance missions are quantified, through ”influence the government practices, financial savings, and impact on the decisions of Parliament” (Lonsdale 2000:74). Most missions that have the performance theme are focused on a theme, a topic that describe the circumstances and connect in order to reach a conclusion, rasher than a standardized statement, but pursued to several government department according to ISSAI 3100 - *The guidelines of performance audit: key principles*.

The difference of the two type of audit consists in that, through in a financial audit mission is probably be noted that the documents financial and accounting reflect reality and operations that contain respect the specific laws , a negative affirmation appears in the case of a mission performance audit if public organisms audited where not achieved, and final objectives considered account when allocating resources (give an example: storage of IT equipment).

NAO activity are known to PAC from the House of Commons, the first chamber of Parliament, through interim reports (during the year) and annual report. During the Parliament work period, take place biweekly meetings order to discuss potential impact of the audit, especially in financial terms, as a measure of expected results and affects obtained from previous work. Measuring the impact of the NAO annual activity, take place through quantitative and qualitative evaluation of the significant changes that have been produced by auditors, as a result of its recommendations. For example, Pollit and Roberts provides some severe criticism of the previous stage reports published by C&AG because "all performance reports must be agreed (literally) the officials accountants... and disagreements can not be presented PAC, but a report in full compliance" (Pollit and Roberts 1994:541), and examples could continue with a report drawn up in 2002 by the Environment Agency that the auditors have brought strong criticism "on the respect of licensing criteria" and in the final report, these criticisms were "vague suggestion for improving the Agency's work", says Sharma (Sharma 2007:299). On the other hand, Wilkinson says about a report prepared by auditors in June 2006 on the National Programme for IT (NPfIT) established at the department of Health "has been heavily modified" so that the published report described as a "whitewash" findings. (Wilkinson 2006: 1317). In other words, some major issues included by auditors in their reports, becomes minor points from the clearing and the NAO proceeds to misinformation PAC probably not taking into account risk assessment and issues that may arise after the audit mission, we consider. According to the Author, NAO activity in two types of audit, may be landmark the Court of Accounts of Romania, especially and because the information provided by the specialists of this institution, although as we have noticed is has gaps.

4. Conclusions

As is it obvious, between the two SAIs exist both the similarities and differences marked by socio-economic features of each state. However the essence task remains the same – "verification of the management of public funds". In Germany, Constitutional Law guarantees for Federal Court and give it a place in the system of Government; unlike- the National Audit Office of Great Britain is established by statute, like other national government institutions. The similarities consists that in whatever juridical form are declared "supreme audit institutions" which it operates independently from legislative power, executive and judiciary and are lead each one by an official with extensive powers for the NAO. According to the 1977 Lima Declaration, SAIs have included in the research area as main activity, the two common types of audit – financial or regularly and performance, and additional, Federal Court practices preventive control, the institutions included in the area of its activity. Regarding the relationship between SAI and Parliament, this is done through specialized committees of Parliament, respectively the Public Accounts Committee of the Bundesrat (Germany) and the House of Commons Public Accounts Committee (United Kingdom), which examines the implementing the recommendations status. The results of SAIs activity are necessary for the Parliament and public opinion generally, highlighting thereby "responsibility of those responsible" for managing public funds. In our opinion, the Federal Court combined the role of "public accountant" to that of "management consultant" and the equivalent institution in the UK exercising more the role of "public accountant".

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FINANCIAL SYSTEM STRUCTURE AND STABILITY DURING TRANSITION

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The process of transition from socialist economy to market economy was not considered an end in itself, but a necessity, and standing proof to achieve high levels of sustainable development. All former socialist countries are characterized by an early transition recession transformation result of the restructuring, loss of markets, tough competition from foreign products, best quality, or in other cases cheaper. To express the financial system structure in transition we take into discussion data that reflects representatives mutations and restructuring in Central and Eastern European countries, such Bulgaria, Czech Republic, Hungary, Poland and Romania. For all countries we show some important changes of financial system during transition and construct an image matrix that illustrates important indicators of financial system structure and their adjustment.

Keywords: financial system structure, financial system stability, transition, banking systems.

JEL: E44, G01, G21

Financial system functions and its role in assuring stability during transition

Functions of financial system

Modern economic analysis explains the existence of financial intermediation through the banking operation (as financial intermediaries), and specific functions lie in the function of reducing transaction cost, function to reduce information asymmetry by providing liquidity and the economy (Lobez, F., 1997, p. 191). The existence of financial intermediaries in the current economy allows the manifestation of their specific functions that are fulfilled and that the specific functions of the financial system (Fîrțescu, 2010, p. 161). The main functions of financial intermediaries found in the literature, are considered the following: function to transform the structure of attracted funds ("maturity transformation"), function "risk transformation", collection and distribution function (the resource - funds raised)

For the first function attributed the financial system, financial intermediaries can reduce transaction costs by making significant savings that come from specialization benefits financial intermediaries (Andreff, 2007, p. 12). When an intermediary specializing in one type of activity or a sector, this situation allows it to offer cheaper services tailored to customer needs. However, recording of important savings and diversified range of customer services. This is why financial intermediaries (in this case, banks) seeking to diversify their product offerings, so as to optimize the costs of intermediation (Andreff et al., 1998, p. 25),

Regarding the second function - reducing asymmetric information - should be considered the relationship between debtors and creditors, meaning that the latter have more information than the first. However, the financial intermediary guarantees confidentiality, which can be a decisive advantage for creditors. Because of these characteristics, financial intermediaries have a comparative advantage in funding made in the market. Among financial intermediaries, banks have crucial role in reducing asymmetric information as maintain long-term relationships with their customers by the very nature of functions performed.

The third function of providing liquidity concerns that the economy in an uncertain world, businesses need to hold liquid assets to meet two characteristics: their value must be stable and uncontested, respectively, are readily available to be transformed into goods and / or services. Liquidity insurance function, which is characteristic of banking intermediation is not possible unless the banking system has a high degree of organization and regulation, which gives banks a guarantee to the overall lack of liquidity risk, also known as systemic risk (Neave E.H, 2010, p. 10). In the financial system, banks as financial intermediaries perform a range of classic and

traditional features, types of operations aimed at closely linked, namely: loan distribution function, the function of collecting deposits, office management means of payment.

Role of financing during transition

The importance of the financial system is widely discussed in recent literature, being addressed in the interdependence of economic growth, resulting in the conclusion that the proper functioning of financial intermediaries have a significant impact on economic growth. In planned economies, the financing was achieved through administrative measures financial institutions present in the pre-planned economies in transition were banks, which acted as record-keepers for planning and paying agents among state enterprises rather than as financial intermediaries. Although these banks had appearances of real banks, they haven't worked as the banks from a genuine market based economy. There are many modes of financing and different types of institutions to facilitate these. The modes can be grouped into three broad categories (Bonin J, Wachtel, P, 2003, p. 2): entrepreneurial finance; bank lending (bank – based financial system); capital market financing (capital market based financial system). Economic literature discuss same types of financing, namely auto-financing or self-financing financing through banks, or through capital market. Recent approaches discuss the financing with the participation of financial intermediaries, referring at financial through banks.

As a conclusion, important authors suggests that in early stages of transition post-communist countries evolve from a central planned financial system to a bank-based financial system.

Financial system structure during transition and its stability

Data and indicators related to financial system structure

We take into discussion some data that reflects representative mutations and restructuring in Central and Eastern European countries, such Bulgaria, Czech Republic, Hungary, Poland and Romania. For all countries we take into discussion some important changes of financial system during transition and construct an image matrix that shows the most important indicators of financial system structure:

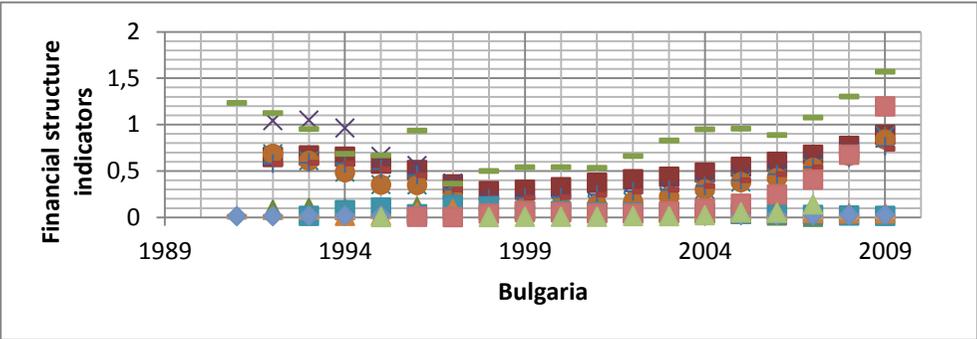
- LIQUID LIABILITIES / GDP
- ▲ CENTRAL BANK ASSETS / GDP
- × DEPOSIT MONEY BANK ASSETS / GDP
- ✕ PRIVATE CREDIT BY DEPOSIT MONEY BANKS / GDP
- PRIVATE CREDIT BY DEPOSIT MONEY BANKS AND OTHER FINANCIAL INSTITUTIONS / GDP
- + BANK DEPOSITS / GDP
- FINANCIAL SYSTEM DEPOSITS / GDP
- BANK CREDIT / BANK DEPOSITS
- BANK OVERHEAD COSTS / TOTAL ASSETS
- ▲ NET INTEREST MARGIN
- LIFE INSURANCE PREMIUM VOLUME / GDP
- ◆ NON-LIFE INSURANCE PREMIUM VOLUME / GDP
- STOCK MARKET CAPITALIZATION / GDP
- ▲ STOCK MARKET TOTAL VALUE TRADED / GDP

Bulgaria

The banking system in Bulgaria in the early years of transition faced many serious structural problems. At that time, two specialized banks dominated the banking sector in Bulgaria. Bulbank, state foreign trade bank, did not participate actively in the process of credit, resulting in that less than 1% of its assets were loans for non-financial sector. Spetstovna Derzhavna Kassa (DSK), bank and savings institution dominant sector was specialized mainly on transactions in government securities and interbank deposits as assets. Together, these two state banks constituted about half of total banking assets in Bulgaria. A financial sistem structure matrix,

composed by most important financial structure ratios is shown in graphic and table (data only for 2009) below:

Figure 1. Financial system structure in Bulgaria



Source: World Bank Database,

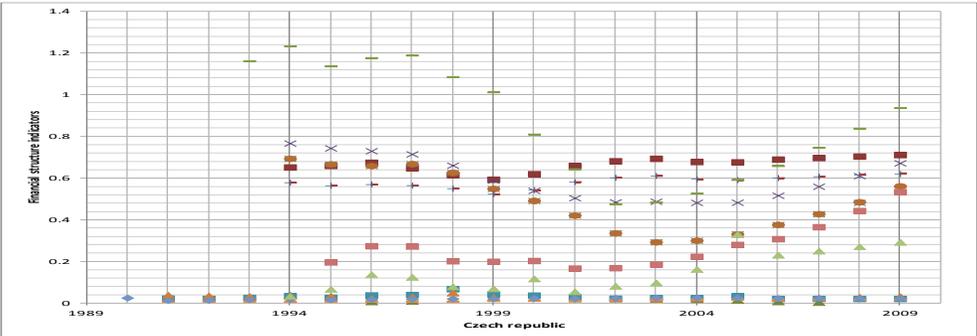
<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:20696167~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html>.

Some observations results from figure 1: major indicators shows an improvement of financial system structure, and an increase of stock market capitalization - the indicator LIQUID LIABILITIES / GDP fluctuates from a minimum value in 1998 - 0.2822 to a maximum in 2009 - 0.8877 suggesting an increase of overall financial liquidity, indicator FINANCIAL SYSTEM DEPOSITS / GDP is within 0.2067 (1998) and 0.7388 (2009), illustrating an strengthen in bank financing.

Czech Republic

The early recapitalization of the four large state-owned Czech banks was a little avail. Major factor was identified as soft lending practices that continued even though banks passed accumulated bad debts to a newly created “hospital” bank. Some estimates suggest that the final cost of bank bailout in the Czech Republic was 30% of GDP as compared to just over 10 per cent for Hungary. In 1999, classified credits reached 32% of the total. Interestingly, the Czech government's protectionist policy had allowed domestic banks to maintain high spreads and, hence, they had the potential to be profitable. Although the banks could self-capitalize, they did not do so because soft lending practices and poor risk assessment continued. Nor did the several rounds of cleaning up the banks’ balance sheets strengthen the big four Czech banks because they did not achieve independence either from the state or from their unstructured clients. Financial sistem structure matrix indicators is shown in graphic below:

Figure 2. Financial system structure in Czech Republic



Source: World Bank Database,

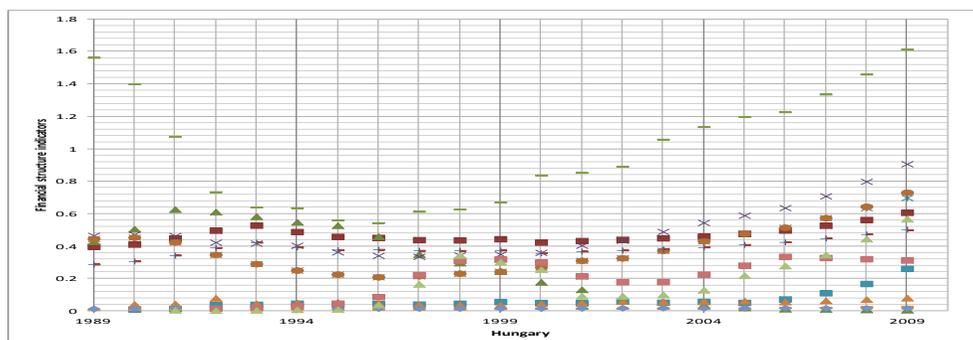
As figure 2 suggests indicators shows a lesser improvement of financial system structure, and an increase of stock market capitalization in 2008 and 2009- the indicator LIQUID LIABILITIES / GDP fluctuates from a minimum value in 1994 - 0.651 to a maximum in 2009 - 0.7103 suggesting a small increase of overall financial liquidity, indicator FINANCIAL SYSTEM DEPOSITS / GDP is within 0.5636 (1994) and 0.6228 (2009), illustrating an strengthen in bank financing.

Hungary

Hungarian bank with the largest exposure to loss-making industrial customers was buffet Magyar Bank (MHB). MHB's bad loan portfolio was put into a separate organizational unit, a bank within a bank, in an effort to recoup a portion of the loan. The remaining part of the good bank was privatized with a transaction was structured to attract a foreign strategic investor, which would increase the bank capital. Shortly after purchasing a package of 90%, ABN Amro subsidiary merged with MHB own Hungarian branch. Therefore, now bears the name MHB parent company is Dutch and financially with foreign bank. MHB's experience highlights the importance of shedding unwanted customers.

The largest Hungarian bank is now Kereskedelmi Bank Orszagut Takarékpénztár (OTP), National Savings Bank. OTP was privatized in 1995, but without a dominant strategic foreign investor. When the bank dominated the Hungarian retail market and although its market share declined, is still the largest retail bank and the largest bank in the country.

Figure 3. Financial system structure in Hungary



Source: World Bank Database

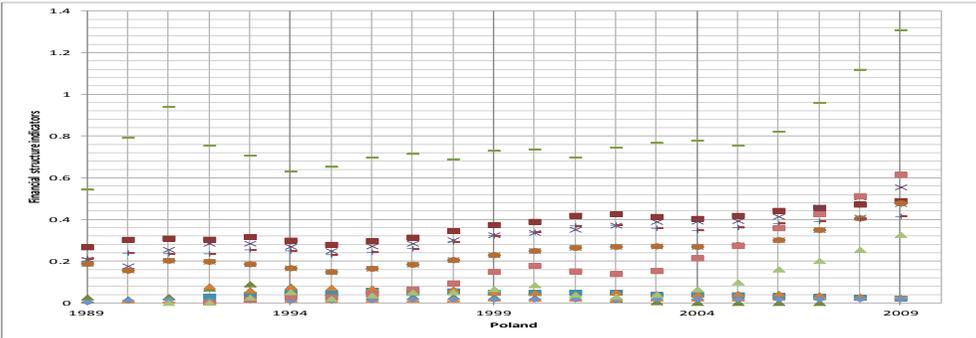
In concordance with Figure 3, in Hungarian financial system, a set of indicators almost double their an value: LIQUID LIABILITIES / GDP fluctuates from a minimum value in 1994 - 0.395 to a maximum in 2009 - 0.651 suggesting a boost increase of overall financial liquidity, indicator FINANCIAL SYSTEM DEPOSITS / GDP is within 0.286 (1989) and 0.4978 (2009), illustrating an strengthen in bank financing, suggesting that actions during transition had achieved their goals.

Poland

Polish banking sector entered a second phase in the late 1990s with a series of post-privatization consolidations (see Kokoszczynski, 2000). A series of mergers took place 1999 - 2001, in two of the four cases, foreign banks acquiring a portfolio of minority as part of the initial privatization process, then followed further acquisitions of shares before the merger. Poland has allowed foreign strategic investors to take controlling interests in the large commercial banks. At the end of 1994, foreign institutions controlled only 2.1% of Polish banking assets. By 2000, 63.7% of

commercial bank assets in Poland were held by banks controlled by foreign owners. The evolution of fsi is presented in Figure 4.

Figure 4. Financial system structure in Poland



Source: World Bank Database,

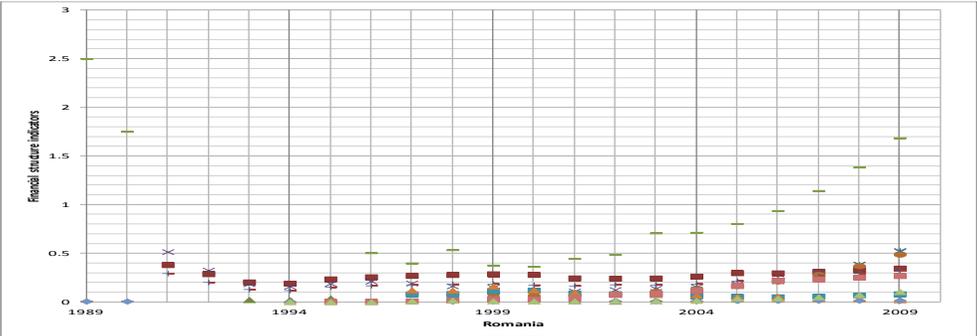
<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:20696167~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html>

As displayed in Figure 4, a set of Polish financial system indicators almost double their an value: LIQUID LIABILITIES / GDP fluctuates from a minimum value in 1994 - 0.2672 to a maximum in 2009 - 0.651 suggesting a boost increase of overall financial liquidity, indicator FINANCIAL SYSTEM DEPOSITS / GDP is within 0.214 (1989) and 0.4164 (2009), illustrating an strengthen in bank financing and largest improvement (of all analyzed countries related to stock market capitalization to GDP – 0,6149.

Romania

The structure of the financial system, before 1990, in Romania was similar to that of other centralized economies. Since 1991 the Romanian financial system metamorphosis took place at the changes taking that premise to introduce a system organized on two levels - National Bank of Romania, the central bank independent, commercial banks - and banking legislation that boosted the role of commercial banks in the economy, a role closely related to their role as principal intermediary in relation to savings - investment, crucial to economic growth relationship. In Romania, the funding system was heavily dominated by the banking sector, here manifested prominent financial intermediation. Dominance of the banking sector in financing the economy is explained by several factors such as underdevelopment of capital markets, taxation still disadvantageous exchange, saving more attractive offers banking, investment culture, etc. Financial market development and growth is observed market capitalization to GDP. An overview of financial system structure is presented below:

Figure 5. Financial system structure in Romania



Source: World Bank Database,

As displayed in Figure 5, indicators in 2009 are closer to values from 1991: LIQUID LIABILITIES / GDP fluctuates from 0.3804 in 1991 depreciated to 0,3454 in 2009 - 0.651 suggesting a boost increase of overall financial liquidity, indicator FINANCIAL SYSTEM DEPOSITS / GDP is within 0.2932 (1989) and 0.3212 (2009).

Conclusions

An important conclusion concerns the need of breaking the linkage between banks and uncertain customers. For small countries, Hungarian experience indicates that foreign participation in bank privatization is an effective approach to a strong financial system. Hungary was the first to apply this rule, followed by Poland, which experienced a series of bad experiences and the Czech Republic that finally focused in this direction. Another conclusion refers to the importance of proper control of banking institutions. Experiences indicate the importance of developing the regulatory structure, especially in unstable macroeconomic environment. Hyperinflation leads to disintermediation and a significant contraction of the monetary base of the economy. Macroeconomic stability and stronger banking supervision are necessary conditions for the restoration of banking sectors in these countries. The experience of transition economies, large and small, fast or not, indicates that the entry of many private banks undercapitalized promote systemic instability. For small countries, open foreign participation in domestic banking sector is a more effective means of promoting both competition and sector development. However, stability is a prerequisite for sufficient foreign capital entry and strong regulation is a necessary condition for effective supervision, but also require large amount of resources and know-how to complement legislation. Larger economies have greater flexibility in designing efficient banking sectors. Bulgaria or Romania were forced to a quick reform their banking systems as quickly as possible to meet the major objective of EU accession. This objective required the development of a regulatory system that respects the guidelines of the EU and opening the domestic banking sector to foreign competition.

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AGENCY PROBLEMS IN PUBLIC SECTOR

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Agency theory analyses the effects of contractual behaviour between two parties: principal(s) and agent(s). This relation is inevitably characterized by information asymmetry because agent holds a substantially larger volume of information than the principal. Due the negative effects of information asymmetry for the principal, this should cover supplementary costs with monitoring agents and/or grant incentives. The first objective of this paper is to emphasize the effects of information asymmetry, particularly on adverse selection and moral hazard. The second objective is to evaluate the negative effects of information asymmetry and to assess the viability of solutions proposed by scholars for mitigation. The third objective is linked with personal contribution, respectively to highlight specificity of agency theory in public sector and the mechanisms of action in this particular field. In this paper, literature is mainly based on scholars' contribution to the proposed theme. Little literature approaches agency theory in public sector, in most cases the analysis being restricted to general issues. Research methodology is based on synthesizing relevant information from literature and adapting them to public sector particularities. The results reflect some threats for public bodies in their contracting activity. Conclusions present also a set of solutions which could be used by public institutions to optimize their activity of mitigating information asymmetry's effects. These solution guidelines could represent a useful instrument for make more efficient public money spending. Personal contribution and the novelty of this paper consist in presenting a new approach regarding mechanisms of managing information by agents. In case of public institutions, principals have more opportunities the take possession over the information managed by the agent. Nevertheless, agents can limit the principal's access to vital information by offering excessively much information, combining few vital data with numerous unimportant information. For further research, agent's information management should be depth and analyzed in which manner principal can control it.

Keywords: agency theory, information asymmetry, adverse selection, moral hayard, public resources

JEL Codes: D01, H59

Introduction

Studying the current economic phenomena is a concern that arose from the need of understanding the economic reality and find levers, instruments with which to intervene for the control of this dysfunction (Câmpeanu et al. 2011: 42). Some distortions are generated by the behaviour of participants in economy which establish in contracts the mutual rights and obligations. The financial perspective over the contracting in economy, known as agency problems, presumes a monetization which can be made using costs supported by all parties. Agency theory has been used in numerous fields such as accounting, economics, finance, marketing, political science, organizational behaviour, sociology (Eisenhardt 1989: 57), which recommend it as a complex analyse tool. Agency costs arise from many sources: the costs of recruitment, adverse selection, specifying and discerning preferences, providing incentives, moral hazard, shirking, stealing, self-dealing, corruption, monitoring and policing, self-regulation, bonding and insurance, agents who oversee agents, as well as failures in these costly corrective devices (Shapiro 2005: 281). Agency costs are strongly related to information problems, three of them deserving close consideration: adverse selection, moral hazard and non-verifiability because each of those informational problems leads to a different paradigm and, possibly, to a different kind of agency costs (Laffont and Martimort 2001: 14). Non-verifiability can be associated with moral hazard because it inseparably linked with unobservability.

In most cases, the public sector principals contract a certain quantity of public services from their agents. These quantities are derived from public policies and should be fulfilled without exceeding them. In order to maximize efficiency, principals should monitor agents in order to obtain minimal resource consumption for offering contracted quantity of public services.

Optimization of agency problems requires new categories of costs in order to reduce significantly the negative effects on costs produced directly by agents. Thus, agency problems may be solved, at a cost, with the use of incentive compensation, monitoring, and signalling by the agent (Chua et al. 2009: 359).

Adverse selection

The adverse selection models present situations where the decisions of player (named the Agent) having private information depend on private information and could negatively affect others participants; the party making the contractual offer and who doesn't know the Agent's private information is attempting to reduce this informational disadvantage (Marinescu and Marin 2011: 34). Although the agent has private information, his advantage is limited because the actions it performs can be observed (Zhang and Stefanos 2008: 1).

The relationship between the principal and the agent(s) involves two main types of variables: the first type is associated with a decision (or action) and is observable. The variable of the second type has generally the meaning of money transfer from the principal to the agent (Araujo and Moreira 2000: 7).

In public sector, adverse selection has some specific valences. The contractual relation is set up mainly between an agent which is subordinated to the principal. The subordination relationship could be different, a large scale of parameters being possible to be met. Mostly, the agent is created by the principal and is supported by it. The management of the agent could be designated by the principal or should be approved by it (in case of more democratic and independent organizational structures). If we look at financial issues, the general rule is that of principal's supervision on agent's financial activity. If agent is granted with fiscal public resources, the granting operation is coordinated entirely by the principal.

As presented above, the situation looks to advantage principal's position and to contribute to easily minimize the information asymmetry's effects. In reality, it seems that adverse selection is due to: bureaucratic procedures, overwhelming volume of paperwork which accompanies every step of agents' activity and principal's conviction regarding the large possibility scale of monitoring agents.

A different approach of adverse selection in public sector can be met when public authorities buy goods and services. Public procurement rules can not diminish until disappearance the information asymmetry. Adverse selection occurs when the government accepts the bid of an inefficient producer because it cannot observe the bidders' expected production costs before awarding the contract (Cox et al. 1996: 148).

Adverse selection's profile in private and public sector seems to be different although the causes and mechanisms are similar. Information asymmetry appears not only due to holding private information (as in private sector often is met), but also due to bureaucratic procedures which hinder to pierce basic information from a multitude papers and facts with low interest level for the principal.

Moral hazard

Moral hazard has an economic equivalent in a rational behaviour in terms of organization or person. Moral hazard involves a rational behaviour, namely self-interest, which could be characterized as opportunistic because it takes advantage of an opportunity for personal benefit, even if it is detrimental to others. Personal benefit is to be read more generally to refer to the benefit of the active party, whether an individual or a company (Dow 2010: 2).

Moral hazard (hidden action) appears when agents may not deliver on they tasks properly due to an imperfect monitoring by the principal (Barbagallo and Comuzzi 2008: 8) and abusing of information which is only in its possession. Under these information asymmetry, the principal should spend supplementary resources in order to control agent by supervision. Soft supervisory

information helps the principal even though the supervisor and the supervised agent collude if this collusion takes place under asymmetric information (Faure-Grimaud, Laffont and Martimort 2003: 272). In adverse selection models, it is not the informed party (the agent) that moves first, but instead the uninformed party takes action first (Wahrenburg 1999:3).

When the agent's action is not observable, the parties design the optimal contract to maximize their joint benefits while mitigating moral hazard (Pobletey and Spulber 2011: 3). Gifford (1999: 427) consider that one of the primary conclusions of the principal-agent model of moral hazard is that, because the agent receives only a partial share of the benefits generated from the agent's effort, which is not perfectly observed by the principal, and yet bears the entire cost of that effort, the optimal incentive contract between the principal and agent cannot achieve a first-best outcome. That is, the agent will not maximize the total value of the endeavour.

In case of public procurements, moral hazard is also observable after the contract is entering into force. Moral hazard arises after the contract has been awarded because the government cannot observe all aspects of the firm's efforts to hold down production costs, and hence the enforceable terms of the contract may not provide sufficient incentive for the firm to adopt the efficient level of cost-reducing effort (Cox et al. 1996: 148).

In public sector, moral hazard is increased by the financial mechanisms which are set to supply public institutions which become agents in their contractual relations. Budgetary ex-ante allotments allow agents to feel a certainty which generate a different behaviour than rational and optimal from principal point of view.

Information asymmetry causing adverse selection and moral hazard

In practice, the relation between principal and agent is not divided in two components, respectively adverse selection and moral hazard. The theory, trying to explain the complexity of the situation, describes separately these information asymmetry effects. Adverse selection problems arise from information asymmetry before and/or after contracting, while moral hazard problems stem from the unobservability of managerial effort only after contracting (Sung 2005: 1021).

Both, adverse selection and moral hazard have the origin in information asymmetry. If cause could be controlled or even annihilated, the pernicious effects will not appear with same raised intensity.

Incentives are mechanisms which contribute to limit negative effects of information asymmetry. These mechanisms should not action individually. Some scholars consider that incentives could be partially replaced by the forces of market which can control moral hazard (Jeon 1996: 298). In no situation, market can correct information asymmetry's pernicious effects. In these circumstances, incentives are welcomed. The existence of incentives implies new costs for the principal. The principal-agent model could be used to model incentives in organizations (de la Rosa 2011: 429). The main costs come to the principal in terms of the incentive he provides the agent to act in the principal's interest (Van Horn 2011: 14). Scholars concluded that incentive allotment is the best solution if we compare effects with efforts. The incentives can be designed in various forms, but main options remains financial incentives. Itoh (1993: 31) stresses on non-financial incentives which could help principal in supervising agent's behaviour. These kinds of incentives could not be used in a large scale, but in particular situations it represents a viable alternative. Itoh propose promotion to more visible tasks and evaluation of supervisors based on their subordinates' future performance could alleviate their incentives to misrepresent information via collusion, without losing benefits from cooperation among agents. Another possibility is the use of job rotations both within and across work groups.

Exclusively referring to the public sector, we can observe that this field is excessively regulated. The explanation of this degree of regulation can be found in the numerous attempts to use incorrectly and inefficiently the public money. Under these circumstances, information

asymmetry is met also as an effect of excessive bureaucratic paperwork which hinders monitoring activity.

Principals should organize information asymmetry mitigation. The two main instruments recommended to be used, as presented above, are monitoring and incentives. Both of them are costly for the principal. Under these conditions, the main challenge for the principal is to find the optimal ratio between these two instruments in comparison with results obtained in information asymmetry diminishes.

For further research, stress should be put on the management of information at agent level. Principal will optimize supervision and information asymmetry diminishing when will be able to receive only vital and relevant data from the agent.

Conclusion

Contractual relations generate agency problems (adverse selection and moral hazard) which have the origin in information asymmetry between the parties. This information asymmetry causes negative repercussions on principal because agent will not be interested to maximize principal's welfare, but its own prosperity. In order to mitigate information asymmetry's effects, principal will support supplementary costs with monitoring agent or granting incentives. The big challenge for the principal is to find the optimal ratio between these categories of costs in comparison with the beneficial effects of controlling agent's activity.

In case of public sector there are some particularities regarding the relation between principals and agents. This excessively regulated field tends to accentuate information asymmetry due to the enormous volume of bureaucratic paperwork which requires costs to be assessed and used in monitoring activity.

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THEORETICAL CONSIDERATIONS REGARDING THE AUTOMATIC FISCAL STABILIZERS OPERATING MECHANISM

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This paper examines the role of Automatic Fiscal Stabilizers (AFS) for stabilizing the cyclical fluctuations of macroeconomic output as an alternative to discretionary fiscal policy, admitting its huge potential of being an anti crisis solution. The objectives of the study are the identification of the general features of the concept of automatic fiscal stabilizers and the logical assessment of them from economic perspectives. Based on the literature in the field, this paper points out the disadvantages of fiscal discretionary policy and argue the need of using Automatic Fiscal Stabilizers in order to provide a faster decision making process, shielded from political interference, and reduced uncertainty for households and business environment. The paper conclude about the need of using fiscal policy for smoothing the economic cycle, but in a way which includes among its features transparency, responsibility and clear operating mechanisms. Based on the research results the present paper assumes that pro-cyclicality reduces de effectiveness of the Automatic Fiscal Stabilizer and as a result concludes that it is very important to avoid the pro-cyclicality in fiscal rule design. Moreover, by committing in advance to specific fiscal policy action contingent on economic developments, uncertainty about the fiscal policy framework during a recession should be reduced. Being based on logical analysis and not focused on empirical, contextualized one, the paper presents some features of AFS operating mechanism and also identifies and systematizes the factors which provide its importance and national individuality. Reaching common understanding on the Automatic Fiscal Stabilizer concept as a institutional device for smoothing the gap of the economic cycles across different countries, particularly for the European Union Member States, will facilitate efforts to coordinate fiscal policy responses during a crisis, especially in the context of the fiscal harmonization. The main result of this study is the developing of the definition of Automatic Fiscal Stabilizer.

Key Words Automatic Fiscal Stabilizers, Discretionary Fiscal Policy, Non-discretionary Fiscal Policy, Economic Cycle, Economic Crisis

JEL Code H12, H30, O23

I. Introduction

The contemporary economic crisis demonstrated that fiscal policy can be used by the governments as a macroeconomic tool in keeping the public deficit and debt under the Stability and Growing Pact (SGP) thresholds. By using the rights incentives, fiscal policy can have longer-term effects. In the same time, the contemporary economic crisis demonstrated the fact that the mistakes in fiscal policy can have severe consequences both economic and social with high recovering costs. The effectiveness of using fiscal policy for balancing the Gross Domestic Product (GDP) gap depends on policy makers' ability to correctly time policy changes and on the impact that fiscal policy changes have on the economy. By the mean of SGP, governments are free to use both discretionary and non-discretionary fiscal policies. By introducing a third threshold with referring to the national output to be respected from all the member states, SGP will give more importance to the non-discretionary component of the national fiscal policy, becoming a real instrument for achieving the UE economic growth and long term sustainability and stability.

The Automatic Fiscal Stabilizers (AFS) reflect some revenue and expenditure items which adjust automatically to cyclical changes in the economy. These changes will have a direct impact on the

income of businesses and households. The effectiveness of the Automatic Fiscal Stabilizers depends on how responsive taxes and expenditures are to cyclical changes, i.e. the progressive tax system. The Automatic Fiscal Stabilizers balance the fiscal budget when the macroeconomic output gap (GDP) increases or decreases. The fiscal relaxation in crisis time is automatically followed by a fiscal tightening in boom time. This provides an appropriate fiscal response when the GDP gap is caused by demand shocks. How to estimate the size of Automatic Fiscal Stabilizers is an important issue. Reaching common understanding on the methodology for estimating the Automatic Fiscal Stabilizers across different countries, particularly for the European Union Member States, will facilitate efforts to coordinate fiscal policy responses during a crisis, especially in the context of the fiscal harmonization.

Reviewing the literature in the research field the conclusion is that the mistrust on discretionary fiscal policy generated by actual economic crisis has called into question the automatic fiscal stabilizers concept, increasing the researcher interest in this issue, admitting its huge potential of being an anti crisis solution. However the current design of national fiscal policies is almost entirely discretionary type. There are no serious attempts to introduce fiscal stabilizers to automatically react without any lag and any extra costs for stabilizing the cyclical fluctuations by making desirable adjustments for the real economy instead of discretionary public fiscal policy to smooth the economic cycle. Furthermore, there are no systematic preoccupations for making a connection between the fiscal harmonization trend and the level of non-discretionary of national fiscal policy of European Union States.

In this context, the objectives of the study are the identification of the general features of the concept of automatic fiscal stabilizers and the logical assessment of them from economic perspectives. In this purpose the paper intends to answer to the following questions: How works the Automatic Fiscal Stabilizers? Which is the component of the public budget through the AFS has its largest effect on macroeconomic output: the expenditures or the revenues? Which is the importance of automatic stabilizers on the demand and supply sides? Does the automatic nature provide a timely reversal of any fiscal expansion? The nature of the Automatic Fiscal Stabilizer can be entirely non-discretionary type or it also involves discretionary actions? Which are the factors with influence on the Automatic Fiscal Stabilizers mechanism?

The result of this study is the developing of the definition of automatic fiscal stabilizer.

II. Literature analysis

The Automatic Fiscal Stabilizers may be defined as those types of public income and expenditure which are directly linked with the economic cycle. (Martner 2000: 32) The Automatic Fiscal Stabilizers represents an institutional device which provides the non-discretionary character for the fiscal instruments which are operationalized through it (Dinga 2009: 1-69). Its finality is to reduce the volatility of the macroeconomic output. AFS represent a structural institutional device, with a negative feed-back, stimulating the economy in periods of recession and moderating in booms, thus exercising a regulatory function. Its effectiveness depends on its rate and base of action. (Dinga 2009: 22)

Although the Automatic Fiscal Stabilizers are a Keynesian idea (Blanchard 2000: 69), in the last ten years before actual economic crisis, it has been not much discussed by researchers. Some authors suggest that discretionary fiscal policy can be stabilizing but the effects are small (Perotti 2002: 3-63; Blanchard and Perotti 2002; Romer and Romer 1994: 13-80). Some authors consider that automatic fiscal stabilizers are more effective in damping cyclical volatility although the effects are also small (Auerbach 2002: 1-50; Van den Noord 2000: 137-150; Comley, Anthony and Ferguson 2002: 45-73). In an empirical study of the effects of the fiscal policy, analyzing the importance of the Automatic Fiscal Stabilizers, some researchers found strong effects of changes in fiscal policy on economic activity (Fatas and Mihov 2000: 1-37).

Between very few authors who considered the real importance of Automatic Fiscal Stabilizers, Martner demonstrated in 2000 that the Automatic Fiscal Stabilizers help to stimulate the economy in periods of recession and moderate it in booms, thus exercising a regulatory function, also showing that Governments have the option of allowing these automatic stabilizers to operate without intervention, or strengthening or restricting their effects through discretionary policies (Martner 2000: 32-54). According to the same author, (Martner 2000: 32-54) the automatic fiscal stabilizers are the main tool for obtaining a national balanced budget in “normal” economic conditions. Another author (Auerbach 2002: 1-50) demonstrates that the most obvious problem with looking at fluctuations in tax revenues, spending, or their difference is that each of these aggregates, especially tax revenues, is sensitive to the economic cycle and changes occur without any active policy decisions. The author concluded that these changes may serve as automatic stabilizers, “but they need to be left aside in attempting to measure active policy changes”. According to Auerbach, the automatic fiscal stabilizers offer an alternative to discretionary fiscal policy. Some researcher’s studies demonstrate that revenues are more responsive to variations in output than expenditures, suggesting that it is through tax policy settings that automatic stabilizers have their largest effects on output and pointing that automatic stabilizers play only a very small role in the accumulation of net public debt (Kennedy et al 2004: 1-50).

According to some researchers, the contemporary economic crisis has shown that monetary policy may not provide a sufficient response. In this case discretionary fiscal policy may be used, but it has at least two disadvantages: it suffers from implementation lags, including a political decision-making process influenced by multiple (possibly contradictory) considerations and is not automatically reversed when the economic cycle improves, giving rise to a potential deficit bias (Baunsgaard and Symansky 2009: 1-26). According to some researchers, automatic stabilizers do not suffer from these shortcomings, ensuring in contrast a prompt and self-correcting fiscal response (Baunsgaard and Symansky 2009: 1-26; Fedelino, Ivanovna and Horton 2009: 1-15; Kennedy et al 2004: 1-50; Brondolo 2009: 3-38; Follette and Lutz 2010: 1-40). The conclusions of such studies is that the countries should avoid introducing procyclicality as a result of fiscal rules, as these would offset the effect of existing automatic stabilizers (Baunsgaard and Symansky 2009: 1-26). In the same year, some paper works provides guidance on how to decompose overall fiscal balances into cyclical and cyclically adjusted components, and how to interpret automatic fiscal stabilizers, clarifying the methodology for decomposing changes in overall fiscal balances into discretionary and “automatic” effects (Fedelino, Ivanovna and Horton 2009: 1-15).

The scientific literature provides quantitative estimates of the effects of the automatic stabilizers on the government budget and on the economy in The United States, for 2008-2009. (Follette and Lutz 2010: 1-40). The Automatic Fiscal Stabilizers are most commonly estimated with the elasticity approach. (Fedelino, Ivanovna and Horton 2009: 1-15).

Regarding the Romanian literature in the research field, it is notable the contribution of Dinga Emil, 2009 in identifying the logical properties of a discretionary public policy and of a non-discretionary public policy, in clarifying the criteria for determining and identification of it. It is also notable his contribution in identifying the sufficient predicates (attributes) which ensure the quality of the automatic fiscal stabilizer. A particularly important aspect of which the Romanian researcher was concerned is the formal description of the generic action of the automatic fiscal stabilizer in different assumptions of the variation rate action, and of the variation of the base action of this special institutional device (Dinga 2009: 1-69).

III. Research methodology

Considering important to clarify some conceptual issues general valid related on automatic fiscal stabilizers, this study is based on logical analysis and not focused on empirical, contextualized one. The study of the automatic fiscal stabilizers actions was made in an abstract way, generally

valid. As a result, the methodology used in this study has an abstract character, based on evaluations of consistency, completeness and consistency of concepts, notions, classifications and interpretations. The use of formality in logical analysis of Automatic Fiscal Stabilizers, which may be thought of primarily as permitting the detailed mechanical checking of deductive arguments, is in fact much more significant in enabling the meaning of new concepts and notations to be located more precisely than they can be by informal means. The author considers this methodology being relevant in the AFS study because in all areas of knowledge, advances are dependent on the development of new terminology, concepts, or notations. These permit expression of those finer distinctions upon which the advance of knowledge so often depends.

IV. The results of the research

As argued above, discretionary fiscal policy is subject to potentially long inside lags, the delays between recognition of the need for fiscal stimulus or restraint and the design and implementation of the appropriate fiscal measures. Some of these inside lags occur administrative reasons, other inside lags occurs for political reasons. Administrative or political, long lags must be a strong argument against discretionary fiscal policy. The based on AFS non-discretionary fiscal policy can provide a faster decision making process, shielded from political interference, ensuring a timely fiscal response.

As the cyclical component of expenditure is smaller than that of revenue and the fluctuations in the cyclical component of the overall budget balance are largely explained by cyclical movements in revenue given the higher elasticity on revenues compared to expenditures (Martner 2000: 32-54), it means that revenues respond relatively more to variations in the macroeconomic output gap compared to expenditures. Among expenditures, only the transfers who are oriented toward income support like unemployment insurance benefits respond automatically to changes in economic activity. Result that it is through fiscal policy that Automatic Fiscal Stabilizers have their largest effect on macroeconomic output.

A tax system with rates rising with respect to income might, i.e. a progressive tax system, serve to stabilize output. Falling output, reducing marginal tax rates, could encourage business resulting greater labor supply which will raise public revenues in order to balance public budget. Raising output and marginal tax rates would have the opposite effect. Despite recent contributions to the literature, the strength of these effects is still not clear. The relative importance of automatic stabilizers on the demand and supply sides remains to be determined.

With large fiscal stabilizers, implementation is timely and gradual as tax react in a countercyclical manner for changing economic conditions. Political decisions are not required. The implementation lags are minimized. The fiscal relaxation in crisis time is automatically followed by a fiscal tightening in boom time. According to some researchers (Baunsgaard and Symansky 2009: 1-26), this may enhance the impact of a fiscal expansion on demand with respect to discretionary action, as the latter may raise solvency concerns and affect interest rates. This means that the automatic nature also provides a timely reversal of any fiscal expansion.

The Automatic Fiscal Stabilizer can be a byproduct of tax systems, which can have a different set of objectives relative to cyclical stabilization, depending of the policy maker ability which might reduce or delay the responsiveness of the economy to shocks. Even by its definition the Automatic Fiscal Stabilizer has a non-discretionary character, through the way it is designed, implemented and adapted on the needs of the economy, it reflects the policy maker ability, thus gaining a discretionary character. An increase in the Automatic Fiscal Stabilizers can be achieved through tax policy changes or by an appropriate design of fiscal rules which also involve discretionary actions.

The importance of Automatic Fiscal Stabilizers mechanisms depends on many factors. Based on the literature in the field, I have identified and systematized the following main factors:

- the size of government, which means the weight of the public sector in the economy,

- the structure of public revenue
- the structure of public expenditures,
- the nature of the tax system i.e. the progressiveness of the tax system,
- fiscal rules,
- the transfer system,
- the unemployment benefit schemes,
- the degree of openness of the economy, etc.

All these factors imply structural characteristics which widely vary from country to country, and also over time. The size of Automatic Fiscal Stabilizers reflects not only the elasticity on revenues and expenditures but also the sensitivity of tax bases to changes in macroeconomic output. It results that reducing the progressiveness of the tax system means to decrease the effectiveness of Automatic Fiscal Stabilizers in smoothing the output gap. That's why the degree of smoothing of the economic cycle through the automatic fiscal stabilizers differs widely from country to country.

Fiscal rules can be an important factor for the functioning of the Automatic Fiscal Stabilizers mechanisms. Some authors agree that simple rules on the fiscal balance will act against the Automatic Fiscal Stabilizers (Baunsgaard and Symansky 2009: 1-26). This means the effect of debt ceilings, for instance, depends on whether they are initially binding. If debt is smaller than the ceiling, there is no immediate constraint on the Automatic Fiscal Stabilizers. If debt is close to the ceiling, a weakening in the cyclical balance would require offsetting discretionary tightening, limiting the stabilizers. We can use the same reasoning regarding the effect of introducing the fiscal balance ceiling. The Maastricht Treaty established a ceiling of 3% of GDP for the public budget deficit. As a result, if the cyclical fiscal balance deteriorates, this balance rule (or any rule involving a ceiling of the balance in nominal terms or in percent of GDP) will require offsetting discretionary tightening. The rule ensures that fiscal policy is countercyclical by allowing the automatic fiscal stabilizers to act freely. Discretionary fiscal interventions are allowed, too. Government is free to increase taxes or/and reduce expenditure every time the macroeconomic output goes down. This type of discretionary intervention is not an efficient one mainly because it generates uncertainty of the private environment. This seems to me not a surprising assertion, given that by definition an Automatic Fiscal Stabilizer must have a negative feed-back, so, logical, it must work countercyclical. Logic going on, we can assume that pro-cyclicality reduces the effectiveness of the Automatic Fiscal Stabilizer. **As a result we can assume that it is very important to avoid the pro-cyclicality in fiscal rule design.** However, the problem in this case would be the design of such a system for being able to react in a desirable manner, without supplementary costs and without delay, for smoothing the economic cycle.

V. Conclusions

Based on the researcher's results regarding the AFS operating mechanism, the paper concludes that the revenues respond relatively more to variations in the macroeconomic output gap compared to the expenditures. Logically going on, the conclusion is that the Automatic Fiscal Stabilizers have their largest effect on macroeconomic output through fiscal policy. An efficient fiscal policy must give priority to sustainability over time, also being able to adapt the budget balance to the economy movements. This is the reason we stand for a flexible institutional device (for instance a progressive tax system) with a constant rate of taxation instead of an annual budget balance rule. Constant taxes rates over the economic cycle can minimize the costs arising from distort taxes.

The conclusion of such a study is that the fiscal policy can and must be used for smoothing the economic cycle, but in a way which includes among its features transparency, responsibility and clear operating mechanisms. As the pro-cyclicality reduces the effectiveness of the Automatic

Fiscal Stabilizer, it is very important to avoid the pro-cyclicality in fiscal rule design. In the author's opinion only non-discretionary fiscal policy through Automatic Fiscal Stabilizers can provide a faster decision making process, shielded from political interference, which ensures a timely fiscal response. Political decisions are not required. Moreover, by committing in advance to specific fiscal policy action contingent on economic developments, uncertainty about the fiscal policy framework during a recession should be reduced.

Although investing may depend to a certain extent on current after-tax cash flow, it also depends on expectations of future profitability and future fiscal policy. Instead, the progressive tax system would not deep the uncertainty of the private environment, providing the balancing of the budget, acting like an Automatic Fiscal Stabilizers, in a counter-cyclical manner. Temporary job creation tax credits when unemployment exceeds a certain level would act like an AFS too. Anyway, to avoid adding to the deficit bias, the automatic measures could be symmetric, countercyclical: An expansionary measure during a recession could be offset by a tightening during the cyclical boom, leaving the fiscal balance unchanged over the cycle. The advantages of such transparent mechanism must be weighted against the cost of too often tax policy changes.

The fiscal policy do needs rules for controlling possible excesses in the management of public expenditure and tax rates, because of the dangers of populism and fiscal irresponsibility that may involves a discretionary fiscal measure. The disadvantages we discussed in this paper generate the need for continued precaution in the use of discretionary policy, deep concern for implementation of Automatic Fiscal Stabilizers, the objective of making automatic stabilizers more effective and the integration of better measures of fiscal balance into the discretionary policy process.

In the future paper we intend to decompose the fiscal policy into discretionary and nondiscretionary components to understand how the budget moves with output cycles and to design the operating mechanism of such institutional device which is the AFS.

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THE COMPARATIVE ANALYSIS OF ROMANIAN AND HUNGARIAN STOCK MARKET INDICES AND EXCHANGE RATES

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Nowadays, when we are witnessing a serious macro-level changes, to deal with financial and economic indicators becomes more and more important in the economy, in particular to evaluate the changes of these indicators and especially their impact to the private sector. This paper aims to analyze in comparison for two countries, in what extent can explain the changes of the most important stock market indices with the fluctuations of those two countries national currency exchange rates in euro. To determinate the relationship between the macro indicators we've used traditional statistical methods, namely simple linear regression model and the Bayesian statistics. In case of both Romania and Hungary, the analyses show that there is a relationship between exchange rates and the changes of stock indices. If we compare the analysis results of the two countries, we can see that the relationship between the BET index and Lei/EUR exchange rate is much more stronger than between the BUX index and Ft/EUR exchange rate, in the latter case we can see a much weaker relationship.

Keywords: stock indices, exchange rate, financial crisis, macro-indicators, Bayesian statistics

JEL Codes: G01, G15, G18, G19

1. Introduction

Recently evolved world economic-financial crisis revealed many economic and financial problems in several European Union's member states which have led to serious economic crisis in some countries. Especially, there has brought to light serious economic problems in the southern European countries such as Greece, Italy, Spain and Portugal. Romania and Hungary, such as recently joined European Union's ex- socialist member states, has also faced economic and financial problems. The main similarity of these countries is the critical fiscal situation, and the infringements of Stability and Growth Pact rules. Forasmuch, the compliance of the public debt and/or public deficit rule is the current problem of mentioned EU member states, the budget adjustments plays an important role for the economic stability.

Considering the current macro-level changes, we find that it is important to analyze the evolution of these macro-indicators in comparison in mentioned two post-socialist countries. Therefore, we consider that to analyze the relationship between several macro-level indicators has a special importance.

2. Literature analyses

This paper aims to examine the relationship between two macro-indicators, namely the Romanian and Hungarian stock market indices and the national currency exchange rate in euro of these two countries. A number of foreign articles deal with the examination of relationship between two or more macroeconomic indicators. The macroeconomic indicators used most commonly in recent researches, are for example, interest rate, inflation rate, stock market indices, stock prices etc. Ahmad–Rrehman–Raof (2010) concluded that there is a relationship between the changes of exchange rates and stock market indices. Studying the Istanbul's stock index, a researcher show that the trends of stock market indices are strongly influenced by several factors, such as exchange rate, oil price, money supply. He also concluded that there is no effect between stock index changes and the price of gold as well as the consumer price index (Büyüksalvarci, 2010).

In the most research, the evolution of stock market indices is explained with various macroeconomic indicators. Dimitrova (2005) also tries to explain the relationships between stock market share prices, exchange rate and economic – fiscal and monetary - policies with using a multivariate model. The research results show that the changes of interest rate and exchange rate affect the stock market share prices. In their 2009's research, Sulaiman–Hussain–Jalil concerned to show by tools of AR and ARIMA models, the relationship between the evolution of stock prices and other macroeconomic indicators such as interest rate, exchange rate and price index. The researchers concluded that there is strong relationship between exchange rate and stock market share prices. In another study, the researchers have founded that except the exchange rate, which has a positive impact on the stock market index, the other indicators such as interest rate, money supply, consumer price index have a negative effect on the evolution of stock market index (Frimpong, 2006).

3. Research methodology

In this research, in the exploration of correlation between two indicators we want to take advantage of the possibilities of both the traditional and the *Bayesian statistics*, and their combination too. The combination of these methods allows that using parameters determined with basic statistics methods, to perform the simulation, in order to a better parameter estimation. This kind of model permits a deeper analysis than the conventional methods alone. Using Bayesian statistics, it is possible to take into account the earlier results, estimations and another advantage of this approach is that the certain assumptions could be incorporated into the model (prior probabilities). The *prior density function* includes the earlier information to a developed model's parameters, which may have a subjective or objective nature. The function based on the information resulting from the sample, we know as *likelihood function*. This function shows that in case of the concrete distribution and various parameters, how credible it is, that the sample results during sampling. The essence of Bayesian statistics is the linkage between the *prior* and *posterior density functions*. The posterior distribution function is proportional with the product of prior probability density function and likelihood function.

The Bayesian statistics is an important tool in modern macro-level analysis, because it insures a special approach for analysis based on macro-data, therefore it is not surprising that the Bayesian statistical models are commonly used in macroeconometrics. The Bayesian statistics may give an answer in explaining of economic time series fluctuations caused by the macroeconomic policies or other factor changes.

A number of foreign articles, through the usage the statistical methods distinguish two main categories of statistical analysis “Bayesian” and “not Bayesian” analysis (Poirier, 2006). Like as any methods, the Bayesian statistics method has also advantages and disadvantages compared to the basic statistical methods. Earlier researches assign many *advantages* for this statistical method, such as: (1) more useful and provide more natural conclusions; (2) it is able to utilize more available information, so that the results obtained are more reliable; (3) it is more suitable for complex problems analysis. The *disadvantages* of Bayesian statistics are the following: (1) involves subjectivity, which the basic statistical methods doesn't; (2) the model is much more complicated and in many cases requires software programs, which sometimes are difficult to access, or there are quite costly (Luce-O' Hagan, 2003).

At the question of how objective is the Bayesian statistics, Berger (2006) write that it would be misleading to talk about objectivity, because the some data analysis process entails subjective choices.

In present research, to determinate the relationships between macro- indicators, we will use simple linear regression model combined with the facilities offered by Bayesian statistics. During the regression analysis, we want to analyze the impact of changes of the two neighboring

countries Lei/EUR and Ft/ EUR exchange rates on their main stock market indices, namely BET (Bucharest Exchange Trading) and BUX (Budapest Stock Exchange).

To determinate the macroeconomic relationships of two countries, we have used the following data Lei/EUR and Ft/EUR exchange rate, like monthly data series, for 6 years, as well as the selected countries main stock market indices. The Romanian data referring to the exchange rate were collected from the databases of National Bank of Romania and Bucharest Stock Exchange. The Hungarian data were also collected from databases of the National Bank of Hungary and Budapest Stock Exchange.

The statistical analysis waa built on the R statistical software system, such as a solving program. In the R statistical system there are available all the packages (modules) which is necessary for this analysis. The R statistical system is open source software, that ensure many analyzing, modeling and visualization facilities and another advantage is that it could be connected with Excel spreadsheet, which facilitates the usage of different databases.

At the first step at the study we apply the linear regression calculation, known by the traditional statistics, which correspond with the original regression and the prior distribution. We assume that the error factor (ε) follows the normal distribution with 0 expected value and constant variance (σ^2).

After the traditional statistics computation, by tools of R statistics program we will simulate from prior distribution the regression coefficient β vector and the error variance (σ^2), so determines the values for σ^2 from its marginal posterior density $g(\sigma^2 | y)$ and β values from the conditional posterior density $g(\beta | \sigma^2, y)$. After this operation, the program generates a new σ , based on gamma distribution, then the σ^2 (posterior distribution) is the inverse of gamma distribution, with $((n-k)/2, S/2)$ parameters, where (1) n = number of observation, (2) k = number of explanatory variables, (3) $S = (y - X\hat{\beta})'$ (Albert, 2007).

The previous computation plays a central role in determination of β coefficient. After this, leaving the degree of freedom from the initial distribution, execute the simulation so that the β will be the average, by following a multivariate normal distribution. The posterior distribution of the regression vector β conditional on the error variance σ^2 , $g(\beta | y, \sigma^2)$, is multivariate normal with mean $\hat{\beta}$ and variance-covariance matrix $V_{\beta} \sigma^2 y - X\hat{\beta}$, where

$$\hat{\beta} = (X' X)^{-1} X' y \text{ and } V_{\beta} = (X' X)^{-1}.$$

4. Results of the research

By simple linear regression we analyze the relationship between Romanian stock market index, BET and Lei/EUR exchange rate, and the relationship between Hungarian stock market index, BUX and Ft/EUR exchange rate. The regression model for the tested model is:

$$BET = \beta_0 + \beta_1 * Lei/EUR, BUX = \beta_0 + \beta_1 * Ft/EUR,$$

where the question is that the changes of Lei/EUR, Ft/EUR exchange rate can explain the evolution of BET, BUX index. The calculated regression coefficient correspond essentially to the two countries stock market index β coefficient, which shows that the two countries currency in EUR exchange rate changes explain the changes of BET and BUX index.

In the R statistical software system, the regression computation was carried out using the $lm()$ module, and the results of these calculation are the following linear function:

$$BET_i = 20733,2 - 3878,3 * Lei/EUR_i, BUX_i = 49982,99 - 109,79 * Ft/EUR_i$$

For testing the reliability of coefficients of regression model, the software determines the T-test values and associated significance level, which values will be presented into table 1. and 2.

Table 1. shows that in the case of BET the significance level for each coefficient value is around 0, which means that both coefficients has different value from 0, and thus these coefficients can be used to examine the relationship between two variables. The table 2. for BUX index indicates the similar results with table 1., so in this case too, the parameters of regression function can be used to describe the relationship between two variable.

1. table: Estimation the parameters of BET (Romania) function

Statistical attributes	Estimation	Std. Error	T- value	Pr(> t)
Intercept	20733,2	1683,7	12,314	< 2e-16 ***
Regression coefficient	-3878,3	438,3	-8,849	8.4e-14 ***
Standar error of regression	1477			
R-squared (R²)	0.4709			
Correlation coefficient (R)	0.6862			

Source: Own computation

2. table: Estimation the parameters of BUX (Hungary) function

Statistical attributess	Estimation	Std. Error	T- value	Pr(> t)
Intercept	49982.99	6698.17	7.462	8.04e-11 ***
Regression coefficient	-109.79	25.29	4.341	4.02e 05 ***
Standar error of regression	3781			
R-squared (R²)	0.1869			
Correlation coefficient (R)	0.4323			

Source: Own computation

The table 1. and table 2. shows the function coefficients of determination (R²), which in the case of BET is 0.4709 and in the case of BUX is 0.1869. This means that in the BET case, the dependent variable variance could be explained by independent variable in proportion of 47,09%, while in the case of BUX, this is only 18,69%. With other words, this means that the BUX index evolution could be explained much less by the exchange rate changes. The mentioned tables also shows the correlation coefficient (R), for which in the BET case it is 0,6862 and in the BUX case 0,4323. Therefore in the BET case it means a medium-strong correlation, while in BUX case it we could talk about a moderate-weak correlation. The software performs the variance analysis too, for this regression, which is presented in the tables 3. and 4.

3. table: Variance-analysis / ANOVA table for BET (Romania)

	Degree of freedom Df	Sum of square Sum Sq	Mean of square Mean Sq	F-value	F-test Significance level
BET	1	170720473	170720473	78.305	8.397e-14 ***
Error	88	191856766	2180191		

Source: Own computation

4. table: Variance-analysis / ANOVA table for BUX (Hungary)

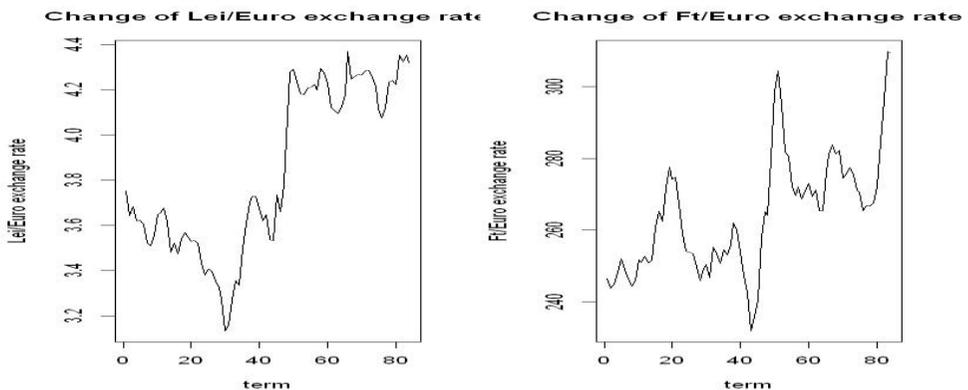
	Degree of freedom Df	Sum of square Sum Sq	Mean of square Mean Sq	F-value	F-test Significance level
BUX	1	269443851	269443851	18.848	4.016e-05 ***
Error	82	1172253096	14295769		

Source: Own computation

In the tables 4-5. the BET and BUX indioeces means the SSR, that is the regression deviation of Sum of Squares, namely the estimated BET and BUX (\hat{y}) and the Sum Squares of difference of BET and BUX average (\bar{y}), denoted by $SSR = \sum(y_i' - \bar{y})^2$. The Error is not other than SSE

(Sum Squares for Error), that is error factor, which could be calculated like difference of Sum Squares between original (y) value and estimated (y') value $SSE = \sum (y_i - \hat{y}_i)^2$. From the sum of SSR and SSE we obtained the SST (total sum of squares), so that $SST = \sum (y_i - \bar{y})^2$. Related with variance analysis, the F-test answer to the question if the model is acceptable in the sense that the independent variables explain satisfactorily the BET and the BUX index. The F-value is equal with: Mean Squares (BUX) / Sum Squares (Error). Because F-value's significance level in both of cases are closed to 0, we can conclude that the explanatory variable effect is significantly greater than the error effect, so the regression function will be useful in the description of this kind of connections, that also shows that we could reject the null hypothesis, so in both of cases, the dependent variable variance could be explained by the variance of independent variable, the '****' suggest that all that could be determined at a 0,001 significance level.

1.graph: Lei/EUR and Ft/EUR exchange rates changes between 2005-2011



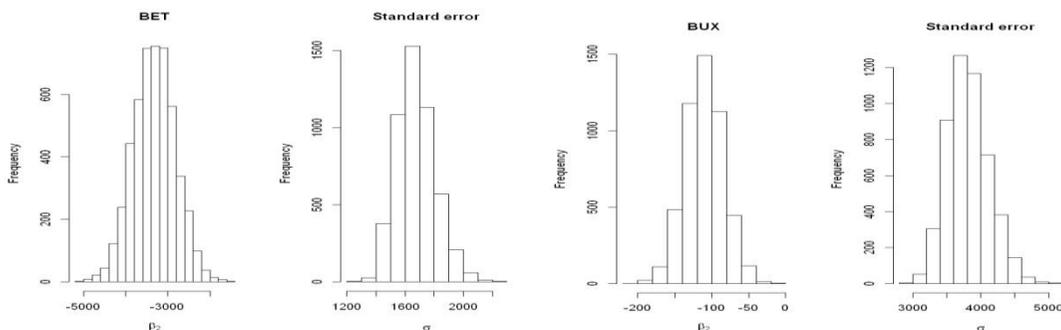
Source: Own computation

The graph 1. shows that in the analyzed period, between 2005 and 2011, both the Lei/EUR and Ft/EUR exchange rate records a serious fluctuations, but despite the fact that we analyze two neighboring country, exactly their national currency compared to the European currency, the graph shows a very different trends. In the first section of graph we can see a completely opposite trends for these two countries exchange rate, while in the left side, the graph shows a gradually appreciation of Romanian national currency compared to euro, in the right side of graph we can see a depreciation of Hungarian national currency compared to euro, followed by a same degree of appreciation. In the next period the national currency of Hungary depreciates again, but this time to a lesser extent, then in the pre-crisis period appreciated and after that, at the influence of financial crisis, we assist to an Ft/EUR devaluation, touching the bottom. Despite the fact that in time of financial crisis, the trend of both two countries exchange rate was similar, it is clear that the two rates do not move together, so the fluctuation of Ft/EUR is larger, shows a quite rapid changes from one period to another and Ft/EUR depreciation amplitude is also different. In the post crisis period, the Ft/EUR exchange rate registers a suddenly appreciation and in the next period depreciated again. In post crisis period, the Lei/EUR exchange rate fluctuates gradually into limits of a certain band.

For the following analysis we've used Bayesian statistics. The calculations were performed by tools of R statistical system, using LearnBayes module. Using the traditional regression results (prior) we perform new computations (posterior), which is formally similar to the normal sampling model. After the calculation of regression model, the program generate new data (by using the original data), through 5000 runing. The program execut the 5000 running with retaining of original value of σ . The histograms of regression coefficient (β) and standard

deviation (σ) obtained after calculation, based on Bayes statistics posterior distribution, are shown in the next illustration.

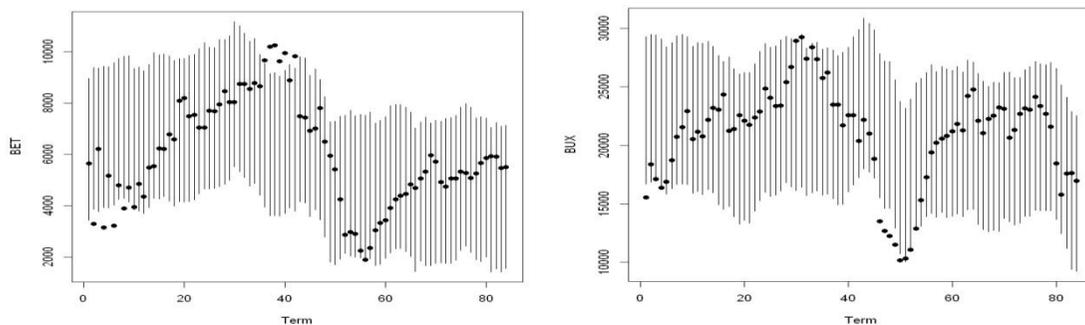
2. graph: The distribution of BET and BUX index coefficients and standard error



Source: Own computation

After 5000 running, the results shows that the major part of BET index coefficients are situated between -4000 and -3000, while the values of standard error are situated between 1600 and 2000. In the case of BUX index, the major part of regression coefficients are situated in -150 and -100 interval and the standard error larger part are into 3900-4500 interval. We can also see from this illustration, that the values related to BET index are much more closer to normal distribution which also implies that in the BUX index case also the values of the standard error shows an more uniform distribution. In the case of BET index the values of standard error are more concentrated around average value.

3 graph: The estimated interval for BET and BUX index using Bayesian statistics



Source: Own computation

The graph 3. shows the interval regression calculations performed by the Bayesian methods. The resulted “ host range” illustrate with a 95% probability which is the band where the original values falls. We can see from the illustration that with few exceptions, the larger part of analyzed data (points) are within this interval, in the lower, middle or upper limits of this. The resulted “interval-function” could be well used to perform predictions.

In conclusion, it is clearly visible that the values of BUX index moves into a wider range than the BET index, which indicates greater uncertainty. This means that in the case of BUX index the predictions referring to the stock market index may be uncertain.

5. Conclusions

The research results clearly shows that there is a connection between the changes of Lei/EUR and Ft/EUR exchange rate and the BET and BUX stock market index. But if we compare the results of these two countries, we can see that there is a stronger relationship between BET index and Lei/EUR exchange rate, than in the case of Hungary, where the relationship between BUX index and Ft/EUR exchange rate reveals a much weaker connection. The comparison of these two countries national currency compared to the euro exchange rates denote in the analyzed period that in the first half of period, these two exchange rates have a completely opposite running, while in the second half of the period we assist to these two countries national currency devaluation, which was heavily influenced by the global financial crisis.

For the effectiveness of predictions we've exploit the opportunities of Bayesian statistics, with which we determine the interval associated with regression line. The usefulness of Bayesian statistics applied at the regression calculation, derived from the fact that it gives a different approach of statistical analysis. As we have emphasized, a greater advantage of Bayesian statistics compared with the basic statistics, is that in the case of basic statistics we can say with 95% probability that the values falls in the certain band, while according to the Bayesian statistics approach we can say that the 95% of values will be into this certain interval.

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THE ADEQUACY OF ROMANIAN FISCAL POLICY TO CURRENT CONDITIONS

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This paper aims to make a review of the Romanian fiscal policy appropriateness to the new conditions imposed by socio-economic catching separating us from the developed countries of the European Union. In the last three decades we are witnessing due to changes in national economies trade liberalization in the context of globalization. The analysis deals with issues of budget deficits, which are the main cause of sovereign debt crisis in Europe and solutions to rebalance the budget. The Keynesian and the multiplier mechanism solution is considered in economy, proposed by using public savings spending. The automatic stabilizers and their degree of efficiency in emerging economies solution is also considered. Finally, we show an analysis of tax rate systems used in three of the most developed EU countries compared with the tax rate used in Romania. Although facing large state budget deficits, Romania, in years of economic crisis, has made spending mitigation measures, which led to the contraction of consumption, the measures having a pro-cyclical nature. The analysis is considering a restructuring of the tax system in order to rearrange the tax burden as a means of mitigating the economic crisis.

Keywords: globalization, fiscal policy, budget deficits, tax rates

Cod JEL: E62

I. Introduction

The last decade has seen many changes in tax policy that deserve consideration when trying to do an analysis of the current situation and to trace some lines of development for the future. Changes due to globalization, a process in which all countries are involved, voluntarily or not, affect Romania because of the late start its felt in this race. Romania joined the EU on January 1, 2007, the event marking a new beginning for practical economic life but its membership was deeply marked by the largely obsolete industrial base and the new economic model that has proven to be inadequate for the country's needs.

The road for the EU membership mostly began in 2000 when Romania managed to get out of the recession after it had entered the market economy. Domestic consumption and investment have fueled strong growth in GDP by the cost of a current account imbalance. Earnings growth has stimulated the creation of a middle class and contributed significantly to combating poverty but also in rising inflation, especially between 2007-2008, driven by strong growth in consumption and wages, accompanied by a corresponding increase in labor productivity. Increased energy costs and bureaucracy and corruption have continued to exist in the Romanian business environment. On the other hand, a relaxation of fiscal discipline, superimposed on the global financial crisis has reduced GDP by about 7% in 2009, prompting a contracting emergency financial assistance package of 20 billion euro to IMF and European Union together with the obligation to take drastic austerity measures, which led to another Romanian GDP contraction of 1.6% in 2010. 2011 brought an increase in the Romanian economy, GDP is nearly 2.5% higher than the previous year due to rising exports and agricultural production increased by 11.3%, but in a deflationary environment due to a request internal weak. This led to signing a stand-by detention on 2 years, from Romania, IMF (about 3.5 billion), EU (1.4 billion) and World Bank (1.15 billion euro) to ensure that the objectives of fiscal policy, structural reforms and financial sector stability. This is a short course on the way of the Romanian economy integration into the European family.

This paper aims to analyze the adequacy of current fiscal policy decisions taken in Romania in recent years, manifested by developments at European level, while targeting a broader context, that of globalization. Starting such a study is important as the financial crisis turned into an economic one, it changed the old paradigm that governed fiscal policy. We are witnessing the last three decades due to changes in national economies trade liberalization in the context of increasing globalization of markets. But free trade is not always fair, and therefore we must study fiscal mechanisms leading to the international economic system in which the development and modernization of poor countries becomes a constant.

II. Theoretical approaches on fiscal policy adjustment mechanisms

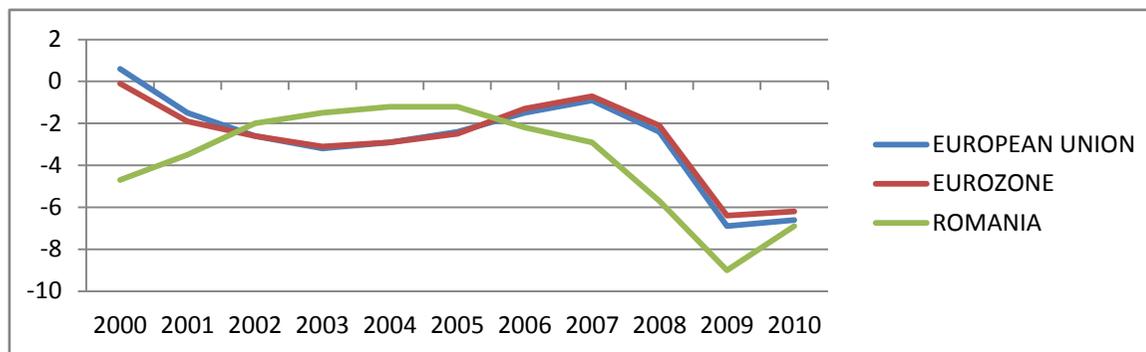
Fiscal policy is an important part of the financial policy, but its definition meets different views. Very common is the fiscal policy approach through the collection of public funds as taxes. George Manolescu argues that “fiscal policy is determined by the amount and source of feeding resources of public funds, the sampling methods to be used, objectives and means of achieving them.” (Manolescu 1997, 265) Such a definition draws many critics of those who share the common view in the Anglo-Saxon literature, like the assessment made by Mihaela Onofrei, who believes that “the main deficiency is that the content of fiscal policy is not in any reference to public expenditure and collects a certain amount of financial resources available to public authorities, without determination of public expenditure financed form, an option may be unrealistic and doomed to failure.” (Onofrei 2000, 22) The close connection between taxes and government spending is also emphasized by Paul Samuelson and William Nordhaus defining fiscal policy as “a process consisting in handling taxes and public spending”, adding that taxes and government spending have three major effects: affect the general distribution national product between public consumption and investment, production and price are influenced in various fields achieved through direct expenditure and indirect incentives is influenced fluctuation aggregate production, prices and unemployment. (Samuelson and Nordhaus 1995, 364) Based on these ideas, we make an approach that considers the related influences of the two instruments to influence the economy is more appropriate today the tax authorities is oriented mainly to reduce costs than to change the tax system.

In another point of view, political leaders from 25 European Union member states in Brussels signed a treaty of fiscal governance. This treaty is a new effort by the authorities responsible for the implementation of macroeconomic adjustment policies for sovereign debt crisis, which affects mainly the Eurozone. This Agreement shall continue in practice the spirit of the Stability and Growth Pact, adopted at the initiative of Germany, who consider control of public spending in countries that use the euro. Early stages of existence European Union, the idea that tax harmonization is essential for the stability of monetary union was often circulated. Fiscal policy because it directly affects the allocation of resources between the public and private sector consumption and saving behavior and, indirectly, affect the evolution of business cycles.

The need for harmonization is especially within the euro area as macroeconomic stabilization policy rests entirely with national tax by reason of national monetary policy together with the use of the euro. The role of fiscal policy has grown exponentially along with giving up the instrument to adjust the exchange rate economies asymmetric shocks. A first set of rules has been introduced with the Stability and Growth Pact requires to support fiscal discipline. Inflexible rules, omission structure and causes deficits and focus only on the nominal setting limits has led to the imposition of a set of fiscal rules that are based on the working of automatic stabilizers.

A discretionary fiscal policy is not automatically reversed when crises occur, but applying the automatic fiscal stabilizers can in fact stabilize fiscal policy. Improving the effectiveness of automatic stabilizers and a structural deficit which tends to zero are the conditions for obtaining macroeconomic balances in the Eurozone. (Buti, et al. 2003) In this sense, is often recommended as a suitable target for fiscal policy to maintain a constant structural budget balance to a level

close to zero. This valence is particularly relevant as the EU Treaty in the context of the existence of fiscal governance which requires states to not exceed a deficit of 0.5% of GDP. Automatic fiscal stabilizers can be negatively influenced by the constraints on fiscal space and debt sustainability and these constraints are typically found in emerging economies with large public debt or limited access to external financing. This leads to caution in the use of automatic stabilizers in countries subject to shocks that may arise from the aggregate supply, as automatic stabilizers can have effects on other objectives of fiscal policy. (Baunsgaard and Symansky 2009) The analyses made on Romania show an improvement in size automatic fiscal stabilizers in the current period from 2000-2007, around 0.40 but their level is lower than the level considered for the Eurozone countries. (Socol and Socol 2012) This has resulted in considerable variation in the budget deficit in Romania to the EU average and the average Euro area (fig. no. 1).



Source: Eurostat, <http://epp.eurostat.ec.europa.eu>

Fig. no. 1 Evolution of budget deficit (% of GDP)

A simple solution to the current crisis was the Keynesian inspiration, which referred to increasing public spending and reduced tax burden. But under present conditions, this approach to taxation not generate the same positive effects as increased consumption, reduced unemployment, increase of incomes, because they are subject to reaction to fiscal stimuli private economic agents. Tax reduction does not generate, in present conditions, a significant increase in consumption in the economy for the propagation of the multiplier effect, if present sense of insecurity, lack of confidence or access to credit is difficult to place. In Keynesian economics, public expenditures have a greater impact on GDP compared to the impact of taxes, since the latter does not generate a direct influence on production, but the income available only to a lesser extent on the level of private consumption. Therefore the effectiveness of fiscal policy depends not only on the size of the fiscal package, but its structure, the way a choice between reducing taxes or increasing public spending. However, the effectiveness of fiscal policy in stimulating economic recovery is affected by adoption. Decisions must be taken immediately after the fall of the economy, to be significant as a share of GDP, does not adversely affect public finances and to be focused on supporting consumption. (Marinaş 2010)

But classical theory has imposed for years the balance between revenue and expenditure. Tackling the budget balance works closely with the budget side and the role of fiscal policy is the acceptance of budgetary imbalances for the occurrence and persistence of budget deficits, due to expansion of public spending and high tax pressure, should found ways to finance it. Loans can carry a stimulating role if used for productive purposes, thereby increasing GDP while ensuring the necessary resources for repayment. But if it is used for productive, they may only have deferred taxes (Barro-Ricardo conception), having only serve to delay the time to be passed on to taxpayers. (Barro 1974) In contrast to Barro's argument, Blinder has shown that short-term tax cuts tend to generate increased current consumption, not reduce it because consumers prefer

current consumption at the expense of future consumption. (Blinder 2004) Linnemann also showed that the negative effect of increasing taxes to repay loans on assets increases the number of hours worked and reduced preference for leisure, such consumption, hours worked and production will increase. (Linnemann and Schabert 2005)

Another important aspect in assessing the impact of fiscal policy is the pressure of globalization, which is present in the idea that national decision space is very low because global markets would punish governments. Daniel Dăianu questions the nature of global financial markets, which are products people's decisions to establish rules for finance, trade and investment and claim that you can not do anything about financial flows when crises cause a deemed inconclusive and put in support packages discussed in the financial industry in the European Union, concerning essentially the Eurozone countries. (Dăianu 2009, 87-88) New member states are often ignored when discussing these issues because it invokes the argument of the financial rescue of major banks and supports the emerging European Union. But bear in mind that these economies do not have their own reserve currency advantage, presents significant current account deficits are affected in times of crisis by redirecting capital to safer investments. As such emerging European Union, such as Romania could become a victim of this crisis safely.

III. Fiscal policy in Romania vs. fiscal policy in some EU countries

On November 7, 2011, the joint mission of the IMF and the European Union said that the Romanian economic program to strengthen economic growth, maintain financial stability and macroeconomic stability should continue. In 2009-2011, the surge in risk aversion during the financial crisis has caused many internal and external imbalances, leading to budget deficits over 7% of GDP and current account deficits of over 11% of GDP. As a result, capital inflows have declined considerably, and the exchange rate of MDL against EUR depreciated by more than 30% between August 2007 and January 2009. Therefore, the Romanian authorities have resorted, in spring 2009, a loan from the European Union, IMF and other international financial institutions. In May 2009 an agreement to provide financial assistance to Romania, with a total of 20 billion euro. In February 2011, following the joint visit of European Union and the IMF in Bucharest, was applied for a new financial assistance program of prevention, to help boost growth, with emphasis on structural reforms, while improving the sustainability of fiscal policy and strengthening financial stability. In exchange for these agreements, the Romanian state has increased the standard rate of VAT from 19% to 24% and resorted to drastic reductions in spending to meet budget deficit threshold. We believe that decreasing the high is fundamentally correct. But how this is done is extremely important. The question is whether the deficit should be reduced by restricting the price of private sector activity. Pro-cyclical character of fiscal policy decisions should be avoided both in times of economic expansion and recession periods. Support this idea because government deficits are the main cause of the current crisis and the drastic reduction of expenditures will be helpful in this regard. Instead a rethinking of the mechanisms of taxation believe that can give better results.

Starting January 1, 2005, 16% replaced the progressive tax on income between 18% and 40%. This rate replaced and tax of 25%, setting a single tax rate for both labor income and profit. The drawback of this system was that “the sea of social division and increasing social polarization between rich and poor.” (Buziernescu 2006) Its advantage was in excess of cash left in the Romanian economy, both in population and the company, apparently at the expense of state budget. Following this advantage was increased consumption, which occurred immediately, and the influence that rate was not sufficient to make a major contribution on fostering labor it must be accompanied by reduction of social contributions in our country are among the most highest in Europe.

An analysis of three of the most developed EU countries can allow us to properly assess our position in relation to the tax systems of other Member States, in view of the general

harmonization of tax systems, a process initiated by the joint project for calculating consolidated tax tax at EU level. We will look broadly, two categories of taxes, direct and indirect, in France, Germany and Britain, to see differences of view between the fiscal policies of these countries. This analysis should consider because it is often confusion between the tax burden, defined as the share of public revenues in GDP and the fiscal burden represented by the degree of affordability of taxes. Another relevant aspect in this analysis is that, as I said, fiscal policy should consider the interrelationship between taxes and public spending and tax burden does not consider only a little influence spending through their influence on denominator of the fraction. On the other hand the tax burden is greatly mitigated by a system of deductions for income and expenditure taking into account the nature of social or support from the state firms addressed. Tax burden in Romania can be considered small if one takes into account the EU average of 44% of GDP, Romania with a tax burden of only 34% lower than that of Bulgaria, according to Eurostat in 2010 recorded 34.9% of GDP. The highest tax burden in the European Union is registered in Norway, 57.1% of GDP. Of the countries analyzed, only France is above the European average, with a tax burden of 49.5% of GDP, Germany registered 43.6% and 40.3% of UK GDP.

As regards indirect taxation, while VAT is harmonized system are still large differences regarding tax rates. In France, the standard rate is 19.6%, in Germany the standard rate is 19% and in the UK is 20% lower compared to the rate practiced in Romania. However, reduced rates apply to commodity tax which reduces affordability. In France quota of 5.5% for the sale of food (including beverages but excluding alcoholic beverages) for supply of water, pharmaceutical products of a kind used for health care, medical equipment, passenger transport, delivery books on all physical, newspapers and periodicals, construction and refurbishment, as part of the social, restaurant and catering services, supplying gas and electricity. Another share of 2.1% applies to certain pharmaceutical products. These rates apply not uniform across France, with areas such as Corsica, where applicable rate of 8% and 13% for certain categories of economic activity. In Germany we apply a reduced rate of 7% for the sale of food (including beverages but excluding alcoholic beverages), medical equipment, passenger transport, delivery of books, newspapers and periodicals, accommodation in hotels and similar establishments.

The most obvious differentiation in terms of endurance tax on income taxes is observed in the countries analyzed because the focus is on tax fairness and equality rather than tax, such as Romania. In France, individuals pay income tax in installments progressive rates ranging between 0:41%. The charges also additional 3% tax for income between EUR 250,000 and EUR 500,000 and 4% for incomes over € 500,000. In Germany, tax is progressive personal income tax cuts, rates ranging from 0% to 45%. Single persons who have an income greater than 250,731 per year or couples with income exceeding 501,462 per year, paying income tax of 45%, prior 5.5% solidarity tax and church tax to 8% - 9%, according to tax class that is. UK income tax is calculated on all the installments of income, the shares being 10%, 20%, 40% and 50%. Additional tax rate of 50% was introduced in April 2010 for income over £ 150,000 and its purpose was to generate a surplus of 1.3 billion pounds of income tax in fiscal year 2011. Also there are some exceptions to the rule regarding British untaxed income and dividend income. The first tax rate of 10% refers only to income from savings of up to 2440 pounds salary income not exceeding this limit are not taxed. The dividend income below £ 37,400 is taxed separately from other income at a rate of 10% and those between £ 37,400 and £ 150,000 are taxed at a rate of 32.5%. Dividend income over £ 150,000 is taxed at 42.5%. In Romania, most income is taxed at 16%.

If we relate the cut came from the three countries at the average exchange rate for 2011, which was 4.2379 lei to the euro and pound sterling 4.8845 (<http://cursvalutar.dailybusiness.ro>), get 11 installments of income equivalent lei (Table no. 1.). A simple analysis of these tax cuts we can point out the position the employee in Romania in relation to employees in the countries under consideration. With reference to our annual average gross income in Romania, according to the

National Institute of Statistics (Statistics), for 2011 was 24,383 lei/employee, minus the individual contribution of 10.5% for social security, health individual contribution of 5, 5% and individual contribution of 0.5% unemployment, achieve average annual taxable income of 20,359 lei, corresponding tranche no. two. This portion corresponds to a tax rate in Romania to 16% applicable to the entire taxable income in the United Kingdom of progressive rates of 10%, applicable to the first installment of income and 20%, applicable income gap between upper income and first installment.

Table no. 1. Comparison between tranches of income and tax rates

No. installment	Taxable income (lei)		Tax rate			
	Minimum level	Maximum level	France	Germany	Great Britain	Romania
1	0	11.918	0	0	10%	16%
2	11.919	25.266			5,5%	
3	25.267	33.920				
4	33.921	50.410				
5	50.411	111.961	14%	30%	40%	
6	111.962	182.680				
7	182.681	224.104	41%	42%	50%	
8	224.105	300.166				
9	300.105	732.675	41%	45%	50%	
10	732.676	1.062.569				
11	1.062.569	***				

Source: authors' calculations based on data provided by the European Commission, Law no. 571/2003 on Fiscal Code of Romania and <http://www.worldwide-tax.com/>

Regarding the second largest category of direct taxes, income taxes, the situation is similar, the differences between our country and those taken in the analysis are remarkable. The standard rate of corporation tax in France is 33.33%, but there is specific rates of 15% applicable to small companies have a profit of up to 38,120 euro. Instead apply a surcharge of 3.3% for large companies, where profits more than 763,000 euro. To stimulate investment there an exemption for gains from the sale of shares held at least two years and dividends are taxed at 1.7%, only if the participation exceeds 5%. The standard rate of corporation tax in Germany is 15% but there is a reduced rate for some of the companies revenues. Also apply a surcharge, of solidarity, of 5.5%, designed to cover the costs of unification of both parts of the country. In Britain, the tax rate is 26%, it will fall to 23% in 2014 to stimulate investment, leading Britain to the lowest in the G7. For small companies tax rate is lower than 20%.

IV. Conclusions

This paper aims to take stock of the appropriateness of fiscal policy in response to the distortions that occurred in the European economies once the economic crisis. Fiscal policy, referring to taxes and public spending aimed at, together with monetary policy, ensuring rapid economic growth amid a highly labor employment and price stability. Debt crisis brought about a crisis of budget deficits. The state budget deficit is actually a tool to reach government economic policy. But this theory must be applied with caution. We believe that the role of the budget deficit is merely to revive a stagnant economy. After starting economic production is gradually reduced, public spending and tax incentives to encourage suppressed work. Also consider dangerous deficit systematic method. Deficit should be limited to short periods and under strict state control. And there have to grasp a problem: the state does not appreciate exactly how large public

investments should be set to balance the national economy. The recent experience of sovereign debt crisis shows that the use of public loans for deficits systematic does nothing to hasten the emergence of national bankruptcy. And the option to raise taxes to repay loans reduces the purchasing power of population and reduces solvent demand in the economy. Therefore we argue that a budget deficit, although beneficial for national economic recovery, balancing the level of economic cycle.

Another way to restore balance state budget and general economic equilibrium is also more closely reflect the revenues. They depend on several factors such as tax base and tax amount of taxable matters, applicable rates and no less important level of tax evasion. Although facing large deficits, the state budget and current account, Romania has made in years of economic crisis measures to limit the scope of the budget by spending reductions and shrinking consumption. We consider these measures as being pro-cyclical in nature and that led to financial resources towards the loan, increasing further debt.

Although Romania has a low tax burden compared to other EU countries, it is incorrectly assigned, fiscal policy decisions moving towards equality and not to tax fairness. It should be noted that Romania has a GDP/capita at half the European average and can not allow very large tax cuts but we think that giving up general rate of 16% and introducing a system that takes into account a progressive income tax large, coupled with increased personal deductions or setting a minimum income tax, combined with administrative actions to reduce fraud in obtaining assistance from the state, can rebalance the state budget. From our analysis we conclude that developed countries from European Union have a VAT regime less oppressive than Romania, taxing less the food and commodities and also requiring the odds higher profits without discouraging any investment. Another important aspect is the contributions to public social security funds. We find that direct taxation discourages investment income or profit, but especially the aggregate cost of labor, determined by contributions paid by employers.

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ABOUT TAX NEUTRALITY AND NON-DISCRIMINATION

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Summary;

Taxpayers are required to pay taxes to the state budget by virtue of their position subject to the state, the latter in its capacity as sovereign person of public law.

This quality gives them the right to impose against taxpayers by administrative means known, or sometimes with justice, respecting a certain extent the principles and traditions specific to tax. Principles of neutrality and non-discrimination are relevant in terms of describing the relations between public authorities and taxpayers.

Although taxpayers are divided into official and legal persons, in fact individuals are those who support the ultimate tax burden.

Neutral may be imposed? This is a question as simple as it is delicate.

The first impulse response would be simple enough given that we have available sufficient interpretations in the literature.

Reiterating its imposing peaks, of Adam Smith put it more fiscal the neutrality principle, along with other rules or principles grouped asazisele tax equity principles, or group of economic and social policy principles, among other principles, such as imposing non-discrimination, the legitimacy of imposing and sometimes appear even lack some confusion with the principle of arbitrariness in matters of taxation.

The answer is sometimes explanatory actually deviating from the content problem, and in this case we know from the literature explanations specialties, namely neutrality is manifested by a lack of offensive tax, namely that taxes should be stowed the criteria is not to reach taxpayers, on whose account you choose to invest in the real economy or advantage by placing their resources or financial banking market. Taxes should not be established and criteria to which the taxpayer due to refrain from consuming or saving.

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In order to allow such a response, I think it is necessary to emphasize the beginning the place and role in the relationship between the state and tax payers, which is essentially this..We must have to remember that in fact the tax is interposed between the sovereign state as person of public law and its subjects.

Regardless of the evolution of modern societies and the model of social order, report tax returns us to reality, namely that the subject state, as a taxpayer is obliged and forced to pay tax on time and under set.

There fore, the conditions imposed by the sovereign subjects, there would be room for interpretation ideological, and more for law enforcements not fit interpretations than in relation to the law.

In these conditions, otherwise equivocal imposed by tax law and other restrictions jurisdictional neutrality of taxation would be promoted by a low tax burden that its payment will not affect the taxpayer as little judgment. How such a situation today is excluded, the problem size remains to put the tax burden, a problem that affects the taxpayer discriminatory and thus to treat this problem in common with the dissertation on the principle of discrimination or imposing non-discrimination in the following.

The idea issued, that the size of the tax burden largely determine the neutrality of the tax law disarms the obvious today when the tax burden is quite high and unfortunately quite differently on different categories of taxpayers.

So we know the size of the tax burden is determined in terms of relative and absolute except in having available in the literature and practice fiscal indicator called taxation rate, or level of taxation. This indicator is calculated and statistical highlights macroeconomic regulation, and sometimes even narrower in the central state budget. Perhaps for reasons of image, the need to pimp so-called macro indicators.

Specifically,, rate is calculated rgula taxation, reporting of State income tax (VF) to gross domestic product (GDP).

GRF-level of taxation

$$\text{GRF} = \frac{\text{V.F.}}{\text{P.I.B.}}$$

From this point it is necessary to raise the old problem of economic calculation veracity. One can question the intent and even failure lies in omisiune.Probleme on how serious the general public so insignificant in reality and taxpayer, and will you and aware of the tax burden on that support. Criticize of this synthetic indicator asazis starts without taking into account any ideological springs as it promotes the content of the denominator, namely the dull gross product. GDP includes income tax along the central budget and local budgets ones, and those special funds. And also includes contributions and social contributions, para obligations as they call in some experts in taxation.

In this context the social budget management believe it is necessary to critically view as long as these funds are managed independently d state budget, more are put together with the central state budget in what we call "the state budget"

Level of taxation can be calculated and the taxpayer, legal person or individual. If we consider the number of fiscal and social obligations of legal entities, and their volume of business it is to relate the figure, we can determine the organizational entity level tax, the taxpayer, as a legal entity. Fiscal and social obligations of legal entities are easily defined, they are included in costs and eventually the entity's financial results.

If we extend this calculation and the individual level, the ratio between the taxpayer's tax liability, the individual and his income (V), obtinen the tax burden per person, per capita, a term used since the Roman Empire.

Numerator of this ratio is quite difficult to calculate, given that we consider and consumption taxes (ic) borne by taxpayers-individuals from their earnings nete.Tot of these gains are incurred and local taxes (ITL).

Grfi-level of taxation per individual

$$\text{Grfi} = \frac{\text{BC} + \text{i.t.l.}}{\text{V}}$$

Some authorities include advertising on consumption in calculating the level of taxation on the grounds that they were taken when determining the tax on the macro level, in their capacity as state tax revenue. Actually more than true, only that the state "we", and the tax burden is borne by individuals, taxpayers sometimes excessive pressure on the load weight back.

Eloquent and illustrative calculation seems to be the one obtained by the job, ie to calculate the fiscal job.

In this case we must take into account the tax obligations of employers and those of the employee, who then report them to the total cost of maintaining a job.

Namely, the counter has accumulated the following obligations: payroll taxes owed by the employee (is), social security contributions payable by the employee (cas-s), social health insurance contribution payable by the employee (cass-s) contribution to unemployment fund due to the employee (CFS-S), and possibly contributions to occupational pensions (CPO), if applicable, social security contribution payable by the employer (the house), social health insurance contribution payable by the employer (cass -a), the contribution to unemployment fund due to the employer (the CFS), contributions to special funds (CFS) on a case by case. The denominator aggregate wage bill (CS) and cheltuieile with social contributions and other similar fees related to the maintenance wage job in question (Cas.S).

The fiscal Grfm-degree work

$$\text{Grfm} = \frac{(\text{cas-a} + \text{cass-a} + \text{cfs-a} + \text{cfs}) + (\text{i.s.} + \text{cas-s} + \text{cass-s} + \text{cfs-s} + \text{cpo})}{\text{CS} + \text{Cas.S}}$$

Exemplifying, with the figures, the size of the wage differential in the conclusion that the fiscal degree of labor is much higher than the fiscal level of capital, given the legal personal income tax and tax on dividends.

Top of Form

This differentiation is discriminatory and an idea to use it in the following taxation on non-discrimination principle.

Differences of treatment option is the criterion for the taxpayer and thus imposing neutrality is canceled by size and by differentiating the tax burden. Signal this phenomenon is the phenomenon of mass migration from taxable capital taxation to labor taxation.

You could say so no discrimination in terms VDE generates tax neutrality. The fiscal differentiated labor from the capital,

differentiated treatment of personal income from the corporate, personal income treated differently depending on its source, differential treatment of income from the sale of real estate, compared to those from the sale of securities.

These differences can be filled with exceptions reclaiming fiscal constraints as su form of tax advantages. Namely, non-recognition of costs incurred by different tax law for legal persons from freelancers, and even not recognize the deductibility of expenses are as many exceptions generators d discrimination.

Discrimination can also be positive in fiscal matters, as are granted tax avantje to tax exemption for those who reinvested some of the results, up to this level, compared to other economic agents who use other investment strategies. Common is the situation seems hopeless when businesses that are forced realzeaza financial results, and those with no negative financial results.

Discriminatory tax treatment, and that without neutrality promotes social inequities and different tax burden for taxpayers, in their capacity as sovereign subject.

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THE IMPLICATIONS OF TAX MORALE ON TAX COMPLIANCE BEHAVIOR

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The present paper focuses on the analysis of tax compliance behavior from the tax morale standpoint. We grounded our research on the idea that empirical studies constantly invalidating the assumptions of theoretical models of tax evasion show there are more factors influencing compliance than just the economic ones (e.g., audit probability, fine, tax rate, income). Giving the fact that audit probabilities are generally very low and that tax evasion is not as high as one could expect, tax morale might have to do with the high degrees of tax compliance registered around the world. In a stream of articles on taxation published beginning with the late 60's, tax morale defined as the intrinsic motivation to comply or "internalised obligation to pay tax" (Braithwaite and Ahmed 2005) has been found to positively relate to tax compliance and negatively relate to shadow economy. This paper attempts to offer a broader view on the influence of tax morale on compliance behavior, covering articles ranging from national and cross-cultural surveys to experimental games. Moreover, the aim of the article is to emphasize the policy implications of tax morale research and the changes governments could make in order to raise the amount of public levies.

Keywords: tax morale, tax compliance, shadow economy, corruption index

JEL Codes: G02; G28; H26

1. Introduction

The concerns for taxation and the implications of tax compliance behavior on society development are as old as mankind. As Torgler (2007: 3) emphasizes, the very first details about taxation came from Ancient Egypt where pharaohs, much like today's policy makers, were trying to reduce corruption among the tax collectors called *scribes*. The methods applied by the Egyptians rulers can find correspondence nowadays: tax collectors were given high salaries to be less tempted to cheat on taxpayers; tax collectors working in the field were supervised by special tax collectors. Furthermore, the Rosetta Stone (the artifact that decoded the hieroglyphic writing system, carved in the times of king Ptolemy V) is the first tax-related document ever to mention a tax amnesty. Besides watching over the tax system, some pharaohs cared about how taxpayers' were treated. Adams (1994: 8) reports that tax collectors were taught to act kindly towards taxpayers, especially the needy ones: "If a poor farmer is in arrears with his taxes, remit two-thirds of them"; "cheer up everyone and put them in good humor"; "if anyone is suffering under the pressure of taxation or is at the end of his means, you must let the case go unchecked". According to CPA Marc Gilfillan, the last lenient policy abovementioned was called "philanthropa", from which later derived the word "philanthropy". Since then, even though tax authorities have changed the way they relate toward needy taxpayers (by offering tax incentives but not remitting tax liabilities), compliance behavior remained the same, with some taxpayers searching for loopholes into the law to *avoid* taxes or deliberately breaking the law to *evade* taxes and others doing the right thing by *paying* their tax liabilities.

Tax compliance decisions have always been of interest to researchers trying to answer one of the most puzzling questions: why people pay taxes (Cullis and Lewis 1997; Andreoni et al. 1998; Alm and Torgler 2011). According to the assumptions of the classical tax evasion model

(Allingham and Sandmo 1972; Srinivasan 1973), deterrence policies are the key in increasing tax compliance because tax evasion is negatively correlated with the audit probability and punishment degree. The studies that followed (Yitzhaki 1974; Erard and Feinstein 1994) solved some of the inconsistencies of this model but not its main shortcoming: the model predicts too much tax evasion and too little compliance. Observing the high levels of tax compliance registered around the world, some researchers assumed it is due to factors other than economic ones (e.g., audit probabilities, tax rates, penalty rates, income). Hence, they singled out tax morale as one important determinant of tax behavior. The remainder of the paper is as follows. Part 2 presents a stream of surveys and experiments which analyze tax compliance behavior with focus on tax morale. Part 3 stresses some policy implications of the results reported by the tax literature. Part 4 summarizes the main ideas of the paper.

2. Tax morale related studies: surveys and experiments

The term “tax morale” was coined by Schmolders back in 1960 who defined it as “the attitude of a group or the whole population of taxpayers regarding the question of accomplishment or neglect of their tax duties; it is anchored in citizens’ tax mentality and in their consciousness to be citizens, which is the base of their inner acceptance of tax duties and acknowledgement of the sovereignty of the state” (Schmolders 1960: 97-98). Despite the definition given by Schmolders, tax morale is still a debated notion with different meanings. According to Feld and Frey (2002) or Braithwaite and Ahmed (2005), tax morale is perceived as the “internalized obligation to pay tax”. Alm and Torgler (2006) see it as the “intrinsic motivation” to pay tax liabilities, Orviska and Hudson (2002) relate it to civic duty, whereas Torgler and Murphy (2004) link it to tax ethics. The various opinions about tax morale are understandable in the light that morale poses a problem for economic analysis: it cannot be observed directly, therefore it can be assessed only by looking at its effects (Pommerehne et al. 1994).

One of the most popular research methods to elicit and analyze tax morale is through surveys. Respondents are usually presented with taxpaying situations which have to be assessed according to their system of beliefs or different variables of interest. In this sense, the World Values Survey (WVS) database is a valuable source of comprehensive information on different political and socio-cultural issues, including taxation. Assuming that tax morale is an important determinant of tax compliance behavior, it is necessary to understand the factors that shape one’s level of tax morale. Relative to this, Torgler and Murphy (2004) investigate the level of tax morale among Australian citizens using WVS data collected between 1981 and 1995. According to their analyses, trust (i.e., in Parliament or the legal system) and moral beliefs (i.e., religiosity) are key determinants of the tax morale degree in Australia. Besides reporting a significant increase in tax morale since the beginning of the 1980s, the authors also note that the rate of increase is higher compared to other OECD countries. Alm and Torgler (2006) study the link between tax morale and the size of the shadow economy in USA and 15 European countries across several years using World Values Survey data. The authors report a strong negative correlation between the size of the shadow economy and the degree of tax morale in the respective countries. The highest degree of tax morale is reached in the USA, followed by Austria and Switzerland. Stepping out of the research trend focused on assessing individuals’ tax morale degree, Alm and McClellan (2012) analyze the effect of tax morale on tax compliance behavior using data from Business Environment and Enterprise Performance Surveys (BEEPS) and the World Enterprise Survey (WES) on 8,500 firms in 34 countries, during a period of 8 years. The reported results show that tax morale considerations are the same for individuals and firms: firms having higher tax morale evade less than those with lower tax morale. Moreover, as foreign firms and state owned forms seem to evade less than domestic firms, the authors suggest that governments should increase audit probabilities for domestic firms.

Investigating the link between the inefficiency of public spending and tax morale, Barone and Mocetti (2011) report that the attitude towards paying taxes (i.e., tax morale) improves when public resources are spent more efficiently. In addition, the authors show that the negative effect of inefficiency is even more significant when the level of public spending is lower and/or fiscal autonomy is higher. In the same vein, Torgler and Werner (2005) bring strong evidence supporting the idea that higher fiscal autonomy generates higher tax morale, therefore more tax compliance. Dell'Anno (2009) shows that tax morale can account for the level of aggregate tax evasion and it depends on taxpayers' inner attitudes toward honesty and social stigma. Torgler (2005) suggests that direct democracy positively influences tax morale. Torgler et al. (2008) find a significant correlation between tax evasion and tax morale after controlling for various factors: tax administration; tax system and the perceived tax burden; tax awareness; compliance perceptions; trust in authorities and other citizens; corruption; willingness to obey the law and religiosity.

Besides assessing the degree of tax morale from self-reported attitudes, it can also be assessed through experimental games with monetary incentives in which participants are exposed to frameworks resembling real-life taxpaying situations. Generally, behavioral patterns elicited through experiments are somewhat different from the self-reported ones because surveys analyze what people would do in a certain situation while experiments analyze what people actually do in a certain situation. Feld and Tyran (2002) report results from a one-shot tax evasion game on the impact of voting on tax compliance. According to their experiment, tax morale is higher when participants have the possibility of approving or rejecting the proposal of a fine. In a two-treatment public goods game experiment depicting an economy composed of two regions, Güth, Levati and Sausgruber (2005) test the effect of centralization versus decentralization on tax morale. In the decentralization treatment, taxes are levied locally and used exclusively for the benefit of the members from a specific region. In the centralization treatment, taxes are levied globally and divided between the two regions on a per capita basis. The authors report that centralization generates a lower degree of tax morale and inefficient outcomes.

3. Policy implications of tax morale research

As shown by the manifold of empirical studies, there is a strong positive correlation between tax morale and tax compliance: the higher the degree of tax morale, the higher the level of tax compliance. Based on these results, tax authorities could develop fiscal policies to foster tax morale and eventually compliance, without disregarding the words of Martin Luther King: "Morality cannot be legislated but behavior can be regulated. Judicial decrees may not change the heart, but they can restrain the heartless". Some aspects concerning policy implications of tax morale studies will be presented as follows. In a hypothetical evolutionary model of economy with a dynamic setting, Pommerehne et al. (1994) investigate the link between tax morale and the performance of different political systems. Particularly, they focus on representative democracies (people vote for representatives who then vote on bills and policy initiatives) and direct democracies (people vote on bills and policy initiatives directly, without being represented). The study reports that tax morale is higher in direct democracies. Concerning the elements of deterrent policies, representative democracies are more prone towards intensive audits whereas direct democracies favor higher fines. According to the authors, the reported results show that the performances of direct democracies (degrees of tax morale and tax compliance) are better than the performances of representative democracies, due to the fact that direct democratic systems have a higher probability of survival in an evolutionary process.

Taking into account the fact that tax morale encompasses taxpayers' inner motivation to pay taxes, tax authorities should apply different strategies other than deterrent ones in order to raise compliance. Two notable examples come from the Australian Taxation Office and the New Zealand Inland Revenue which use a set of various strategies depending on the type of taxpayers:

“make it easy” compliance strategy for taxpayers willing to do the right thing; “assist to comply” for taxpayers who try but don’t always succeed; “deter by detection” for taxpayers who don’t want to comply; “use full force of the law” for taxpayers who have decided not to comply (Morris and Lonsdale 2004). Moreover, they provide professional assistance to first-time business owners in order to raise awareness about the importance of taxpaying and the sanctions they face for disregarding tax law. These strategies proved to be very efficient. For example, in New Zealand, the self-employed group registered better taxpaying performance in 2003 compared to 2002: 43% decrease in the number of outstanding returns; 22% decrease in the number of debt cases; 16% decrease in the amount of outstanding debt (Morris and Lonsdale 2004: 69). Among the four abovementioned strategies, two were applied also by the Romanian tax office, i.e., “make it easy” and “assist to comply”. In 2009, authorities set up a national campaign called “The tax office gets out on the street” to increase the degree of tax morale and compliance level. As an immediate consequence of the campaign, the number of income tax returns increased by 15% compared to the same period in 2008. Furthermore, the national online tax payment system launched in 2011 with the aim of facilitating compliance process and mitigating bureaucracy proved to be rather successful: online tax payments totaled 400,000 Euros in 2012, out of which 10% were payments performed from outside the country.

Bearing in mind the reported negative correlation between the degree of tax morale and the level of the shadow economy (Torgler and Schneider 2007, 2009), governments could design policies that foster tax morale and hinder taxpayers’ propensity to engage in cash transactions. Generally, higher tax morale brings nothing but benefits for the entire society because it: ensures financial resources for the provision of high quality public goods; decreases the costs with implementing deterrent policies for identifying tax avoiders, chasing and prosecuting tax evaders (qualified tax officers, state-of-the-art monitoring systems, abstruse tax law); helps creating a stable business environment as a prerequisite for economic growth. By analyzing the abovementioned positive effects generated by tax morale and by corroborating them with the most recent corruption perception index, it is easily observed that the countries with the highest tax morale, highest tax compliance level and the most stable economic environments are developed democratic ones. The explanation is straightforward: democracy fosters social responsibility, which is mandatory for the emergence of tax morale. In a comprehensive study, Alm (2011) stresses various policies governments could ultimately adopt in order to improve tax compliance: increase taxpayers’ awareness that paying taxes is the right thing to do and assures the provision of high quality public goods; display publicly the tax evaders; avoid policies which imply that tax evasion is morally acceptable; increase taxpayers’ involvement in the allocation process of tax money; solve the issue of perceived inequities in the tax system.

4. Conclusion

Noticing the failure of the standard economic model of tax evasion in predicting tax behavior, researchers looked for an explanation to the high degree of tax compliance found at global level. As Alm and Torgler (2011: 635) noticed: “Still, the puzzle of tax compliance is not why there is so much cheating. Instead, the real puzzle is why there is so little cheating. Typically, the percent of all individual income tax returns that are audited is often less than 1% and the penalties on even fraudulent evasion are only a fraction of unpaid taxes. Virtually all economic models of taxpayer behavior conclude that there should be much more tax evasion than is actually observed. However, most people pay most of their taxes most of the time”. Based on extensive evidence from surveys and experimental games, researchers consider tax morale to be one of the main determinants of tax compliance. The literature focused on the link between tax morale and compliance behavior consistently reports a positive correlation of the two elements. Generally, countries with a high degree of tax morale register a high degree of tax compliance and a low shadow economy. Hence, governments are called to perform several policy changes in order to

corroborate scientific research and economic reality and ultimately increase tax compliance levels, among which: simplify taxpaying procedure; make taxpayers aware that paying taxes is the right thing to do; promote fair tax systems; focus more on cooperative rather than deterrent policies.

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EMPIRICAL RESEARCH ON THE STRUCTURE OF A SYSTEM FOR ASSESSMENT OF THE GLOBAL PERFORMANCE OF ECONOMIC ENTITIES

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Sustainable development and, therefore, globalization require new standards of performance that exceeds the economic field, both for domestic companies as well as international ones. So, these standards should be integrated into corporate strategy development to ensure sustainability of activities undertaken by harmonizing the economic, social and environmental objectives. For sustainable development of an entity, value creation can not be seen in strictly financial terms, therefore any strategies that are defined by entities concerns not only the quantitative aspects (economic-financial) but also qualitative aspects (social and environmental).

This study attempts to address the issue of building a set of indicators to assess overall performance and it stops at each of the three dimensions of performance, namely economic performance, social performance and environmental performance. In this scientific approach we try to stop on one of the priorities of economic research that is finding indicators that better reflect the three dimensions of performance. What indicators would best represent the overall performance?, What indicators would best represent the financial performance?, What indicators would best represent social performance?, What would be the best indicators of environmental performance? During this scientific approach will try to answer each of these questions through the empirical research conducted.

To do this research we focused on statistical population consisting of the following categories of analysts: analysts from academic environment (Cluj-Napoca, Bucharest, Timisoara, Iasi, Craiova, Sibiu, Pitesti, Galati) and financial analysts from the specific departments of the Financial Investment Services Company (Broker SA, BT Securities, Target Capital, Tradeville, Estinvest, Intercapital, KBC Securities, etc.). This distinction was made because we believe that in determining the optimal structure of such a model we need the views of both academicians and practitioners. The method used for data collection was the questionnaire method. The result of this study is represented by a system of 20 indicators (financial and non-financial) selected to evaluate the global performance of an entity.

Key words: global performance, sustainable development, environmental performance, social performance, performance indicators;

JEL Classification Code: G00, G30

1.Introduction

If in the last century financial performance was on the top of the priorities, companies have now realized that this is only the outcome of the race, but the race itself and the vector for success is what today, in the context of sustainable development of society, we call global performance. Each entity should consider for a "fair evaluation" of performance: the economic dimension, the social dimension and the ecological dimension. Global performance of the entity is defined as the aggregation of economic performance, social and environmental performance. So always, the global performance of an entity will be valued by the exchange with the environment.

The concept of global performance is used in the literature to evaluate the implementation of economic entities' strategies of in the context of sustainable development. So, we can interpret this concept as the reflection in the entity management system of the macroeconomic concept of sustainable development (Capron and Quairel, 2005). Marc Lepetit (1997:64) defined the global performance as "a multidimensional, economic, social and societal, financial and environmental concept, which refers both to the economic entity and to human society, to employees and to citizens". For Reynaud (2003) and Baret (2006) the global performance is the aggregation of economic performance, social performance and environmental performance.

This study attempts to address the issue of building a set of indicators to assess global performance and it stops at each of the three dimensions of performance, namely economic

performance, social performance and environmental performance. Why we chose this research topic? Demarcation of the research was determined by the following factors:

- clarification of the central theme of the work - assessment of a company's global performance;
- the need for such a model (set) of indicators with which to assess all three dimensions of performance;

- societal responsibility in Romania is seen today more as a fashion than as a responsibility of each organization brought by the subsidiaries of large international corporations.

The structure of this research was conducted on the following levels of interest:

- to determine the optimal structure of global performance assessment system, aiming in this context to make the distinction between financial and non-financial indicators to determine the weight of each dimension of performance indicators in the model's structure;

- setting (for each dimension of performance) all the indicators included in the model to be built.

For sustainable development of an entity, value creation can not be seen in strictly financial terms, therefore any strategies that are defined by entities concerns not only the quantitative aspects (economic-financial) but also qualitative aspects (social and environmental). So, the entities have to apply the principle of balanced development, based on various aspects in order to be efficient, given the new coordinates. In a way, it should mention the concept of multidimensional performance evaluation focused on the theory of Triple Bottom Line. Triple Bottom Line Theory aims to enhance the non-financial and non-accounting dimensions of performance and accountability of an entity as it submits to entities attention not only the economic value added, but in particular the social and environmental values that they are creating or destroying (Elkington 1997). Triple Bottom Line concept involves "economic prosperity, environmental compliance, compliance and improving social cohesion" (Pesqueux 2002:157).

2. Literature review

The new approach to performance is now known as sustainable development, which has three objectives: increasing economic entity's financial performance, development of environment effectiveness and encouraging social development. Thus, we can say that overall performance is the sum of economic and financial performance, environmental and social performance. According to Romanian authors the concept of global performance is used to evaluate sustainable development strategies and to report on the societal responsibilities of different partners (Tabără, et al. 2007:46).

According to Mathews TBL performance also requires involvement in all three dimensions of the reporting: economic performance, social performance and environmental performance (Mathews 2007). Economic dimension of performance covers all aspects of the economic entity and includes interactions with financial issues. Traditionally financial indicators refer to an entity's profitability and thus provide useful information both for management and for its shareholders. In the context of sustainable development and sustainability reporting information, and taking account of stakeholder theory, economic and financial indicators are used to highlight how an entity is affecting economically its relevant partners that interact directly or indirectly with the entity.

In Romania, there were also concerns towards the approach on performance from a global perspective, especially in the context of national economic approaches on the line of joining the European Union. We recall in this regard concerns of authors such as Niculescu (2003), Stancu and Orzan (2006), Ciobanu (2004, 2005, 2006), Mironiuc (2009), Tabără (2007). In the context of global sustainable development performance can be defined as a multidimensional, economic, social and societal, financial and economic, environment effect regarding both entities and employees, human communities and citizens (Tabără et al. 2007:49)

Founder of the principles of management, Peter Drucker (1954) considers that "few things are important to a firm's performance as performance measurement", which tells us that it could represent a vulnerability for management today. Performance management includes and precedes performance measurement.

Marr (2004) distinguishes the following activities in the process of measuring performance: (1) building a model of performance for each business separately, (2) data collection, (3) data analysis and interpretation, (4) retrieval and communication information. Such a definition of performance measurement is more comprehensive than those mentioned above. Thus, Marr manages to emphasize that performance measurement is a structured process, focused on results.

Performance measurement tools are established to be the indicators. The economic literature can account for dozens of definitions of indicators. Un indicator is „an element or a set of information elements, representative in relation to a concern or an objective, resulted from tangible measuring or observing a state of a phenomenon or an output” (Boldeanu 2008:24).

The measure "financial" or "non-financial" has not such a great importance and there is no strict rule on the matter. Relevant criteria are different (strategic relevance, operational efficiency) and can be met, as appropriate, by the financial indicators and / or non-financial ones (Lorino 2002: 237). The so-called "non-financial indicators”, even if they can not always be expressed in monetary units, their effect is reflected in other indicators of economic and financial dimension whose size is easily translated in monetary units. Improving the quality of the entity’s activity is acting on the entity’s image (non-financial indicator), but also on the size of turnover.

According to Epstein and Manzoni "systems (models) for measuring performance should include more non-financial indicators to complement the financial ones, in particular with regard to customer perception and performance of internal processes" (Epstein and Manzoni, 1997).

3. Research methodology

In order to achieve our overall objective of the study – building a model for assessing the global performance of companies in Romania - we focused on statistical population consisting of the following categories of analysts: analysts from academic environment (Cluj-Napoca, Bucharest, Timisoara, Iasi, Craiova, Sibiu, Pitesti, Galati) and financial analysts from the specific departments of the Financial Investment Services Company (Broker SA, BT Securities, Target Capital, Tradeville, Estinvest, Intercapital, KBC Securities, etc.). This distinction was made because we believe that in determining the optimal structure of such a model we need the views of both academicians and practitioners.

The method used for data collection was the questionnaire method, which is a technique of gathering information, which includes a set of questions, constructed in a manner that through the analysis of results we can achieve the objectives set out above. The distribution of this questionnaire was performed via electronic mail because the statistical sample population is spread throughout our country and also by addressing the respondents directly.

The questionnaire developed for the study consists of 19 questions and the types of questions used were: opened questions, closed questions, identification questions and questions split rings. Although the use of the questionnaire via electronic mail has some important advantages (eg. reduced financial costs, time, etc..), we still need to mention the disadvantages characteristic of this method, disadvantages translated into limits of this research and the most important is the small percentage of response to which we add the failure to develop certain issues raised by various questions.

This questionnaire was distributed to 30 teachers, members of SRAEF present at the meeting of financial analysts conducted in May 2010 and sent electronically for 57 financial investment services companies, assuming the existence of an analyst in each company. Questionnaires were sent in electronic format on July 1 2010 and the last response came on 27 February 2011, noting that questionnaires were sent three times, the last time being in February 2011.

Of the 30 teachers interviewed so far have answered the questionnaire 23 persons and from financial analysts so far we have received a total number of 20 responses. Therefore for the first category of respondents we obtained a response rate of approximately 76.66% and for the second class the rate of 35.08% of responses.

We appreciate the response rate as an acceptable one bringing the argument that, as we mentioned in previous paragraphs, the disadvantage of the research method used is the very low response rate, an aspect highlighted both abroad (Blankenship, quoted by Chelcea, 2007) and in our literature (Boța-Avram 2009). Authors mentioned noted that in the U.S. about 15% of polls released return and they concluded that to achieve a response rate of 30-40% extra effort is needed such as questionnaires forwarded and others.

The questionnaire was structured as follows in five parts. **The introductory part** on general information, where we have used the so-called identification questions with which we wanted to get information about the institution where the respondents work. In **Part 1** named "**General structure of a system of performance evaluation**" we sought to obtain data on the importance of using financial and non-financial indicators to build a system to assess a company's performance, the hierarchy of performance dimensions and to identify performance indicators by which we can better assess performance.

We raised this issue because in literature are different views on the share of various categories of indicators in such a performance evaluation system. Authors such Bătrâncea Maria and Bătrâncea Larisa proposed two models of financial standing "Model A" and "Model B" where quantitative criteria account for 75% share and qualitative criteria have 25% share (Bătrâncea et al. 2010).

In **Part 2 "Aspects regarding the indicators for assessing the financial performance of entities"**, **Part 3. "Aspects regarding the indicators for assessing the social performance of entities"** and **Part 4. "Aspects regarding the indicators for assessing the environmental performance of entities"** tried to identify the most important indicators for assessing financial performance, social performance and environmental performance, to realize their hierarchy and to identify the areas of activity where it is necessary to assess social and environmental performance.

4. Results of the research

Out of the 43 responses received and validated, 53.49% of them we received from people working in the public sector as teachers in higher education institutions and the remaining 46.51% were from persons working in the private sector. Of the total amount of respondents the largest share is owned by the 16 persons who hold a position of financial analyst that means a rate of 36.40%, followed by persons holding the position of professor and assistant professor with an equal share of total respondents of 18.20%.

Given the results obtained about the construction of the system of indicators we will give equal shares for the two categories of indicators, namely: 50% for financial indicators and 50% for non-financial indicators.

In system construction, we will give equal weight to social and environmental indicators so the system structure will be as follows: financial indicators 50%, social indicators 25% and environmental indicators 25%.

The second part of the questionnaire "Aspects regarding indicators for assessing the financial performance of entities", was devoted to measures used to evaluate financial performance such as the financial ratios. In this part of the questionnaire we aimed to test the respondents view of the types of indicators used to assess financial performance, including in the structure of survey questions to identify 10 most important indicators for assessing financial performance and realize their hierarchy and to select an indicator which best captures the financial performance of an entity.

To identify the 10 indicators we will use the average mean because it remains the parameter that highlights the essential out of a statistic population (Buiga et al. 2004:96). So, we associated points for each response (from 1- no importance- to 5 – very important) depending on the relevance of the indicator in assessing financial performance requirements. Scores obtained by each indicator is the average value of the options of respondents. In the following table we present our findings.

Table no 1. Scores given to financial indicators

Indicator	Score	Pearson coefficient
Economic Value Added	4.26	22.17%
Return on Investment	4.16	21.33%
Return on Equity	4.14	20.53%
Operational CF	4.14	18.67%
Net profit per share	4.12	18.55%
Immediate liquidity	4.12	21.21%
Indebtedness	4.05	16.53%
Total Shareholder Return	4.02	23.96%
Total profit	3.93	22.98%
Turnover	3.91	29.03%

Source: analyze of the authors)

Given the overall approach to performance we devoted the third part of the questionnaire to social performance. In this part of the questionnaire we intended to test respondents' opinion on the inclusion of social responsibility among the current objectives of organizations, including in the structure of survey questions to identify five most important social indicators for assessing performance and to realize their hierarchy and the areas where it is necessary to assess social performance.

The first question was aimed at testing respondents on social responsibility as one of the current objectives of the entity. So 51.50% of the respondents considered it is important for any entity for social responsibility to become a current target, while 33.30% considered it as very important to be included among the objectives of companies.

Social indicators chosen based on the average are:

Table no 2. Selected social indicators

Social indicators	Score	Pearson coefficient
Degree of customer satisfaction	4.40	22.19%
Job satisfaction	4.38	18.67%
Motivation at work	4.26	18.55%
Number of complaints	4.21	21.33%
Organizational climate	4.12	20.53%

Source: the authors

The last question of this part wants to identify areas of activity where social indicators are essential in assessing the performance of the entity. So, we found that the proportion of 33.30% respondents believes that social indicators are essential for assessing the performance of entities in all fields. The areas mentioned most often were: mining and quarrying, manufacturing, finance and banking and public services.

Given the overall approach to performance we devoted a fourth part of the survey on environmental performance. In this part of the questionnaire we intended to test respondents

opinion on the inclusion of environmental protection among the current objectives of organizations, including in the structure of survey questions to identify 5 most important indicators for assessing environmental performance and to realize their hierarchy and the areas where it is necessary to evaluate environmental performance.

So the first question in this part asks respondents to express their views on the inclusion of environmental objectives in the current list of entity’s objectives. According to responses received 48.50% of respondents consider important to include environmental protection among the current objectives of an entity, while 30.30% considered this as very important.

Table no 3. Selected environmental indicators

Environmental indicators	Score	Pearson coefficient
Degree of pollution	4.53	20.54%
Compliance with environmental rules	4.33	21.43%
Emissions	4.33	18.65%
Recyclable materials	4.19	18.77%
Initiatives to reduce emissions	4.00	22.31%

Source: the author

The last question of this part wanted to identify areas of activity where environmental performance indicators are essential in assessing entity’s performance. From the analysis of responses to the last question we reached the following conclusions:

- 27.30% of respondents said oil industry, mining and quarrying;
- 21.20% of the respondents mentioned all areas;
- 15.20% mentioned the chemical and pharmaceutical industry;
- 15.20% mentioned the industry in general.

5. Conclusions

The exigencies of communication occurred on the growing number of phenomena that marked the global economy in recent decades (internationalization and relocation of business crises and turmoil in financial markets), demand performance measurement to be made in a comprehensive way by financial and non-financial criteria. Non-financial criteria take into account the entity’s long-term orientation and they derive from aspects such as social responsibility.

Why is needed the evaluation of global performance? Because, as we have seen, exclusive reporting of financial performance limits the given information which is why it was necessary to report information on global performance thus distinguished the financial and non-financial aspects. In this context, TBL reporting has become an invaluable tool because it captures the three dimensions of performance: social, environmental and economic.

In today's macroeconomic environment, ignoring the social and ecological issues can lead to loss of international market shares of large corporations, moreover, they are forced to bear costs of greening the area of activity and spend considerable sums on loss control to regain consumer confidence.

So, we find the need to integrate social and environmental requirements in a management system for global performance through performance indicators measuring social and environmental aspects. Performance measurement should be done through various indicators to reduce their limits, both financial and non-financial.

For a good outline of the entity's performance is absolutely necessary to use a system of indicators that expresses its strategic orientation, characterizing its internal and external relations, the efficiency, the entity's ability to adapt to market requirements. For each dimension of performance that is intended to be measured the set of indicators should include specific measures.

Thus we can conclude that the structure of our system of indicators for assessing global performance will include the following indicators to capture non-financial and financial aspects:

Table no 4. The structure of the system

Financial indicators		Social indicators	Enviromental indicators
Economic Value Added	Immediate liquidity	Degree of customer satisfaction	Pollution degree
Return Investment	Indebtedness	Job satisfaction	Emissions
Return on Equity	Total Shareholder Return	Organizational climate	Recyclable materials
Operational CF	Total profit	Number of complaints	Energy consumption and its origin
Net profit per share	Turnover	Motivation at work	Compliance with environmental rules

Source: the author

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PERFORMANCE EVALUATION: LITERATURE REVIEW AND TIME EVOLUTION.

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Performance evaluation of an economic entity requires approaching several criteria, such as industry and economic entity type, managerial and entrepreneurial strategy, competitive environment, human and material resources available, using a system of appropriate performance indicators for this purpose. The exigencies of communication occurred on the growing number of phenomena that marked the global economy in recent decades (internationalization and relocation of business crises and turmoil in financial markets), demand performance measurement to be made in a comprehensive way by financial and non-financial criteria.

Indicators are measures of performance used by management to measure, report and improve performance of the economic entity. The relationship between indicators and management is ensured by the existence of performance measurement systems. Studies to date indicate that economic entities using balanced performance measurement systems as a key management tool registered superior performance compared to entities not using such systems.

This study attempts to address the issue of performance evaluation by presenting opinions of different authors concerning the process of performance measurement and to present, after revising the literature, the evolution of the performance evaluation systems.

We tried to do this literature review because sustainable development and, therefore, globalization require new standards of performance that exceeds the economic field, both for domestic companies as well as international ones. So, these standards should be integrated into corporate strategy development to ensure sustainability of activities undertaken by harmonizing the economic, social and environmental objectives. To assess the performance of economic entities it is required that performance evaluation to be done with a balanced multidimensional system, including both financial ratios and non-financial indicators in order to reduce the limits of the two categories of indicators.

Performance measurement and management can't be separated; performance management is a philosophy that is supported by performance measurement. Performance management precedes performance measurement and creates the context for performance measurement.

Key words: performance, performance measurement, indicators, sustainable development, global performance.

JEL Classification Code: G00, G30

1. Introduction

Because performance “represents the aggregation of basic stages of action, from intention to result” (Lebas 1995), we can't separate the result, namely the performance obtained, of the resources and activities through which it was obtained, of the objectives to be achieved because a result doesn't mean anything if it is analyzed by itself. Moreover, "If you can't measure, you can't control. If you can't control, you can't manage. If you can't manage, you can't improve and can't be efficient" (Kuegen and Krahn 1999 quoted by Albu and Albu 2005:41).

Founder of the principles of management, Peter Drucker (1954) considers that "few things are important to a firm's performance as performance measurement", which tells us that it could represent a vulnerability for management today. Performance management includes and precedes performance measurement.

2. Literature review

There are several theories on how the concept of performance measurement appeared. Morgan (2004) believes that modern performance measurement appeared in Venice in the fifteenth century, with the appearance of the double entry accounting. Another view is that of the authors

Johnson and Kaplan (1987) that consider that performance measurement appeared during the industrial revolution. Either way we can say with fair certainty that performance management has emerged as the dominant research area in the early '50s, when academics and practitioners have become interested in the need to measure performance and measurement consequences (Argyris, 1952, Ridgway, 1956).

Interest in management and performance measurement has increased considerably in the last 20 years (Taticchi, 2008). Number of publications on this topic has grown significantly over the last decade (Beamon 1999, Lohman et al. 2004, Gunasekaran et al. 2004). We believe that this is mainly due to a fundamental change in business. Furthermore, performance is not a subject easily addressed. It is clear the need to study and rethink the concept and, in this context, to rethink how performance measurement it is done.

According to Atkinson et al. (1997) performance measurement should help the economic entity to understand and assess the value received from suppliers and employees, the value provided by the stakeholders and the effectiveness of processes implemented in the economic entity and its strategic properties. Therefore, we can say that performance measurement plays the role of coordination, monitoring and diagnosis of economic entity's activities.

Marr (2004) distinguishes the following activities in the process of measuring performance: (1) building a model of performance for each business separately, (2) data collection, (3) data analysis and interpretation, (4) retrieval and communication information. Such a definition of performance measurement is more comprehensive than those mentioned above. Thus, Marr manages to emphasize that performance measurement is a structured process, focused on results.

Another answer to the question "What is performance evaluation?" is provided by Maria Niculescu in "Global Strategic Diagnostics", where it considers that "performance measurement is a process that allows you to connect an abstract concept to empirical indicators" (Niculescu 2005:246). So, performance measurement tools are established to be the indicators. The economic literature can account for dozens of definitions of indicators. An indicator is an element or a set of information elements, representative in relation to a concern or an objective, resulted from tangible measuring or observing a state of a phenomenon or an output (Boldeanu, 2008:24).

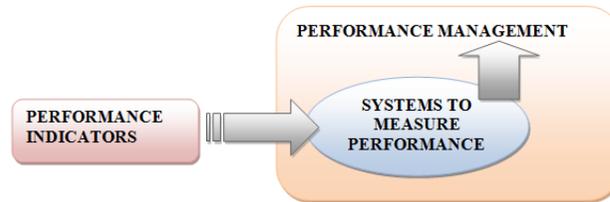
Since the performance of an economic entity is influenced by various factors we consider that the indicators used to assess the performance have to cover all performance determinants and their influence on performance by highlighting the quantifiable aspects and also the unquantifiable ones. The measure "financial" or "non-financial" has not such a great importance and there is no strict rule on the matter. Relevant criteria are different (strategic relevance, operational efficiency) and can be met, as appropriate, by the financial indicators and / or non-financial (Lorino 2002: 237). The so-called "non-financial indicators", even if they can't always be expressed in monetary units, their effect is reflected in other indicators of economic and financial dimension whose size is easily translated in monetary units. Improving the quality of the entity's activity is acting on the entity's image (non-financial indicator), but also on the size of turnover.

Currently performance measures should meet the following requirements (Maskell 1992:44-48): to use primarily the non-financial techniques; to vary from one location to another, from one region to another; to change over time, as entity needs change and to improve performance, not just monitor performance.

Performance evaluation of an economic entity requires approaching several criteria, such as industry and economic entity type, managerial and entrepreneurial strategy, competitive environment, human and material resources available, using a system of appropriate performance indicators for this purpose (Petrescu 2008:281).

The management of an economic entity uses indicators to measure, report and improve entity's performance. The relationship between indicators and management is ensured by the existence of performance measurement and can be captured as in figure number 1.

Figure no. 1 Relationship between performance indicators and performance management



Source: the author

The exigencies of communication occurred on the growing number of phenomena that marked the global economy in recent decades (internationalization and relocation of business crises and turmoil in financial markets), demand performance measurement to be made in a comprehensive way by financial and non-financial criteria. Non-financial criteria take into account the entity's long-term orientation and they derive from aspects such as social responsibility (Mironiuc 2009:152).

In the current context of sustainable development, performance evaluation process should take into account the interests of all parties involved (Kubiak 2003:41): internal and external customers, suppliers, partners, investors, society as a whole. Thus, indicators of the economic entity's performance evaluation that should be included in the set of indicators indicated by Evans (2005) can be divided into the following categories (Paunescu 2007:19): "financial indicators; indicators reflecting the overall performance of an economic entity; indicators reflecting on the market performance of the entity; indicators for quality of products and services; indicators on customer relationships; indicators on human resources and indicators for social responsibility and ethical behavior."

As we have seen during the literature revised, research to date in order to identify the appropriate structure of a system for assessing the performance of economic entities have found that it takes a "set of indicators that reflect a balanced picture of entities' performance" (Ciobanu 2006:13) and reflecting the multidimensional nature of performance. An example is provided by Kaplan and Norton that offer the Balanced Scorecard in 1996, which is a balanced assessment of the economic entity's performance, including both financial and non-financial indicators.

According to Epstein and Manzoni "systems (models) for measuring performance should include more non-financial indicators to complement the financial ones, in particular with regard to customer perception and performance of internal processes" (Epstein and Manzoni, 1997).

For sustainable development of an entity, value creation can't be seen in strictly financial terms, therefore any strategies that are defined by entities concerns not only the quantitative aspects (economic-financial) but also qualitative aspects (social and environmental). Based on these aspects Global Reporting Initiative proposed a set of performance measures covering the three dimensions of overall performance, divided into: environmental indicators, social indicators and economic indicators.

3. Research methodology

In terms of working tools for collecting data, the most used method of research was the longitudinal method, by presenting the time evolution of the concepts discussed in the paper. In terms of research techniques and procedures used most frequently was reviewing the literature regarding the concept of performance measurement and the systems for performance evaluation.

4. Results of the research

For an economic entity to achieve higher performance is necessary to implement an effective performance measurement system that "would allow for reaching decisions and acting accordingly because it quantifies the efficiency and effectiveness of past actions through the

acquisition, collection, sorting, analyzing, interpreting and dissemination of appropriate data" (Neely 1998:5-6). This definition is important because it indicates that a performance measurement system has several components, namely: individual measures that quantify the efficiency and effectiveness of actions; a set of measures that combined assess overall performance of an economic entity and the support infrastructure that allows data to be obtained, collected, sorted, analyzed, interpreted and disseminated.

In the next table we present the evolution of performance measurement systems while achieving a review of the literature. The main purpose of such systems is to support the economic entity's management to measure performance, analyze and improve operational efficiency by improving decision-making process. Most systems had empirical testing and some of them have been developed only in theory.

Table no. 1 Systems for measuring performance

Period	Model (System)	Author(s)
Before the '80	ROI, ROE, ROCE, derivate	Simons (2000)
1980	Economic Value Added (EVA)	Stewart (2007)
1988	Activity Based Costing (ABC) și Activity Based Management (ABM)	Cooper and Kaplan (1988)
1988	Strategic Measurement Analysis and Reporting Technique (SMART)	Cross and Lynch (1988)
1989	Supportive Performance Measures (SPA)	Keegan et al. (1989)
1990	Customer Value Analysis (CVA)	Customer Value Inc. (2007)
1990	Performance Measurement Questionnaire (PMQ)	Dixon et al. (1990)
1991	Results and Determinants Framework (RDF)	Fitzgerald et al. (1991)
1992	Balanced Scorecard (BSC)	Kaplan and Norton (1992)
1994	Service-Profit Chain (SPC)	Heskett et al. (1994)
1995	Return on Quality Approach (ROQ)	Rust et al. (1995)
1996	Cambridge Performance Measurement Framework (CPMF)	Neely et al. (1996)
1996	Consistent Performance Measurement System (CPMS)	Flapper et al. (1996)
1997	Integrated Performance Measurement System (IPMS)	Bititci et al. (1997)
1998	Comparative Business Scorecard (CBS)	Kanji (1998)
1998	Integrated Performance Measurement Framework (IPMF)	Medori and Steeple (2000)
1999	Business Excellence Model (BEM)	EFQM (2007)
2000	Dynamic Performance Measurement System (DPMS)	Bititci et al. (2000)
2001	Action-Profit Linkage (APL)	Epstein and Westbrook (2001)
2001	Manufacturing System Design Decomposition (MSDD)	Cochran et al. (2001)
2001	Performance Prism (PP)	Neely et al. (2001)
2004	Performance Planning Value Chain (PPVC)	Neely and Jarrar (2004)
2004	Capability Economic Value of Intangible and Tangible Assets Model (CEVITAE)	Ratnatunga et al. (2004)
2006	Performance, Development, Growth Benchmarking System (PDGBS)	St-Pierre and Delisle (2006)
2007	Unused Capacity Decomposition Framework (UCDF)	Balachandran et al. (2007)

Source: Taticchi, 2010:10

In the '80 the SMART model, developed in 1988, is a significant change in the literature on performance measurement, focusing first on linking strategy to operations by internal and external performance measures, and modeling the economic entity as an integrated system. The next, the SPA model, is characterized by the introduction of two innovations, which are: the concept of balanced measures and use of non-financial indicators.

In the 1990s, many performance measurement systems have emerged attempting to provide integrated solutions (RDF, BSC, SPC, IPMS, CBS, IPMF and BEM) or only specific methodologies to solve problems (PMQ, ROQ, CPMF and CPM s). These were followed by BSC

model that included more features, such as financial and non-financial, to bring into focus a mix of performance measures.

Systems that have emerged since 2000 are continuing to improve understanding of performance measurement process. Recently developed systems have specific features to connect strategy to operations carried out, providing a balanced set of measures (both financial and non-financial), in an attempt to create quantitative relations incorporating performance indicators and addressing performance measurement as a cognitive process.

5. Conclusions

In the '80s and early '90s various authors have suggested different systems to manage performance of economic entities among which the following: performance measurement matrix (Keegan et al. 1989), performance pyramid (Lynch and Cross 1991), results and determinants matrix (Fitzgerald et al. 1991), balanced scorecard (Kaplan and Norton 1992), performance measurement process developed at Cambridge University (Neely et al. 1995) and, more recently, there was the performance prism (Neely et al. 2001, 2002). All these have led to a relevant research area related to how these performance measurement systems can be developed and improved.

From the literature review we found that there is a continuing concern about the performance measures and its measure in all areas of activity, wanting to capture the performance of an economic entity in a comprehensible form. To obtain a relevant and coherent picture on the performance of an economic entity is necessary to use a system of indicators. The performance indicators of its structure must reflect in the same time, at least the following aspects: entity's objectives, its strategy, efficiency and effectiveness of the entity's activities, the ability to adapt to the market in which it operates.

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COMPETITIVENESS ANALYSIS OF LEADING COMPANIES IN HUNGARIAN DAIRY INDUSTRY BY LIQUIDITY INDICATORS

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In this study, on the basis of the accounting data for the last few years, we analyse the change of competitiveness the Hungarian dairy companies which have the largest revenues. In 2010, 5 enterprises of the 50 food industrial ones having the largest revenues were working in the dairy sector. This concentrated competitive environment offers reasons for the comparative review of the short term liquidity factors as the most important indicators of remaining in the competition or market survival.

For the research we use the balance sheets, income statements and cash flow statements from the financial reports concerning 2008-2009-2010 economical periods. The research methods of our analysis are based on the internationally accepted and applied system of financial indicators. This study includes the analysis of the liquidity ratios coming from the balance sheet and the cash flow statement as well as the analysis of the cash cycle which indicates the effectiveness of the current assets management.

We examine the change of the liquidity position of competitors belonging to the selected group during the economic crisis. We form company orders on the basis of the revenues, the liquidity indicators, the capital structure indicators, the financial strength and the cash conversion cycle. Basically, we search the answers for the following questions:

- Which company's market position is the strongest on the grounds of liquidity factors?*
- Which company can be considered as market leader by its competitiveness?*
- Is there any connection between the value or tendency of the change of the revenues and the liquidity situation of the analysed companies calculated on the basis of the above mentioned financial indicators?*

Finally, we summarise our conclusions concerning the most important liquidity features of the leading Hungarian dairy industrial companies. Comparative sector analyses on national or European level may fill a gap, because only a few professional papers have appeared in this subject. In our opinion, this kind of studies has outstanding importance in the field of applied economics, business economics and practical economic life as well; consequently, our results can be used by companies immediately.

Our analysis can be widened, and similar researches can be accomplished for different regions or different sectors. This study is also convenient for the international popularization of competitiveness analysis from financial point of view.

Keywords: competitiveness, financial analysis, liquidity, dairy industry, Hungary

JEL Classification Codes: M21, L66

Introduction

In our study we set the aim to analyse the competitiveness of leading companies in Hungarian dairy industry by liquidity. Choosing the dairy sector can be justified by its national economical importance, very strong market competition, and potential analytical curiosities.

Dairy sector is a part of food industry, and food industry belongs to processing industry, and processing industry is an important part of agricultural sector in a wider sense. Agricultural sector is also important in respect of the output, the gross domestic product and the employment. In the last two terms the processing–distributing–catering sectors represent more than 50%. Beyond its national economic proportion, food industry is an important sector on the basis of public expenses as well. In the last few years 20-25% of the total public expenses was spent on food and non-alcoholic beverages; moreover, the export proportion of agricultural and food industrial products is also significant, 6,0-6,5% (Kovács 2010: 466-478). Within the food industry the importance of milk processing and the economical characteristics of milk processing companies can be analysed as well. The concentration of dairy industrial companies is relatively high in comparison to the fact that there are many of them on the market. The bargaining power of processing companies is strong opposite to the manufacturers, and most of the companies aim to enlarge its revenues. The companies think that it is possible to enlarge their revenues merely through effective utilization of capacities, without mergers and acquisitions. Moreover, the companies make an effort to reduce their costs, and to enlarge the production of the products with higher processing stage. These Hungarian enterprises are backward in the field of innovation and investment willingness in comparison with their foreign competitors. One reason for this is, that the bigger companies entrust the product development not to the national subsidiary companies, and the smaller companies are not enough capital-intensive for the developments. The other reason is that there is no demand for new products of higher price, because the consumers are price-sensitive (Popp, Potori and Papp 2010: 81-91).

The degree of the concentration of the Hungarian dairy industry and the size of the competition on the market can be well demonstrated on the basis of our sample used in this study. According to the “Opten” company information database there are 147 companies in Hungary now, whose main activity is „producing dairy products”. Within the companies only 23 have more than 100 million HUF capital stock value, and only 15 companies (10% of the whole sample) have more than 250 million HUF capital stock. On the basis of the capital stock and the revenues in 2010 it can be stated that the total revenues of the previous 15 companies is 170 billion HUF, and the summarized revenues of the 5 leading companies according to the revenues exceed the 75% of the 170 million HUF. Consequently, the high market concentration can be considered as verified, and the analysis of the strong competition situation involved by the concentration is justified. The sample of our research is this group of 5 leading companies.

The economic crisis influences first of all the revenue, the profit and the liquidity through the decreasing demand. In this study we analyse the change of liquidity of selected 5 leading companies during the crisis, and determine which company has the strongest competitive position.

Literature review and research methodology

The long term financial goal of all companies is the continuous increase of the firm’s value and the maximization of the shareholder’s wealth. The primary condition of it is a stable and sustainable liquidity. During the crisis, the continuous control of liquidity indicators is especially important in order to escape the bankruptcy situation (Brealey and Myers 2003: 24-27; Gitman 2002: 14-16).

The basic methodology of the individual and comparative analysis is the system of financial indicators (Damodaran 2002: 26-57; Bodie, Kane and Marcus 2002: 606-620). In this study, we

apply those names, financial contents and evaluation point of views of the financial ratios which are customary in international literature (Gitman 2002: 54-61).

Moreover, we emphasize the importance of Hungarian similar studies (Pitti 2010a: 2-23; Pitti 2010b: 29-44) and professional books which fit in with this subject (Katits 2002: 76-92; Bélyác 2006: 60-68).

The following table demonstrates the companies involved in this analysis as well as their revenues, and the effects of the economic crisis on the change of the revenues.

Table 1: The target group of the analysis (data in 1000 HUF)

Name of the company	Revenues 2008	Revenues 2009	Revenues 2010	Average revenues
SoleMizo (SM)	43 144 733	37 849 216	37 247 841	39 413 930
Friesland (F)	36 499 660	28 930 657	29 416 093	31 615 470
Danone (D)	30 425 582	28 173 745	28 976 262	29 191 863
Tolnatej (T)	15 948 401	15 695 535	17 046 245	16 563 394
Kőröstej (K)	40 487 619	12 083 687	15 527 873	22 699 726

Source: made by the author

Hereafter we enumerate the selected liquidity indicators involved into our analytical frame (Table 2). We also give reasons for choosing these ratios.

Table 2: The analytic frame of the research

Financial indicators	Average values of 2008-2010					Values in 2010				
	SM	F	D	T	K	SM	F	D	T	K
Quick ratio										
Debt-to-asset ratio										
Debt repayment strength (year)										
Cash cycle (day)										

Source: made by the author

Among the short term liquidity indicators based on balance sheet data we chose the quick ratio to eliminate the possible distortional effect of inventories. From the long term liquidity indicators based on balance sheet data we prefer the debt-to-asset ratio because the other capital structure indicators (debt-to-equity and total assets/equity) can be determined by using this rate. We define debt as the sum of short and long term liabilities.

After the static analysis concerning one date we change over to dynamic analysis based on cash flow statement concerning a period. Supposing that the current operating cash flow remains constant in the following years, the debt repayment strength expresses how many years are necessary for repayment of all liabilities (Katits 2002: 90); and its calculation is: $1 / (\text{debt} / \text{operating cash flow})$.

The cash conversion cycle refers to the fact that the firm needs financial sources to manage the time differences potentially occur in the logistical processes. Consequently, cash cycle indicates the period between the firm's operating cycle and turnover of accounts payable in days (Banomyong 2005: 30), and its calculation is: $\text{inventory turnover in days} + \text{accounts receivable turnover in days} - \text{accounts payable turnover in days}$.

On the basis of the accomplished calculations we create company orders according to the average values of 2008-2010, and to the values in 2010 as well. Based on company orders we formulate our conclusions concerning competitiveness.

The results of the research

In this part, as a result of our research, we present the values calculated on the basis of annual report data concerning the years 2008, 2009, and 2010. On the basis of the values, we create company orders, and, according to these two viewpoints, we evaluate the competitiveness of companies within the sector.

Table 3: The values of the selected ratios

Financial indicators	Average values 2008-2010					Values in 2010				
	SM	F	D	T	K	SM	F	D	T	K
Quick ratio	0,97	2,65	0,55	2,87	0,98	0,67	2,44	0,62	2,7	1,1
Debt-to-asset ratio	0,78	0,69	0,68	0,20	0,57	0,87	0,89	0,73	0,22	0,56
Debt repayment strength (year)	16	31	7	2	NV	34	66	8	2	NV
Cash cycle (day)	-	-	-	-	-	26	35	17	34	49

Source: made by the author

We illustrate company orders with the help of tables. We listed the firms according to their average values for the period 2008-2010 and to the values in 2010, respectively (Tables 4 and 5). The numbers show the advance from the most favourable value (1) to the less favourable one (5) for every indicator. In the case of the quick ratio the bigger value refers to the better competitive position, i.e. bigger part of the short term liabilities (or even its multiple values) is covered by the value of the current assets reduced by the inventories. In the cases of debt-to-asset, debt repayment strength and cash conversion cycle the situation is reversed: the smaller values indicate the better competitive position, i.e. the smaller the indicator value, the better the liquidity status of the company.

Table 4: The company orders for the period 2008-2010

Financial indicators	company orders based on average values				
	1	2	3	4	5
Quick ratio	T	F	K	SM	D
Debt-to-asset ratio	T	K	D	F	SM
Debt repayment strength (year)	T	D	SM	F	K
Cash cycle (day)	↓	↓	↓	↓	↓

Source: made by the author

Table 5: The company orders for the year 2010

Financial indicators	company orders based on values in 2010				
	1	2	3	4	5
Quick ratio	T	F	K	SM	D
Debt-to-asset ratio	T	K	D	SM	F
Debt repayment strength (year)	T	D	SM	F	K
Cash cycle (day)	D	SM	T	F	K

Source: made by the author

By evaluating the change of company orders, an interesting characteristic can be noticed, namely, the company orders based on the average values for 2008-2010 as well as on the values in 2010 are almost the same. Evaluating the indicators separately, it can be stated that we can divided the companies into two groups according to their quick ratios: firms with acceptable and with less favourable (below 1,00) values. In the first group the values decrease (SM, F, T), while in the second group they increase (D, K), which can also be pointed out by the relation of the average values and the data in 2010. Quick ratio data of SoleMizo and Danone become to be critical in 2010.

The characteristic change for the 3 years time series of debt/total assets is the increase; the only exception is Kőröstej, which was able to decrease a bit this indicator. In the case of the three companies of the largest revenues the value is over 70%, which definitely indicates financing problems. In the case of SoleMizo and Friesland, beside the unfavourable capital structure, the increasing amount of loss also weakens their competitiveness.

Changes of debt repayment strength indicator show no tendency: there are big changes even within the companies in the period of 2008-2010. Tolnatej has favourable and stable values. Danone normalized the value of this indicator, and, in this way, compensated the unfavourable values based on balance sheet. In the case of SoleMizo and Friesland the values of this category, similarly to the former ones, are worse and worse, and the values in 2010 are critical. Concerning Kőröstej we applied 'NV' to sign that indicator has no financial content because the value would be -46 for 2010 due to the negative value of operating cash flow. Therefore, we did not calculate average value, because the negative operating cash flow itself indicates a very unfavourable liquidity position.

Because of the calculation method, we have cash conversion cycle data only for 2009 and 2010, therefore we did not estimate average values in this case, but we marked only the increase (↑) or the decrease (↓). Every enterprise decreased its cash cycle, which was a necessary requirement because of the general increase of debt-to-asset ratio. Regarding the cash cycle values in 2010 the firms show no large differences, although Danone and Kőröstej differ a bit from the mean of the sample, which is 32 days. In the case of Danone this value suggests that the firm makes the necessary efforts to improve its short term liquidity position.

Conclusions

In our study we set the aim to analyse the competitiveness of the leading Hungarian dairy industrial companies based on liquidity indicators. We justified the industrial concentration and the strong competition, and accomplished the comparative analysis of the selected 5 companies based on internationally applied liquidity indicators, creating our analytical frame. On the basis of the orders created from the calculated values the following conclusion can be formulated:

- The liquidity position of Tolnatej (T) is the strongest among the 5 companies. Concerning the first three points of view it is market leader, and regarding the fourth one it has an average position.
- Danone (D) can be considered as the second company. This firm is able to compensate the unfavourable values of static indicators (quick ratio and high debt-to-asset ratio) with the better values of dynamic, consequently more important, parameters (debt repayment strength and cash cycle).
- The complex competitive position of SoleMizo (SM), Friesland (F) and Kőröstej (K) is weaker, which is even declined by continuous loss in the case of SM and F. In spite of its favourable values based on balance sheet, Kőröstej (K) is the last, because its cash cycle and its liquidity based on cash flow (because of the negative operating cash flow) is the most unfavourable among the examined firms.

- Based on the results of the competitiveness analysis by liquidity, it can be stated that neither the size of the revenues nor their changing tendency can be directly connected to the liquidity positions of the firms. According to their complex liquidity, the two companies of the biggest revenues have more unfavourable competitive positions than their competitors with smaller revenues.

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INNOVATION – THE MAIN COMPONENT OF THE „KNOWLEDGE TRIANGLE”

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Science has begun to play an increasing role in industrial development not only as a major source of knowledge for new technological activities or scientointensive industries (medicine industry, chemistry, electronics), but also as essential input in testing, evaluation and quality control. Innovation is one of the activities that can generate economic and social progress. Therefore, this paper also approaches the significance of innovative information dissemination, as well as the objectives of this activity in view of the EU Member States. The European Union has prepared two funding programs for innovation activity, Europe 2020 and Horizon 2020.

Key words: R & D and innovation, finance, technology dissemination

JEL Code: G28, G29, O30,O31

1.Introduction

Innovative activity is as old as human history. From his earliest attempts to change and adapt nature to his needs, man has never ceased to innovate, that is to introduce something new into his material or spiritual existence. Metallurgy, the mirror, porcelain, the gear, suspension bridges, the loom, the scales, the calculating machines, cartography, the clock, the compass, the decimal system, geometry, the square root, the sterilization system, vaccines are just a few of the findings of anonymous inventors of antiquity in Babylon, Mesopotamia or China.

Innovation's main goal is not only to improve the stock of knowledge, inventions and patents, but also to disseminate them on a large scale, in other words the dissemination stage of new and improved knowledge, products, technologies and services. This process is becoming more and more interesting area of study for the understanding, influencing and adjusting of the competitive market mechanisms market economy countries or in countries in transition to such economy.

2. Technology dissemination

Technology dissemination has gained increasing importance in the policy goals of science and technology due to the fact that financial support in this area is increasingly conditioned by rigorous and pragmatic evaluations in terms of real economic effects.

A series of aspects concerning micro and macroeconomic efficiency (increase in capital efficiency, labor productivity and competitiveness, operation of structural adjustment) are related to high hopes, especially for developing countries, for programs with consistent objectives of technological diffusion.

Technology dissemination is narrowly considered as a large-scale application of any available technology. The area of dissemination of these technologies may refer to various fields and sectors and, of course, to both public and private sectors. Technology dissemination doesn't only pursue goals directly related to improving the parameters of productive process efficiency, but also the elimination of duplication in innovative activities that would discover things already known in another part of the country or in other institutions.

Technology dissemination is also dependant on economy's, and especially industry's structural characteristic, on their complexity and intensity. In this respect it is worth noting the role that

large companies (machinery constructions, electrical, electronics, metallurgy, chemistry, etc.) that have greater opportunities to invest and operate machinery, equipment and new equipment, have. Close connections between the various companies in supply, production and marketing, horizontal cooperation, involving sales and purchases of intermediate goods, create a proper framework for encouraging the expansion of technical progress for all participants. (Radu M. *et al.*, 2008)

Profitable achievements in technology dissemination are however conditioned by the level of the employees' professional qualification, their competent and adherent responsiveness, trade unions includes, to technological and organizational novelties. For adopting superior technologies, the level and structure of wage costs, as well as other statutory obligations of the company have a significant importance. In case of high productivity and wages, of effective operation of labor relations systems, of the labor market and information fluxes, technological diffusion rate can benefit from considerable human support.

3. Knowledge and technology transfer from research to industry

Theoretical studies approaching the variety of aspects in business life conducted in the academic environment are circumscribed to the subject known in the specialized literature as „Academy-Industry Relations”, area of research that theorizes particular or common aspects of the concrete forms of manifestation of research interest, especially in universities, to develop efficient contacts with economy in general and industry in particular. Most of these papers describe or analyze in detail the causes and factors of success or failure of various initiatives that have occurred locally or regionally, evaluate their performance and impact, perform statistical and sociological surveys and forecasts etc..., being less concerned with conceptualization, theoretical debates or semantic controversies.

Therefore, the notions used by this area of research, like business incubation center or incubator, science park, spin-off, technology transfer center, research park, technology center, etc..., don't have a clear conceptual distinction, being used in practice without too much exigency and rigor, often being considered as substitutable, complementary or synonyms.

The specialized literature has a variety of definitions of the same concepts. Thus, the *Science Park* is characterized by its territorial vicinity to a, institution of higher education or an advanced research center, with which it has close relations. It aims to: supporting the development of companies, facilitating technology transfer from research and education to companies and organizations within the park or surrounding areas, encouraging businesses based on research results of R&D university departments or research institutes. The main objective of these parks is researching and designing new products and their development to prototype stage, production for market being achieved in separate units.

The Research Park is usually located within a university or research institute and has a predominantly scientific activity in which students and academics are working together. Production concerns are usually excluded.

The *Technology Center* helps develop an enterprise engaged in applying advanced technologies based on research that should not necessarily be carried out within the university, offering also a range of facilities and services, including the sale of products. It is distinguished from *the Science Park* by accentuating aspects concerning production and by the optional involvement of academic research. The selection of “residents” uses rigorous criteria concerning the inclination to use research or products requiring a high technological level.

The Innovation Center provides a range of facilities to new small and medium companies that engage in high technological level products (by taking a large risk to their market launch): office equipment, different services, access to considerable network of research, consulting and financing institutions etc. They can often be part of Science Parks.

Business incubators concentrate in a limited space a number of newly-created companies for the purpose of helping them increase their chances of survival by providing them with modular construction, shared facilities (telephone, computer, secretarial, etc.) and with managerial support and other support services. Their main goal is both the orientation towards new technologies, as well as local development and the creation of new jobs.

Industrial or business parks provide an environment of high qualification, suitable for a wide range of activities including manufacturing, sales, exhibitions, etc., without necessarily having to be in the vicinity of academic institutions.

The Managerial Workshop provides a multitude of consultancy and financing services to industrial business activities, taking place in new or existing units. By dealing with improving the quality of common services and imposing strict admission and output rules, a series of managerial workshops have become innovation centers or business incubators. (Gheorghie C.M. *et al.*, 2009)

4. Strategies for stimulating the innovation process

Strategies in R&D and innovation evolved after a trajectory described by combining in different proportions two different types of policies, namely the policies of science and industry, sensibly influenced by the company's behavior. Innovation strategies relied on the explicit recognition of the fact that the success of creating and marketing new products is due to a set of factors, far more numerous than the R&D activity that was, until recently, taking all the credit. Of these factors, the market of products and technologies plays a significant role. (Sandu S., 2002)

Provided that economic competitiveness has become a major focus, increasing attention has been given to research conducted in industry, reflected in increased collaboration between industry and universities, as well as to the development of human resources potential for research. Maintaining a high quality in basic research remains an important objective, regardless of the levels of economic development of different European Union Member States.

A special attention is paid to participation in international research and development programs (particularly the Community Framework Programme for R & D) and to increasing the number of networks, consisting of public and private participants of the EU Member States. Another series of objectives in research and development tend to be shared in a growing number of EU Member States. (Gheorghiu R. *et al.*, 2004)

The issue of public interest research has been treated, in the last few years, both in theory and in the practice of the developed European countries, with much more nuance and flexibility, observing a sensitive mutation from the interest in R&D public or government institutions to public interest strategic fields or R&D programs. These changes most strongly are reflected in the prevalence of R&D funding in comparison with institutional funding, mechanism also adopted by countries in transition to market economy, whose systems of science and technology are in full process of reform.

The experiences of developed countries are particularly relevant in terms of forming inter-institutional research networks, promoting research in collaboration between teams from public institutions and teams from private enterprises or institutions.

Table 1. General objectives of the EU Member States in the field of science and technology strategies

	Objectives
Objectives common to most Member States	<ul style="list-style-type: none"> -Developing training and mobility for researchers; - Promoting innovation and technology transfer (exploitation of results, especially in small and medium companies) - Increasing collaboration and cooperation between industry and higher education and, in general, improving cooperation between private companies and public research sector; - Supporting and promoting industrial research both financially and in implementation; - Sustaining and developing high quality basic research; - Boosting economic competitiveness and stimulating economic growth; - Increasing R&D contribution to regional development; - Intensifying international cooperation, especially within Europe.
Objectives that tend to become common to Member States	<ul style="list-style-type: none"> - Developing programs containing socio-economic objectives of major importance; - Promoting public acceptance of science and technology; - Assessing the ethical and social aspects of technological development; - Improving the mechanisms and methods for program evaluation; - Developing the capacities of strategic deliberation in selecting priorities in science and technology.

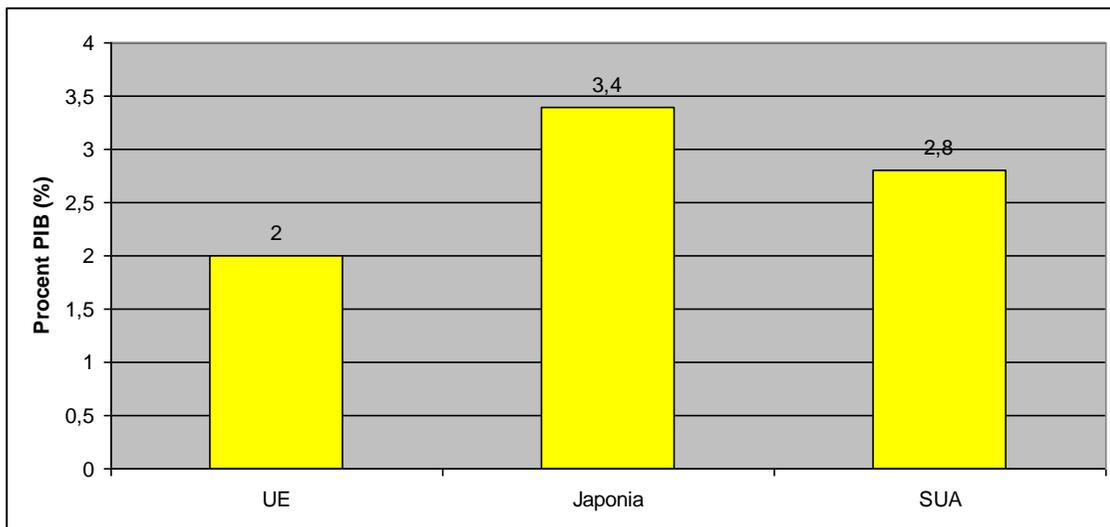
(Source: Sandu S., 2002)

5. Europe 2020 and "Innovation Union"

As other states adhered to the European Union, the creation of common policies insuring the Union's development became more and more necessary. Thus, common policies were created in fields like agriculture, trade, fishing, taxation, justice, internal affairs, etc. Research policy in the European Union is part of a broader policy of the European construct, namely, "Science and Technology". Policies in the field of information society arise from this, concerning audiovisual, media, space, life sciences and biotechnology.

The reason for a policy in research and innovation is justified by satisfying two needs. Firstly, the need of coordination for the member states' activity in increasing efficiency and reducing costs, and secondly the need to strengthen the international competitiveness of European economy. Also, research and development develops economy and creates new jobs, and technological innovation can fight or diminish social problems like poverty, certain diseases or environmental degradation.

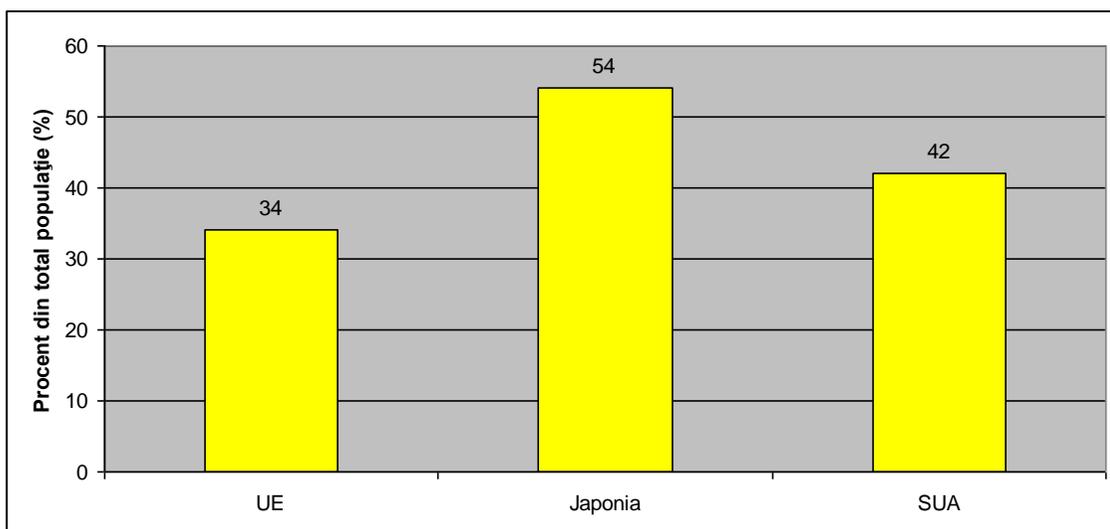
In 2009, the EU allocated an average 2% of GDP to R&D and innovation, while the US allocated 2.8% and Japan 3.4%. For 2010; the average for the EU countries was 2.7-2.8%. Also, we should not ignore the fact that in 2014, China's net RDI expenditure will surpass the EU.



TN: GDB Percentage (%)

Fig. 1. 2009RDI budget

(Source: <http://www.ec.europa.eu/innovation>)



TN: Total population percentage (%)

Fig. 2. People with university degree in the population aged 25-34 years

(Source: <http://www.ec.europa.eu/innovation>)

However, the rate of people aged 25-34 who have a university degree, in the year 2009, shows they Europe does not lack potential. It has researchers, entrepreneurs and world-class companies as well as high quality in terms of values, traditions, creativity and diversity. European companies and civil society are actively engaged in emerging and developing economies all over the world. Many innovations that changed the world occurred in Europe.

The biggest challenge for the EU and Member States is probably a more strategic approach to innovation. An approach where innovation is the primary policy objective, that would consider a medium and long-term perspective, where the measures and funding are designed so that they contribute to innovation, where EU and national / regional policies closely aligned and mutually

consolidated and last, but not least, where the highest political level sets a strategic program and regularly monitors its progress.

The initiative," Innovation Union established such an ambitious, integrated and strategic approach, exploiting and enhancing our strengths by using new and productive ways, preserving therefore the economic foundation that supports our quality of life and social model in the conditions of population aging. "Business as usual" is equivalent to a gradual loss of the competitive advantages that we possess and accepting Europe's constant decline. (Rus M.I., 2011)

More specifically, in order to achieve," Innovation Union, among other things, the following are required:

a) In times of budgetary restrictions, the EU and Member States should continue to invest in education, research, development, innovation and ICT. Such investment should, if possible, not only be protected by budget cuts, but should they receive additional funding.

b) They should be accompanied by reforms that would increase the return on investment and approach the issue of fragmentation. The systems of research and innovation in the EU and Member states should be better coordinated and their performance must be improved.

c) Researchers and innovators must be able to work and cooperate across the EU as easily as at national level. The European Research Area must be completed within four years, establishing therefore a framework for a genuine free movement of knowledge.

d) Access to EU programs should be simplified and their leverage effect on private sector investments should be increased, with the support of the European Investment Bank. The contribution of the development framework program to fast-growing SMEs should be intensified. The European Regional Development Fund should be fully exploited for the development of research and innovation capacity throughout Europe, based on intelligent specialized regional strategies.

6. Conclusions

The European Union has an extraordinary potential for innovation. Europe has a long tradition of determined inventions. It has a variety of creative talents and it can rely on its It has a variety of creative talents. We should not forget that Europe founded one of the largest single markets in the world, where innovative products and services can be widely marketed. The Union also has a tradition of a strong and responsible public sector, which must be exploited.

Almost all EU Member States have improved their performance in research. However, the increase of performances in innovation has slowed down, and the EU is not covering the persistent gap in relation to the world leaders in innovation, U.S., Japan and South Korea. For EU-27, the largest gap remains for innovation in the private sector. EU still has a clear lead from the emerging economies of China, Brazil, India, Russia and South Africa. However, China is improving its innovation performances and continuously reduces the gap.

In the EU and the developed European countries, innovation has been seen for several years as an engine of economic and social progress, and the EU budget for 2014-2020 provides for the allocation of large sums of money to technological research and inventions within the "Horizon 2020" program, which will have a budget of over 80 billion euro. (www.ec.europa.eu)

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EUROPEAN FISCAL UNION. A SOLUTION TO SAVE THE EURO?

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A monetary union with strong connections among banking systems but without a fiscal union may pose problems because the national governments may be tempted to increase inefficiently their public debts, which, in case of contagion, may have serious repercussions on other economies.

This article analyses the idea - widespread among specialists - of the integration of fiscal policies in the Euro Area as a solution to overcome the sovereign debt crisis. The situation has become critical for countries such as Greece, Portugal, Ireland, Spain.

Key words: fiscal union, Euro Area, fiscal policies, sovereign debt crisis, fiscal treaty

JEL code: E62, E63, F36

Introduction

The current economic and financial crisis highlighted the fact that the institutional regimes and the EU common policies, more precisely, of the Euro Area, are not adequate. Even before the crisis, the economic growth in the European Union was low, pointing at deep structural problems in the EU Member states. The macroeconomic imbalance created a European Union with divergences in productivity and competitiveness.

The response of the involved countries to the sovereign debt crisis in the Euro Area was slow and weak because of the supranational character of the European Union and of its budget, limited to 1,24% of the community GNI. In the opinion of several specialists, to which I equally subscribe, in order to try to overcome this crisis, it is necessary to promote as soon as possible an initiative to start a political project envisaging the creation of a European Fiscal Union, just like the Economic and Monetary Union was created.

In this scientific research, my objective is to analyze the idea of the European Fiscal Union, mentioned as a long-term solution for the Euro Area to overcome the sovereign debt crisis. I chose to realize this analysis of the idea of a fiscal union because it is a topical issue, taking into account that at the beginning of March 2012 the Fiscal Treaty was signed, introducing new rules concerning the budgetary discipline.

Analyze of the economic literature

For two years, the Euro Area has been confronting with a debts crisis, its long term viability being under question mark. The problem is that the Euro Area doesn't have adequate institutional arrangements to help it manage a major crisis, nor mechanisms for amortizing the asymmetrical shocks and for burden-sharing. The fiscal reactions of the member states differ according to the level of debt, of budgetary expenditures and of the budgetary revenues as percentage of the GDP (EIR, 2011: 21).

This Monetary Union possesses that € **440 billion European Financial Stability Facility, created in 2010, and the € 800 billion European Stability Mechanism**, created in February 2010. The declared purpose of the **European Financial Stability Facility is to save the Euro Area countries if they cannot solve their economic problems, each country being allowed to borrow up to € 440 billion**. The European Stability Mechanism, which will enter into force in July 2012 aims to contribute to the amelioration of confidence and to guarantee the financial stability of the Euro Area.

The Euro Area doesn't yet have a framework for the political cooperation between the European Central Bank and the national governments, even though the single currency creates the need of a tighter cooperation. The absence of a place where a common position for monetary and budgetary policies can be defined makes the institutional organization of the Euro Area more

oriented towards knowledge exchange than towards the identification of guidelines for the coordination of activities.

The European Central Bank, lacking trust concerning the budgetary decisions of the national governments, tends to protect its freedom of action in order to be able, if necessary, to counter-attack their tendencies toward governmental deficits. The national governments, unable to convince the European Central Bank to pay more attention to the specific conditions of their economies and not knowing the budgetary conduct of the other governments are reticent about cooperation, ready to counter-attack any restrictive position of the monetary policy and stubborn in accepting the additional diminishment of their fiscal sovereignty (Panico Carlo & Vazquez Suarez Marta, 2008:16).

But economic theory, based on the *optimum currency area model*, shows that the single currency benefits outweigh its costs only when economic integration – under the form of commercial exchanges, similar conditions and economic cycles - is strong enough.

The German Chancellor Angela Merkel, one of the most appreciated political personalities leading the European Union, publicly specified, more than once, that there is a concord regarding a possible step towards a fiscal union, towards a coordinate approach of the fiscal and economic policies, but on medium or long-term. For the beginning, the basis of the fiscal union must be set up from political and legal point of view. A fiscal union would imply a single ministry of finance and a single treasury, an idea agreed by Germany, France, Holland, Belgium, Luxemburg, but less wanted by countries like Portugal, Italy, Finland and Greece, which face financial difficulties. A viable monetary union supposes the use of tools which amortize the asymmetric shocks and the creation of a federal budget in the Euro Area, which proves to be more than necessary.

In the opinion of several specialists, to which I equally subscribe, in order to try to overcome this sovereign debt crisis, it is necessary to promote as soon as possible an initiative to start a political project envisaging the creation of a European Fiscal Union, just like the Economic and Monetary Union was created.

The first stage, according to Alberto Majocchi (2011) should be the *creation of a European Fiscal Institute*, whose main task should be to save those countries that risk being swept away by the sovereign-debt crisis and to pave the way for the subsequent institutional move toward a Federal Fiscal Union and the institution of a European Treasury.

During a second phase, *an issue of Eurobonds* would be necessary to supply the UE the financial means needed to support the setting up of a recovery plan of the European economy, to favour a productivity and competitiveness increase. The European budget should return to a system of real resources, substituting what is known as the fourth resource, based on member states' GNI, with a European surtax on the national income taxes paid directly by the citizens and the limited liability companies to the European Treasury. Thus, the European Union budget, based on own resources, would be managed by a Federal European Treasury, responsible for the coordination of the EU economic policy and the transition to a sustainable economy. (Alberto Majocchi, 2011: 79).

Therefore, the European Union could and should have a *federal budget*, able to play a counter-cyclical role in case of conjectural "asymmetric" shock. This is the role of the federal budget within a federation: in case of a shock which affects only a part of the federation, the resources originating from this region diminish, while the transfers in its favour increase. In a Union in which the labour-factor is characterized by a low mobility, possessing a federal budget could be a precious advantage, but requires a radical evolution of the budgetary expenditures and revenues: the Union's revenues should be activity-based taxes and its expenditures should be, at least partly, related to conjecture. In these circumstances, in order to have a microeconomic impact, the EU budget should highly exceed the current ceiling of its own resources, in order to represent about 7-8% of the Union GDP. (Sabău-Popa Diana, 2010: 11).

Fiscal implications of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

In order to overcome the sovereign debt crisis in the Euro Area, 25 Member states of the European Union signed in Brussels, on the 2nd of March 2012 the *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union*, which introduces a set of golden rules concerning the budgetary discipline. Only two countries of the European Union refused to sign the Treaty: the United Kingdom and the Czech Republic.

Some of the most important provisions of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, also called the *Fiscal Treaty* are:

- *The annual structural deficit must not exceed 0.5% of the GDP*; the annual structural deficit of the public administration means the annual cyclically adjusted deficit net one-off and temporary measures.
- *Non-Eurozone countries join the Eurosummits* whenever are discussed issues of general interest with regard to the single market, competitiveness or the modification of the Euro Area strategy.
- Where *the ratio of public debt to GDP is significantly below 60 %* and where risks in terms of long-term sustainability of public finances are low, *the structural deficit can reach at most 1.0 % of the GDP*.
- In the event of significant observed deviations from the maximum ceiling of the structural deficit or the adjustment path towards it, a *correction mechanism* shall be triggered automatically.
- When in one of the 25 Member states which signed the Treaty *the ratio of public debt to GDP exceeds 60%* the state *shall reduce it* at an average rate of *one twentieth per year* as a benchmark.
- *Financial sanctions can be imposed –which may not exceed 0.1% of GDP of the Member State in question –* if, based on its own observations or on the European Commission report, one of the 25 Member states which signed the Treaty concludes that another state failed to comply with the above-mentioned ceilings and brings the matter to the European Court of Justice.

The treaty mentions the necessity to develop ever-closer coordination of economic policies within the Euro Area, therefore it tries to push the governance of the Union toward more integration, going thus beyond the scope of a fiscal treaty. It specifies a very true and important issue – that if a monetary union which doesn't rely on the disciplining of the actual budgetary executions has a very precarious way of functioning.

Actual government deficit has two components: a cyclical one, based on automatic stabilizers and a structural one, based on discretionary policies. Structural government deficit, mentioned in the treaty represents the fiscal position when the GDP is at its potential level, that is the economy is halfway between economic expansion and recession. The annual modification of the structural deficit is due to the effect of discretionary decisions of fiscal policy.

But structural governmental deficit is an indicator lacking transparency and inaccessible to the population, difficult to understand and to verify. Its formula is: $\text{Structural deficit} = \text{Structural expenditures} - \text{Structural revenues} = \text{Expenditures} * \text{GAP}^{\text{cc}} - \text{Expenditures} * \text{GAP}^{\text{ev}}$. GAP represents the production differential calculated as ratio between the potential GDP (normal rhythm of economic growth in a neutral year, from a cyclical perspective) and the actual GDP.

The new 0.5% of GDP limit of the structural deficit will impose a very strict control on the public finances of the 25 countries, which may have advantages and disadvantages. For Romania, which in the past had a discretionary procyclical fiscal policy, it will make impossible to practice a procyclical fiscal policy, that could be a significant advantage (Ionuț Dumitru, 2012: 5).

The major disadvantage of the treaty is linked to its reduced capacity to stimulate the economy, especially in recession periods. The automatic stabilizers are the most effective in countries such as Denmark, Holland, Sweden and Finland, their size being closely related to the tax system and the size of the governmental expenditures. In Romania, like in the other Member states of Eastern Europe, the size of the automatic stabilizers is significantly smaller, which requires the possibility to apply some discretionary fiscal stimulus (higher structural deficit), stronger in recession periods (Ionuț Dumitru, 2012: 8).

Some specialists, such as Joseph Stiglitz, recipient of the Nobel Prize in Economic Sciences, strongly criticize this Fiscal Treaty, considering that the strictening of the fiscal policy in the European Union is a wrong way of solving the debt crisis and might lead to a totally opposite result.

Possible stages in the creation of the European Fiscal Union

The purposes of my own research are the analyze of the concept of fiscal union and then the presentation of the possible stages in the creation of the European Fiscal Union.

If we analyze the concept of fiscal union, it refers to the integration of the fiscal policies of the states. In a fiscal union, the decisions concerning the tax collection and spending public money are taken by institutions common to the governments of the participating states. For example, in federal states, such as the USA, the fiscal policy is largely decided by the central government, empowered to increase the taxes, to make public borrowings and to spend public money.

A monetary union with strong connections among banking systems but without a fiscal union may pose problems because the national governments may be tempted to increase inefficiently their public debts, which, in case of contagion, may have serious repercussions on other economies.

The sovereign debt crisis in the Euro Area is due to the breach between the common monetary policy and the national economic and fiscal policies of each Member state. 17 EU Member States are part of the Monetary and Economic Union, based on the Euro currency, but most of the decisions regarding the taxes and public expenditures are taken on a national level, because the fiscal policy belongs to each democratic state as the expression of its sovereignty. But direct taxes, as well as the indirect ones distort the four main freedoms of the single community market. The European Union has limited fiscal powers. The majority of the European Union Directives refer to VAT, customs duty and excises. The VAT is harmonized at community level, the taxation principle of the VAT is that of the destination of goods; the tax is levied on the delivery of goods and the provisioning of services in the state where they are consumed. Member states can apply the following types of VAT quotas: a normal tax and one or two reduced taxes. The normal VAT tax must not be smaller than 15% and the reduced taxes must not be smaller than 5%. The products to which the harmonized excises are being applied are alcohol and alcohol products, tobacco and tobacco products, energetic products, electricity; the community legislation mentions the existence of a minimum excise applied to each category of products. Starting with 1968 no customs duties are levied on the goods transported within the territories of the European Union Member states, and for the goods entering these states, the common external tariff of the EU is applied. With regard to direct taxes, the community *acquis* targets the income tax and the tax on capital and less the tax on the natural person income. Most of the provisions concerning the direct taxes are left up to each Member state, as an expression of their sovereignty.

We can identify two possible stages in the creation of the European Fiscal Union. The first stage should be the creation of a European Fiscal Institute, whose main task should be to save those countries that risk being swept away by the sovereign-debt crisis and to pave the way for the subsequent institutional move toward a Federal Fiscal Union and the institution of a European Treasury. The Fiscal Institute could play the role, in the realization of the Fiscal Union, that had been entrusted to the European Monetary Institution as a prerequisite for the start of the

Monetary Union. (Alberto Majocchi, 2011: 91). An important step in this direction was the creation, in February 2012, of a € **800** billion European Stability Mechanism. This European Stability Mechanism aims to contribute to the amelioration of trust and to ensure the financial stability of the Euro Area.

In a second phase it is necessary to start the issue of Eurobonds to contribute to the provision of the necessary financial means to support the realization of the plan for the recovery of the European economy. By issuing Eurobonds, The European Investment Bank could provide the financing of the European public investments (secondary education, research and innovation, new technologies, environmental conservation, renewable energies) that represent a *conditio sine qua non* to guarantee a long term sustainable growth of the European economy (Alberto Majocchi, 2011: 92).

Then, the fourth resource of the European Union budget, based on the GNI of the Member states (representing more than 60% of the EU budget), which is not real own resource, could be substituted by a European surtax on the national income taxes paid directly by the citizens and the limited liability companies to the European Treasury. The European surtax on the national income tax of the natural persons, paid directly by the citizens to the European Treasury would guarantee a greater transparency of the levy and would strengthen the responsibility of those who use the public financial resources. The European surtax on the companies' income would have the effect of neutralizing a little the impact of the company relocations within the European Union and of reducing the fiscal competition among the Member States.

From 2013, the European Union budget could benefit from a new resource from a carbon/energy tax. In a situation where the risks connected to the climate changes are by now more and more clear and the need of replacing the fossil fuels with alternative energy sources is becoming more and more pressing, a tax also in line with the carbon content of the energy sources appears as an adequate instrument to start up the processes of energy-saving and of fuel-switching to renewable energy sources, thus reducing the negative impact of the energy consumption on the environment.

The policy-makers could also consider the European Commission proposal regarding the introduction of tax on the financial operations of a speculative nature, in order to increase the resources of the European Union budget and to guarantee a more orderly development of the international financial system. The financial transaction tax should have a large application field and it would be preferable to be applied to the national markets as well as to the international exchanges. The Financial, Economic and Social Crisis Committee of the European Parliament debated upon the advantages and disadvantages of a possible financial transactions tax, estimating that such a tax, of only 0,05% could eliminate the short-term financial transactions, ensuring a greater stability and contributing with € **300** billion to the European Union revenues (Sabău-Popa Diana, 2010:152).

During the last phase, aimed at creating a real Federal Fiscal Union, the budget, based on own resources, would be managed by a federal European Treasury, responsible for the coordination of the EU economic policy and the transition to a sustainable economy. The European Treasury should be the subject of a decision of the European Council, establishing the deadlines for the different phases and, most of all, the final date that will mark the beginning of Fiscal Union operations.

There is a basic difference between the Fiscal Union and the Monetary Union. The ECB is a constitutional organ whose independence is ratified by the Treaty of Maastricht and whose task – important but limited – is to guarantee price stability. The Treasury would be a constitutional organ of a different nature and should be subject to the democratic control of the European Parliament (Alberto Majocchi, 2011: 94).

In conclusion, the decision to go ahead with the construction of the Fiscal Union, with a European Treasury, must be backed by a contextual decision fixing the date for the start of the

transformation of the European Union – a supranational organization – into a European Federation.

Conclusions

For a good functioning of the Euro Area, it is necessary that at least the common monetary policy and the common fiscal policy work together. Therefore, in order to avoid the collapse of the Euro Area and eventually the collapse of the European Union, it is extremely necessary to realize as soon as possible the integration of the fiscal policies of the European Union Member states and the creation of a European Treasury. If need be, the common defence policy and the foreign policy of the European Union can wait until the conditions are favourable.

Therefore, the decision-makers of the European Union Member states must understand that they must yield to the Union some of their budgetary and economic powers in order to complete the construction of the Economic and Monetary Union, with the creation of a Federal European Treasury which should guarantee an effective coordination of the national economic and especially fiscal policies.

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THE ECONOMIC CRISIS IMPACT ON PUBLIC EXPENDITURES IN EU NEW MEMBER STATES

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This article analyzes the main trends of public expenditures in the New Member States 12 in the last decade. We develop a synthetic analysis of the total public expenditures and also an analytical inquiry of major categories of public expenditures according to COFOG. Based on data provided by Eurostat from 2000 to 2010 we try to capture the impact of global financial crisis on the major trends of the public expenditures for new member states. Our purpose is to reveal a global view of the state of public expenditures in this group of EU countries and also we try to make a comparison between Romania and these countries considering that the stance of public finance is quite similar to the new member states. The major findings of this study are the high increase of the public expenditures for all the countries especially in 2009, due to a huge increase of the social protection expenditures. In this context we underline some correlations between the public expenditures evolution and economic growth.

Keywords: public expenditures, fiscal policy; economic growth; budget deficit.

JEL Code: E51; H3; H61.

Introduction

The government role in now days is very complex and important through the major function accomplished by the public finance. The global economic and financial crisis has revealed once again the necessity of state intervention for rebalancing the economy and for recovering after the year 2008. The public sector and the state intervention have to be financed through taxation or if there are not enough revenues borrowing money. The state role increasing was accompanied by the public expenditures increase for the last years, because the public sector size has continuously extended. In this inquiry our purpose is to identify the impact of economic crisis on the public expenditures pattern for the new member states. We choose to realize the analysis only for this group of countries to have a clear view on Romania concerning the public expenditures comparative with similar countries. For this analysis we choose the share of public expenditures in GDP for a better comparative view between countries. Also we use the COFOG classification based on data provided by Eurostat for identifying the public expenditures structure. From this point of view is not only a global analysis, but also a structural analysis. The most important category of public expenditure is social protection with the highest share. The relationship between the economic growth rate and public expenditure is important because is reflecting the impact of economic crisis on the level and the composition of government expenditures.

Literature review

Any government intervention has to be financed through public expenditures. The welfare state existence is based on public revenues from taxes, fees and other forms. The ways in which the governments choose to finance the public sector have major impacts on the economic life.

Brumby, J. and M. Verhoeven (2010) consider that the global crisis has challenged countries to sustain spending that promotes future economic growth and poverty reduction. In particular, countries have made efforts to safeguard expenditure for health, education, and investment. As the crisis was unfolding, the need to support aggregate demand mitigated pressures on public

expenditures. But in the aftermath of the crisis, the need for fiscal consolidation will put renewed pressure on public expenditure in many countries.

The size of the public sector can be expressed by the level of public expenditures. In the last few years the public sector increases, especially in 2008 and 2009. The most important increase is registered for the social protection; for instance in 2007 is 17.6% from GDP and goes to 20% GDP in EU 27. Another important category of public expenditures is health and also we have an increase from 6.7% in 2007 to 7.5% from GDP in EU27, according to data provided by Eurostat Database (Mara, 2012).

According to Hall (2010) there has been a long-term trend for increasing levels of taxation and public spending in OECD countries. Public spending as a proportion of GDP has risen steadily, in line with economic growth, for 150 years. Tax and spending peaked during the two world wars of the 20th century, but the level of state spending and taxation then remained high and rose again in the years after World War II, until around 1990.

The economic crisis from 2008 caused an accelerated increase of public expenditures trend in most of all in countries affected by the crisis.

The social protection expenditures have the most important share in the total expenditures and for this category there is also the highest impact of economic crisis.

Busch (2010) underlines that the global economic crisis affects the funding of social security systems essentially via two channels: on the one hand, due to the higher unemployment, the expenditure of social insurance funds and the state is increasing, while on the other hand, their tax and contribution revenues are falling as a result of lower economic growth or lower wage increases.

Methodology and results

First step in our analysis is revealing the evolution of public expenditures as a % in GDP starting with 2001 until 2010 as average for European Union and for Romania. We choose to compute separately for EU 15 –the old member states and for the NMS 12 –the new member states. In the next figure this evolution is marked for the years of economic crisis when the trend of public expenditures is increasing. The maximum is registered in 2009, more than a half from GDP for EU 27 and EU 15. For the same year the share of public expenditures in GDP is 45% for NMS12 and more than 40% for Romania. For our country there is a different evolution because the trend of public expenditures is increasing before the crisis start, from 2005. After 2009 the governments through successful fiscal policy manage to reduce the public expenditure and this descending trend can be seen for all EU averages.

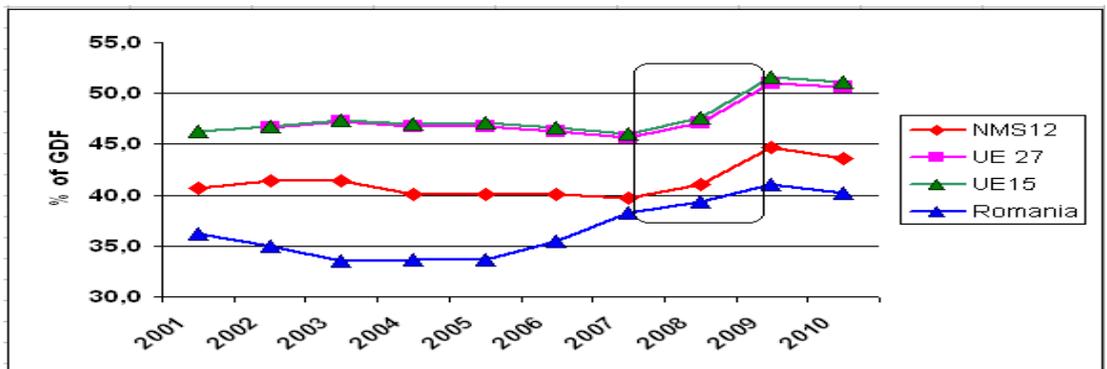


Figure no. 1. Public expenditures evolution in European Union

Source: realized by author

Considering the particular analysis for every new member states we can observe different trends between these countries. The highest level of public expenditure as percentage in GDP is in Hungary, more than 50%. Also countries like Slovenia and Slovakia registered highest increase of public expenditures in the economic crisis time.

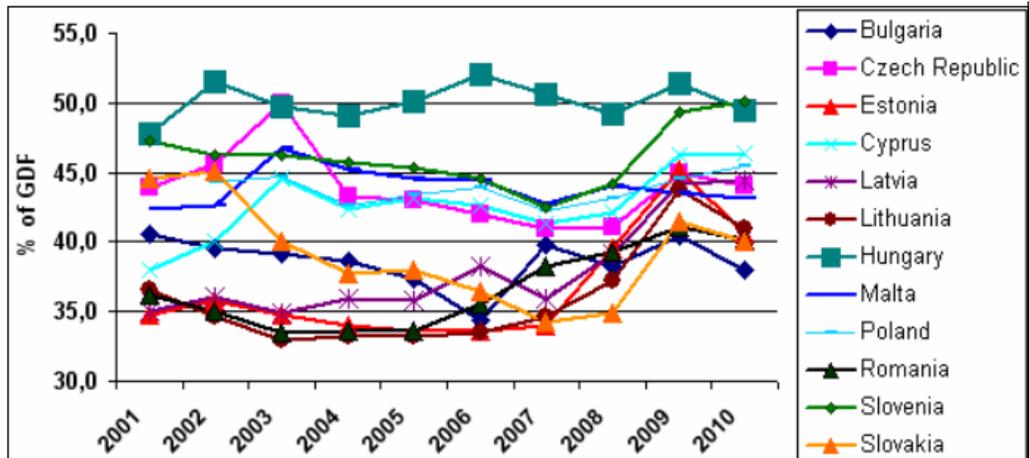


Figure no. 2. Public expenditure evolution in new member states

Source: realized by author

To explain this evolution we have to consider the structural analysis of public expenditure. This structural analysis is based on COFOG classification and data provided by Eurostat for the last decade as average for the NMS 12. In next figure are revealed categories of public expenditures and their evolution. It is important to note that the social protection expenditures count the highest share and starting with 2008 this share is increasing. Two major causes explain this continuously increases: the population ageing and the unemployment increase. Other four major categories follow on this rank: health, education, general public services and economic affairs with similar amounts. First category –social protection – is considered unproductive expenditure, while the last categories are considered productive expenditures. For this reason concerning the economic growth is not an incentive the increase of social protection expenditures, only the other expenditures mentioned above.

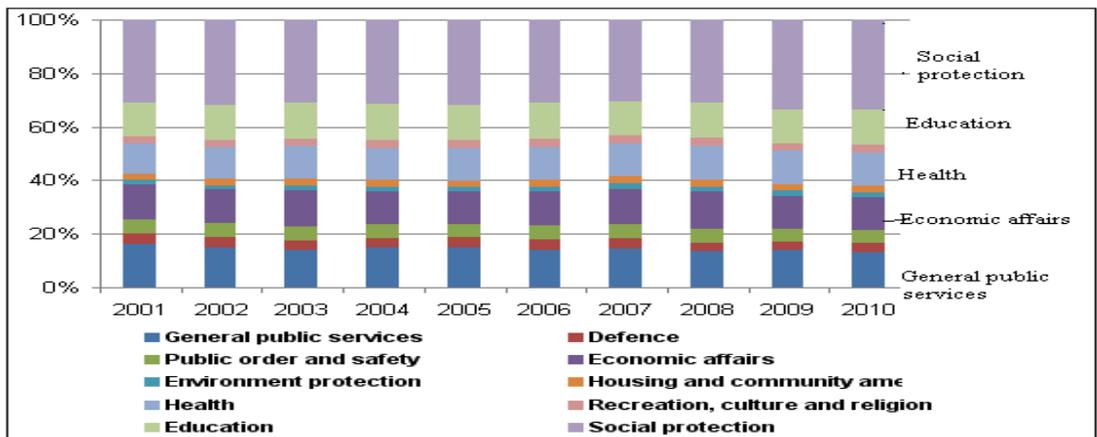


Figure no. 3. Structure of public expenditures in NMS 12

Source: realized by author

Expenditure on social protection consists mostly of payments for social protection benefits, which are transfers to individuals or households covering a set of risks or needs. This category of expenditure includes social benefits, operating expenditure and other expenditure incurred by social protection schemes.

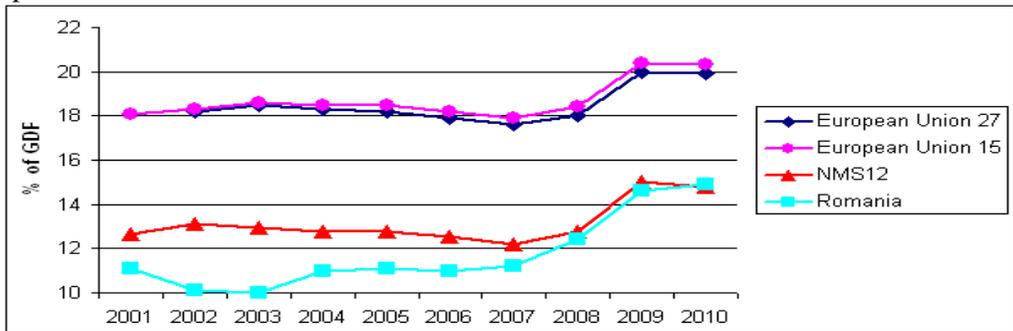


Figure no. 4. Social protection expenditures in EU
Source: realized by author

The lowest ration of public expenditures is in Cyprus and Slovakia and the maximum can be finding in Slovenia and Hungary in 2010. But for all NMS 12 the level is below the averages for EU 27 and EU 15. In the EU 15 is the highest ratio because the ageing of population is stronger comparative with NMS 12. Also the welfare state in EU 15 provides plentiful pensions and unemployment allowances comparative with NMS 12.

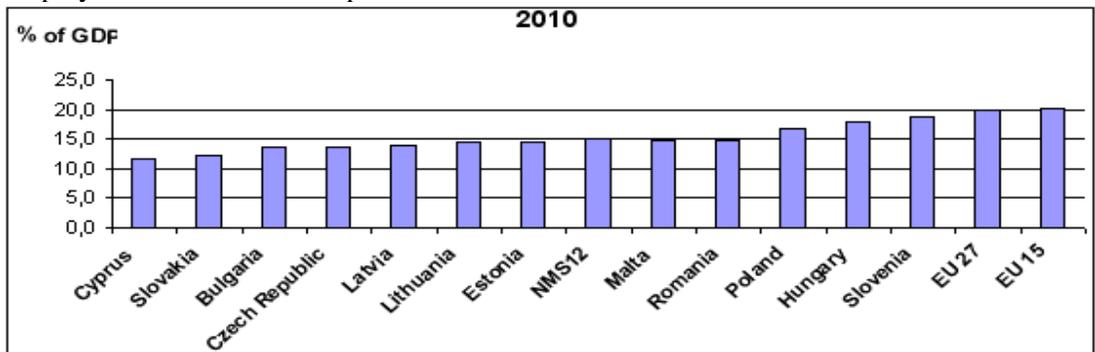


Figure no. 5 Social protection expenditures in 2010
Source: realized by author

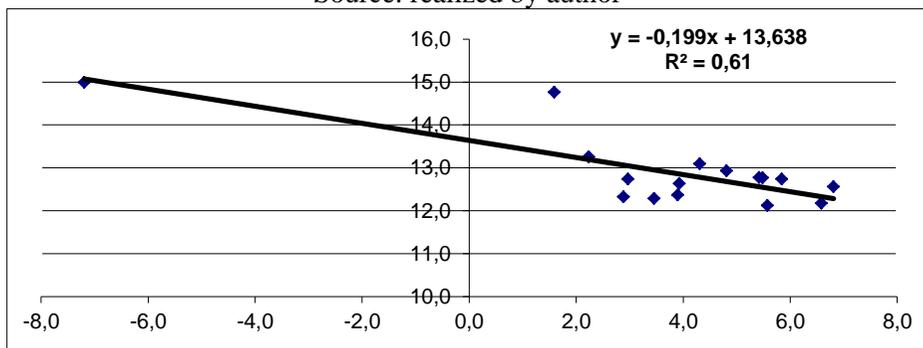


Figure no. 6. Correlation between social protection expenditures and economic growth rate in NMS12
Source: realized by author

For revealing the economic crisis impact we correlate expenditures ratio with the economic growth rate. We choose to test this correlation between the social protection expenditures and economic growth rate using data provided by Eurostat since 1995 until 2010. For NMS 12 are computed the average ratios. Based on the above figure there is a quite powerful correlation of 61% and there is an indirect correlation, fact that confirms the negative impact of economic crisis on this category of expenditure.

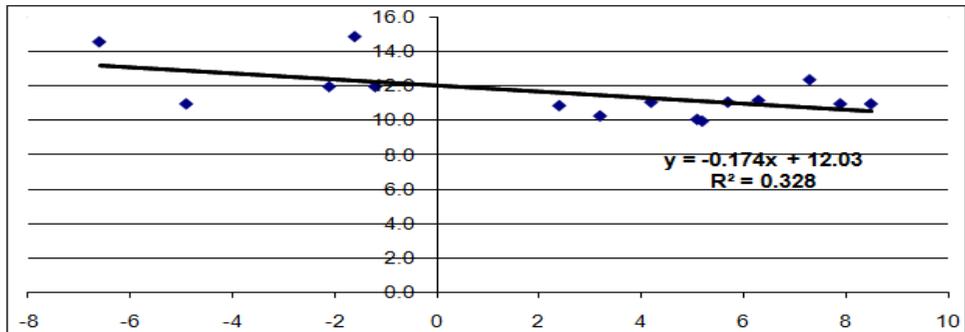


Figure no. 7. Correlation between social protection expenditures and economic growth rate in Romania

Source: realized by author

The same correlation is tested also for Romania for the same time; similar negative impact of economic crisis can be observed but no so powerful like for the average of NMS 12, only 32%.

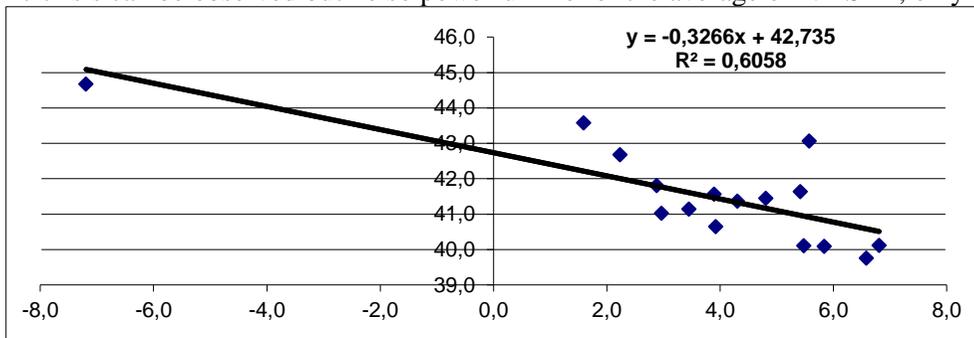


Figure no. 8. Correlation between total expenditures and economic growth rate in NMS12

Source: realized by author

Concerning the impact of economic crisis on the share of total public expenditures in GDP we can observe similar correlation as in previously case, almost 61% and also a negative impact manifested by increasing of spending on crisis.

Conclusions

The concluding remarks underline this increasing trend of the public expenditures due to economic and financial crisis for all new member states of EU starting with 2008, with a maximum pick in 2009. This evolution is explained by the increasing trend of social protection expenditures –the most important component of total expenditures according to COFOG classification. Another unwanted effect of economic crisis is decreasing of tax revenue because the taxable base (personal income, consumption, profits) was reduced. The major effect of this evolution is revealed by the huge levels of budget deficits of new member states and also increasing the public debt.

In this context the governments try to find solutions for increasing the tax receipt, especially increasing VAT rates for not affecting the economic growth rate and in the same time to reduce the public expenditures. Some countries choose to reduce public expenditures like general public

services (Bulgaria with 4.3 percentage points in 2010 comparative with 2007), economic affairs (Romania and Malta).

But for all EU member states the only solution was to increase the public debt for covering the huge budget deficits, because the impact of global financial crisis was too powerful and unexpected for the national budgets. The economic crisis should be a valuable lesson for the present and future fiscal policy whose coordinates must first be based on a balanced budget to cope with the challenge of future crises.

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MULTIFRACTAL STRUCTURE OF CENTRAL AND EASTERN EUROPEAN FOREIGN EXCHANGE MARKETS

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It is well known that empirical data coming from financial markets, like stock market indices, commodities, interest rates, traded volumes and foreign exchange rates have a multifractal structure. Multifractals were introduced in the field of economics to surpass the shortcomings of classical models like the fractional Brownian motion or GARCH processes.

In this paper we investigate the multifractal behavior of Central and Eastern European foreign exchange rates, namely the Czech koruna, Croatian kuna, Hungarian forint, Polish zlot, Romanian leu and Russian rouble with respect to euro from January 13, 2000 to February 29, 2012. The dynamics of exchange rates is of interest for investors and traders, monetary and fiscal authorities, economic agents or policy makers. The exchange rate movements affect the international balance of payments, trade flows, and allocation of the resources in national and international economy. The empirical results from the multifractal detrending fluctuation analysis algorithm show that the six exchange rate series analysed display significant multifractality. Moreover, generating shuffled and surrogate time series, we analyze the sources of multifractality, long-range correlations and heavy-tailed distributions, and we find that this multifractal behavior can be mainly attributed to the latter. Finally, we propose a foreign exchange market inefficiency ranking by considering the multifractality degree as a measure of inefficiency. The regulators, through policy instruments, aim to improve the informational inefficiency of the markets, to reduce the associated risks and to ensure economic stabilization. Evaluation of the degree of information efficiency of foreign exchange markets, for Central and Eastern Europe countries, is important to assess to what extent these countries are prepared for the transition towards fully monetary integration. The weak form efficiency implies that the past exchange rates cannot help to improve forecasts about future spot exchange rates, therefore there are no opportunities for profit based upon past data. Our results show that the Russian foreign exchange market has the highest degree of efficiency while the Hungarian foreign exchange market is at the opposite side.

Keywords: multifractality, MFDFA, long-range correlations, heavy-tailed distributions, foreign exchange markets.

JEL Codes: C10, F31, G15.

I. Introduction

The financial markets are open and complex dynamical systems with a large number of interacting elements. For institutional investors, a correct assessment of these systems is very important to determine the optimal investment strategy. Recently, the analysis of financial markets has been found to exhibit some universal characteristics similar to those observed in physical systems with a large number of interacting units. Since the classical financial theory cannot explain effectively this characteristics, (multi)fractal theoretical models were introduced in the field of economics by Mandelbrot (1997) to study the economical and financial data from a new perspective.

A fractal is an object that displays self-similarity on all scales. Self-similarity means that each piece can be considered a reduced-scale image of the whole. Mandelbrot (1977) uses the characteristic of self-similarity to develop the concept of fractional dimension, not integer. "When the dimension of a time series is non-integer, this is associated with two specific features: inhomogeneity - extreme fluctuations at irregular intervals, and scaling symmetries - definite

relationships between fluctuations over different separation distances” (Scarlat, Stan and Cristescu 2007:188-189).

In existing literatures, the presence of fractal characteristics in financial markets implied the market complexity (Jiang and Zhou 2009), crash predictions (Grech and Pamula 2008), volatility predictability (Wei and Wang 2008) and inefficiency (Cajueiro and Tabak 2004, 2007). Among the techniques of fractal analysis on financial time series are those based on Hurst exponent (H). In the case of unifractal processes, the scaling behavior is determined from a unique constant H , while in the case of multifractal processes a continuous spectrum of exponents is needed.

The originality of this research is given by several aspects. First, is the first study that compares the multifractal behavior of six Central and Eastern European foreign exchange rates, namely the Czech koruna (CZH), Croatian kuna (HRK), Hungarian forint (HUF), Polish zlot (PLN), Romanian leu (RON) and Russian rouble (RUB) with respect to euro (EUR) from January 13, 2000 to February 29, 2012 via a robust and powerful technique – the Multifractal Detrended Fluctuation Analysis (MFDFA). The exchange rates between currencies are a particularly interesting category of economic data to study as they dictate the economy of most countries. Second, we quantify the contributions of two different factors that are thought to be the causes of multifractality – long-range correlations of the time series and heavy-tailed distributions – by generating shuffled and surrogated time series from the original ones. Third, we follow Zunino et al. (2009) and we build an inefficiency ranking by considering the multifractality degrees as a measure of inefficiency.

II. Literature review

Multifractal analysis which was initially employed to investigate the intermittent nature of turbulence has been widely applied to financial time series including stock prices, interest rates, commodity prices and exchange rates. For example, Ausloos (2000), using the DFA technique, empirically shows that several foreign exchange rate series display significantly long-range persistently or anti-persistently autocorrelated behavior. Using R/S analysis, Kim and Yoon (2004) find the multifractal behaviors in the Korea Won–USD and Japan Yen–USD exchange rates. Norouzzadeh and Rahmani (2006) study the dynamics of Iranian Rial–US dollar exchange rates and find the evidence of multifractality based on MFDFA. Moreover, they show that the main source of multifractality are long-range correlations of small and large fluctuations. The same source of multifractality is found by Wang et al. (2011) in case of twelve exchange rates series. For USD/AUD, USD/EUR and CNY/USD, both fat-tail distribution and long-range correlations have important contributions to the multifractality. In addition, the authors find that extreme events play an important role in the contributions to multifractality of the USD/EUR exchange rate series. Tabak and Cajueiro (2006) estimate Hurst exponents using the local Whittle estimator and find that the Euro bilateral exchange rates of the US, Canadian and Singapore Dollar are amongst the most efficient currencies, while Japanese Yen and Swedish Krona are amongst the most inefficient. Jiang, Ma and Cai (2007) show that distribution of relative return of 74 global currencies is a power-law and the distribution of correlation coefficients in terms of relative return in currency price changes is time dependent, based on the method of scaled factorial moment. The correlation of foreign exchange rates and their degree of asynchrony is investigated by Liu, Qian and Heng (2010) for a period from 1995 to 2002. The results show that the cross-sample entropy of every two exchange rates returns of DKK/USD, NOK/USD, CAD/USD, JPY/USD, KRW/USD, SGD/USD, THB/USD and TWD/USD become higher after the Asian currency crisis, indicating a higher asynchrony between the exchange rates. Wang, Yu and Suo (2012) provide evidence that the change in the yuan exchange rate regime in July 2008 caused different multifractal properties of CIB/CNY Composite Index in 2008-2010 compared to 2005-2008. The Romanian currency market drew the attention of Scarlat, Stan and Cristescu (2007). The authors observed that due to the “in-phase” evolution of the economic agents, the

statistical self-similarity of the time series of the daily exchange rate RON/USD resembles a theoretical self-similarity. The self-similar cells of dimensions obeying a definite power law scaling rule are related to five categories of economic agents detected via a crossing-type analysis based on the Hurst exponent and the frequency spectrum and are employed in the study of the fragmentation-defragmentation process.

III. Methodology

The MFDFA is a generalization of the detrended fluctuation analysis (DFA) and it was developed by Kantelhardt et al. (2002) for non-stationary multifractal data. The procedure can be described as follow:

- determine the “profile” $Y_j = \sum_{i=1}^j (x_i - \langle x \rangle)$, where x_i is a series of length N and $\langle x \rangle$ denotes the averaging over the whole time series, and divide it into $N_s = \text{int}(N/s)$ nonoverlapping segments of size s ;
- calculate the local trend for each segment ν by the least square fit of the series and then determine the variance $F_\nu^2(s) = 1/s \sum_{j=1}^s \{Y[(\nu-1)s + j] - y_\nu(j)\}^2$ between the local trend and the profile in each segment ν . Here, $y_\nu(j)$ is the fitting polynomial in the ν -th segment;
- average over all segments to obtain the q -th order fluctuation function, defined as $F_q(s) = \left\{ \frac{1}{2N_s} \sum_{\nu=1}^{2N_s} [F_\nu^2(s)]^{q/2} \right\}^{1/q}$. In general, $F_q(s)$ scales with s as $F_q(s) \approx s^{H(q)}$ with the generalized Hurst exponent $H(q)$. For a monofractal time series, $H(q)$ is independent of q and the scaling behavior of $F_\nu^2(s)$ is identical for all values of q . For multifractal data, $H(q)$ depends on the chosen moment q since the small and large fluctuations scale in a different way. When q has a large positive value, $H(q)$ implies large scale fluctuations. By contrast, if q is negative or has a very small positive value, $H(q)$ describes small scale fluctuations. Therefore, richer multifractality corresponds to higher variability of $H(q)$. We follow Zunino et al. (2009) and we quantified the multifractality degree and hence we define our measure of inefficiency by

$$\text{Inefficiency} = \Delta H = H(q_{\min}) - H(q_{\max}) \quad (1)$$

In order to determine the contributions of long-range temporal correlations and heavy-tailed probability distributions of variations in the multifractality we follow the procedures introduced by Norouzzadeh and Rahmani (2006): shuffling (1) and Fourier phase randomization (2). First, we destroyed any temporal correlations by randomly shuffling the return time series and we quantified the influence of correlation by

$$H_{cor}(q) = H(q) - H_{shuf}(q) \quad (2)$$

Second, since the shuffling procedure doesn't affect the probability density function (PDF), we create phase-randomized surrogate time series to study the contribution of the heavy-tailed distribution. Thus, the contribution of the non-Gaussian PDF will be

$$H_{PDF}(q) = H(q) - H_{sur}(q) \quad (3)$$

IV. Empirical results

Fig. 1 illustrates the generalized Hurst exponents $H(q)$ via the MFDFA procedure for the original, shuffled and surrogate daily exchange rate returns of the six markets investigated. In our study we follow Zunino et al. (2009) and use a polynomial fit of order 3 (hence, the algorithm is denoted as MFDFA-3) and window lengths (s) between 20 and $N/4$ with a step of 4 according to the suggestions of Kantelhardt et al. (2002). The variation of q is from $[-10, 10]$ with a step of 1.

Overall, it can be observed, especially in case of original returns, that the change of $H(q)$ depends on the values of q indicating that the EUR exchange rate series are multifractal. The highest variability of $H(q)$ is displayed by HUF/EUR exchange rate, followed by RON/EUR and HRK/EUR exchange rates. It should be mention that for most series, $H(q)$ monotonically decreases with the value of q increases, except the surrogate return series.

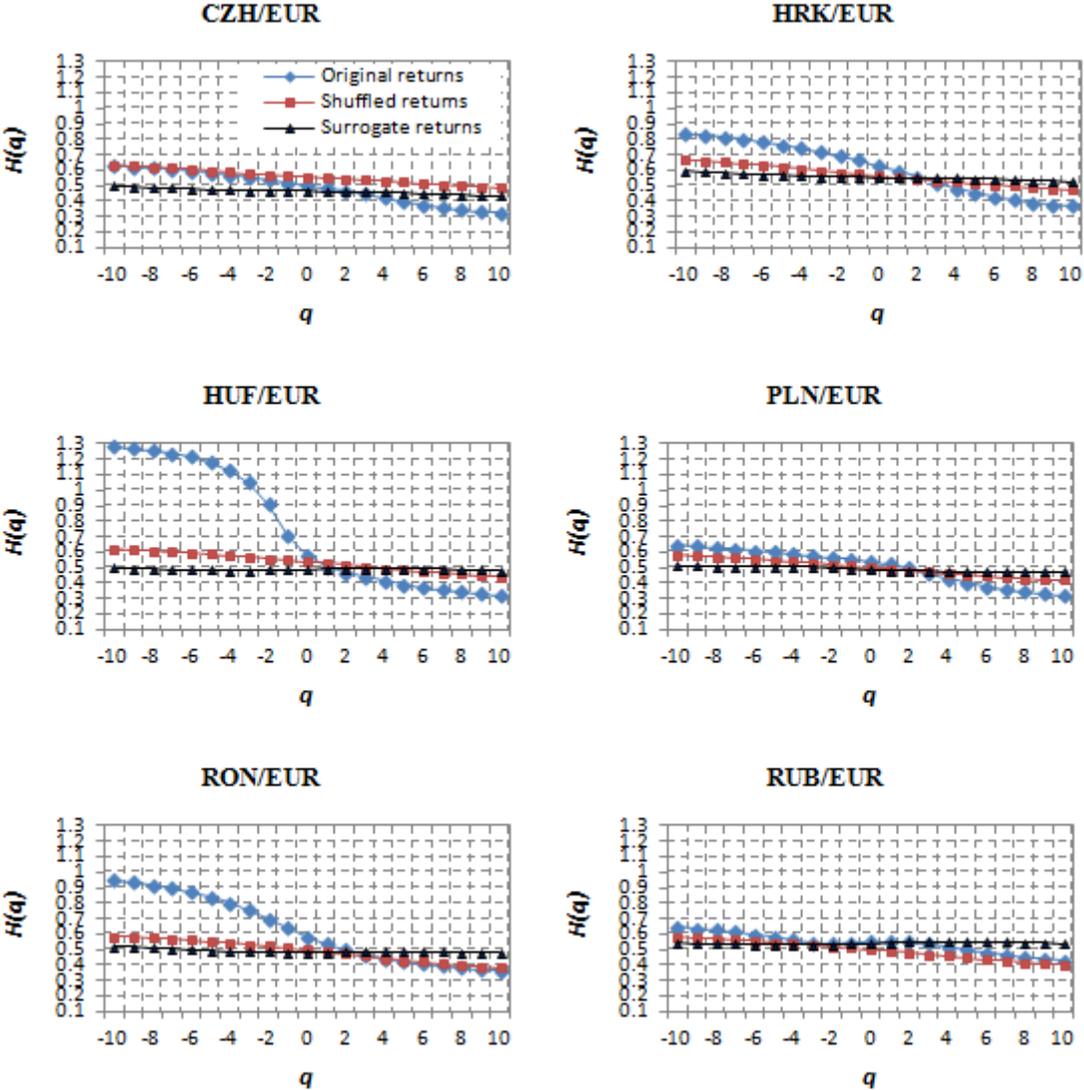


Fig. 1. Generalized Hurst exponent, $H(q)$, as a function of q for the original, shuffled and surrogate daily exchange rate returns

Source: authors' calculations.

Multifractality degrees of the original, shuffled and surrogate return series are reported in Table 1. As expected, the associated shuffled and surrogate time series have a lower degree of multifractality than the original time series ($\Delta H_{shuf} < \Delta H$, $\Delta H_{sur} < \Delta H$) indicating that both long memory and heavy-tailedness have major contributions to the multifractality. However, in all cases, the multifractality degrees of surrogate series weakened more remarkably that those of the

shuffled series ($\Delta H_{sur} < \Delta H_{shuf}$) pointing out that heavy-tailed distributions play a more significant role in the sources of the observed multifractality ($\Delta H_{PDF} > \Delta H_{cor}$).

Table 1. Degrees of multifractality for the daily exchange rate returns

Exchange rate	ΔH	ΔH_{shuf}	ΔH_{sur}	ΔH_{cor}	ΔH_{PDF}
CZH/EUR	0.305	0.146	0.065	0.159	0.240
HRK/EUR	0.466	0.191	0.069	0.274	0.396
HUF/EUR	0.963	0.179	0.015	0.784	0.948
PLN/EUR	0.323	0.162	0.039	0.161	0.284
RON/EUR	0.585	0.204	0.042	0.381	0.542
RUB/EUR	0.217	0.181	0.005	0.036	0.212

Source: authors' calculations.

In Table 2 we rank the exchange rate returns by considering their multifractality degree as a measure of inefficiency. Ranking market inefficiency is important information for investors and for regulatory authorities and has implications for financial theories and investment strategies. The multifractality degree is estimated as in Eq. 1 and also by the mean absolute deviation of the generalized Hurst exponents. The second measure is chosen because it is independent of the Gaussian assumption like the standard deviation. As one can observe comparing the first and the third column of Table 2, the ranking order of the foreign exchange markets is unchanged. In the first position in the ranking is the RUB/EUR exchange rate, while the last position is occupied by the HUF/EUR exchange rate. Thus, the Russian foreign exchange market has the highest degree of efficiency, the returns of the RUB/EUR exchange rate being less predictable than those of HUF/EUR.

Table 2. Inefficiency ranking of daily exchange rate returns

Measure: multifractality degree [Eq (1)]		Measure: mean absolute deviation of the $H(q)$	
RUB/EUR	0.217	RUB/EUR	0.051
CZH/EUR	0.305	CZH/EUR	0.093
PLN/EUR	0.323	PLN/EUR	0.101
HRK/EUR	0.465	HRK/EUR	0.153
RON/EUR	0.585	RON/EUR	0.201
HUF/EUR	0.963	HUF/EUR	0.371

Source: authors' calculations.

V. Conclusions

In this paper, we firstly studied the multifractal properties of six Central and Eastern European foreign exchange markets through the MF DFA technique. The main advantage of this technique is that it can be used for nonstationary multifractal data. Basic notion is the examination of deviations from polynomial fit of different moments q . We show that the time series for exchange rate variations exhibit the characteristics that can be interpreted in terms of multifractality. The highest variability of $H(q)$ is displayed by HUF/EUR exchange rate, followed by RON/EUR and HRK/EUR exchange rates. Second, we employ the shuffling and Fourier phase randomization procedures to obtain the origins of the multifractality. It has been shown that there are two main factors leading to multifractal behavior of financial time series, nonlinear time correlations between present and past events and the heavy-tailed probability distributions of function. Our results provide the evidence that the multifractality can be mainly attributed to the fat-tail distributions and secondarily to the long-range correlations, since the degree of multifractality of

the surrogate return series became significantly weaker than that of the shuffled series. Moreover, we follow Zunino et al. (2009) and we introduce the multifractality degree as a measure of inefficiency and rank the six foreign exchange rates. Two different estimators for the multifractality degree were introduced: the range and the mean absolute deviation of the generalized Hurst exponents and the same results were obtained in both approaches: the RUB/EUR exchange rate is the less predictable, while the HUF/EUR exchange rate is the most predictable.

VI. Notes

(1). Shuffling procedure preserves the distribution of the variations but destroys any temporal correlations. What then remains are data with exactly the same fluctuation distributions but without memory. For more details see Norouzzadeh and Jafari (2005).

(2). Phase randomization preserves the amplitudes of the Fourier transform but randomizing the Fourier phases. This procedure eliminates nonlinearities, preserving only the linear properties of the original time series. For more details see Norouzzadeh and Jafari (2005).

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SUB-SECTION: BANKING

DEVELOPMENT PERSPECTIVES OF SECURITIES SECONDARY MARKET IN REPUBLIC OF MOLDOVA

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It's an urgent necessity to determine the specific problems of the securities market in Republic of Moldova, in the context of policies and strategies of accession to the European and International activity standards, performance and quality, along with the implication and effects of the international financial crisis.

Identification of the influence factors with negative on the secondary market will enable the formulation of recommendations, proposals, improvement and refreshing techniques for the capital market as a whole. The analysis of the secondary market indicators allowed concluding on a high degree of uncertainty and predictability of its evolution. Legislative and regulatory issues on the securities secondary market activity of professional participants, admit the interpretation duality of provisions concerned. National Commission of Financial Market activity as a mega-regulator of the financial market, although involving a increased complexity of activities concerning supervision, control and regulation of the financial (non-banking) sector, do not enjoy great efficiency in terms of stabilization and promotion of the financial sector. The appearance of a stock institution as an alternative to the existing one, after 20 years of experience of the latter, theoretically opens new market opportunities, although in practical terms, at this moment of time, the market participants are reserved and undecided on the future development trend of the secondary market.

The study is based on statistical data contained in annual reports of the National Financial Market Commission and published on the official website of JSC „Stock Exchange of Moldova”, analysis of legislative and regulatory provisions and international practices. The statistics cover the whole period of operation of the secondary market in Republic of Moldova, that is from 1995 to 2012, as much as the stock market segment and the counter. The research methodology was based on content analysis, scientific observations, classification, and graphic representation of the investigated phenomena.

The paper will contribute to the identification of the secondary market problematic issues and will present a variety of solutions, which will help to review the secondary market development strategies, in particular, and of state policies on financial markets in general.

Keywords – securities secondary market, transactions, stock exchange, finance.

JEL Classification codes: O16, G18, G24

1. Overview concerning the securities market and its reform

Capital markets through financial instruments, makes one of the most important functions in a national economy – funding of it. This is done directly on the primary market through shows of securities, whether public or closed; the secondary market is a movie indirect influence through price, information, expectations, etc. Representing an emerging market, securities market from Republic of Moldova, in the last 20 years has been subject to conceptual and structural reforms, with purpose to enliven the situation and attract more participants.

In this respect, the first reform began in 1996-1997 with the need to determine the fundamental principles of operation of securities markets components and directions of activity of professional

participants prior to the legislative and regulatory framework, having a specific temporary character ensuring the mass privatization of state assets. The key objectives of the National Securities Commission (NSC) (reorganized in 1998 the State Commission for Securities Market) in insuring development of securities markets were:

- connecting of legislative - normative framework, international standards on the movement of securities and activities of professional participants;
- ensuring competitiveness of professional participants both internal and external markets and the possibility to operate - from year to year on external markets to increase its regulatory capital on minimum level of professional participants;
- orientation securities transactions for stock sector, including through the legislative-normative provisions and diversifying types of operations made in; stock;
- promoting information disclosure both by professional participants of securities market, as well as by issuers, investors.

The next reform of the securities market started in 2004 with the launch of the project of reorganization / liquidation of non-specialized non-mutual fund investment, as law successors of privatization investment funds. The tension in society on the inefficiency of investment funds required to initiate proceedings forced or voluntary liquidation of investment funds unable to provide or repurchase its shares from shareholders as provided by law (at least 50% of the nominal value) or reorganization of these in ordinary joint stock companies with the condition of repurchasing the shares from all shareholders who submitted that request. As a result, over several years have gone the investment funds and some elements related to infrastructure (storage investment funds) and it was reviewed the exchange transactions structure, promoting transactions in interactive section, which forms the market price of securities negotiated. Moldova Stock Exchange (MSE) has changed the conditions for admission to stock exchange listing, companies being enrolled in one of two levels (previously three) only if they obtain a positive financial result (before the third level there were no restrictions on the financial result).

A new reform of the securities market started in 2006 with the establishment of inefficient policies and strategies of development of market securities separate from other components of the financial market as a whole. However, financial market can not develop and exploit the situation when its components are managed separately, with no correlation and coordination of policies and development strategies. Thus, international practices directed local authorities toward the idea to form in Moldova Mega (2007) - National Commission of Financial Market (NCFM), the legal successor of the NCSC, whose functions were the segment management in market securities, collective investments, insurance and reinsurance, microfinance and savings and loan operations in the associations. Banking sector remained under the supervision and control of the National Bank, a state body with autonomous status.

At present is projected financial market reform, based on their promotional policies:

- discussing the draft law on capital, which implies some conceptual changes of its key elements and procedures of the securities market;
- developing the concept of a central depository, which would take over the functions independent securities registrars and ensure the storage and clearing and settlement of securities transactions;
- Mega status review to determine the principles of intensive cooperation NCFM and National Bank of Moldova (NBM), to develop unique policy of financial market development.

2. Secondary market indicators

The main objectives of the state regulatory body, control and supervision of securities market in any period was refreshing secondary market segment, which is the term efficient on functioning of overall economy. The development of national economy determine trends in the securities market, in particular, the value of exchange transactions, trading profitability, market prices,

market attractiveness for domestic and foreign investors exchange, liquidity and safety operations started, etc.

The first stock exchange transactions in Moldova took place in the SA "Stock Exchange of Moldova" on June 26, 1995. Thus far have been negotiated 6035 million titles in the MDL (or 545.4 million USD). OTC in the same period were negotiated about MDL 8924.6 million (or 778.9 million USD)

Dynamic transactions can be viewed in Fig. nr. 1, with separate coverage and off-exchange transactions. Note, the lack of any form of development trend of the indicator analyzed, chaotic oscillating turnover from year to year depending on the spontaneous events. In general aspect, between the years 1998 - 2005 value of transactions fit within the 600 to 800 million, marking a relative stability. Since 2007 the indicator increase sharply, confirmed in 2008, followed by major fluctuations in 2009-2012.

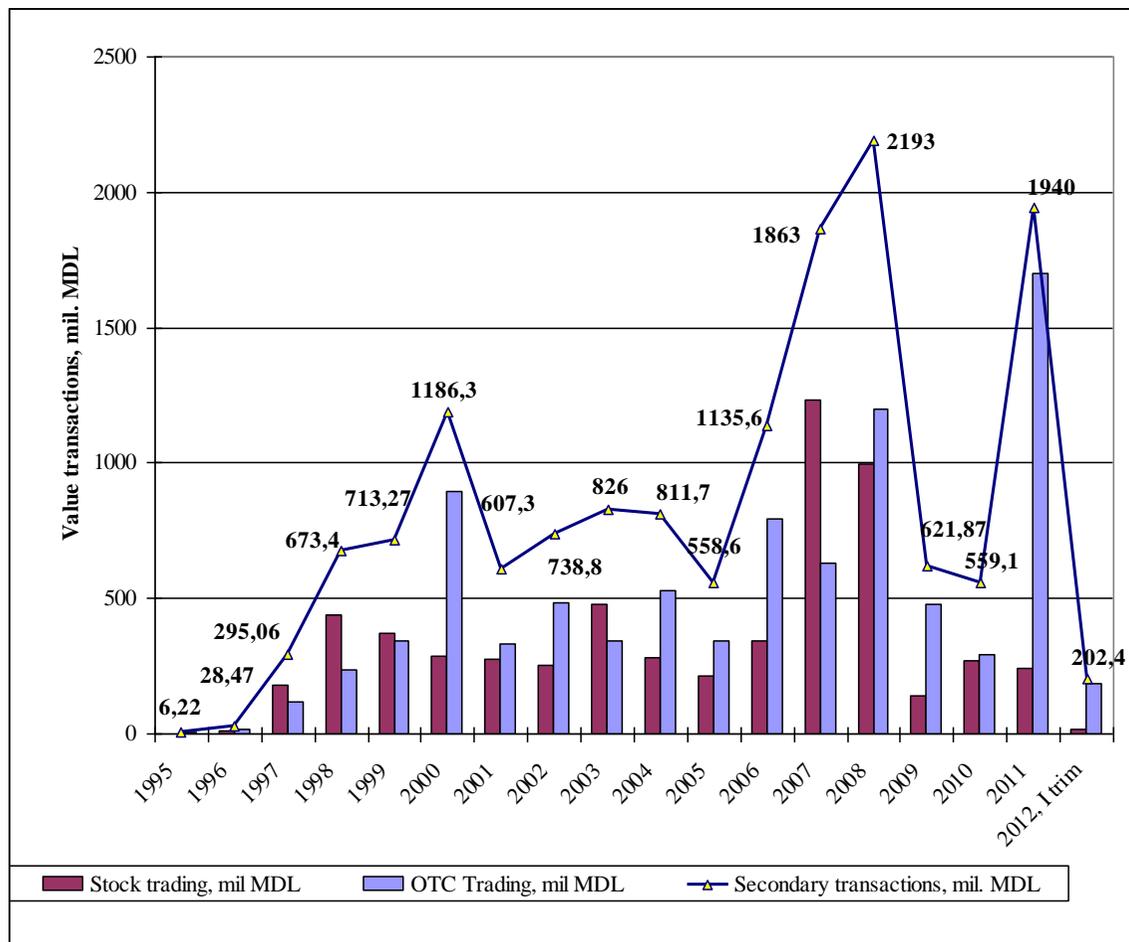


Fig. nr. 1. Dynamics secondary transactions recorded in the Republic of Moldova in 1995 - first quarter 2012.

Source: made by author based on annual reports of NCFM (NSC) for the years 2000-2011, NCFM monthly bulletins for January-March 2012, Newsletter "Stock Exchange of Moldova".

Although, since 1997, NSC promoted policies restricting secondary market OTC market directing the participants to shelf stock, note that from 2000 to 2012 only two years of prevalence of value exchange transactions have been registered on the OTC - 2003 and 2007. We note that only a security transaction determined the outcome of the entire year - through tender offer to

purchase the package of 96.5% shares of "Vitanta-Intravest" SA (Now IM "Vitanta Moldova Efes Brewery" JSC) worth 167.6 million lei (12.69 million USD). The transaction took place in January 2003 and constituted 34.89% of the annual exchange transactions and 20.29% of total secondary market transactions. In 2007 the stock market was revived thanks to the tender offers; public offerings later renamed the secondary direct transactions conducted in the Department of MSE. Their share was 65.5% of all stock transactions, a value of 808.5 million lei (71.49 million USD) in the 582 transactions involving the 27 issuers. 4-fold increase values such tender offer transactions in 2007 compared to 2006 was due to implementing the changes introduced in the Law on securities market, imposing shareholders with majority shares (50% +1 share) to initiate tender offers in order to protect the interests of small shareholders.

OTC transactions are traditionally performed on donated securities, succession and inheritance, honor obligations related collateral, company capital, split, consolidation or conversion of securities, repurchase of shares by the issuer, selling and buying of securities by individuals receipts derived from securities investment property and / or the liquidation of investment funds involved in the patrimony bond privatization, where the cumulative volume of transactions in a period of 12 months, does not exceed 1% of the total securities issued by class time.

A significant prevalence over the counter (OTC) segment is seen in the following years:

- 2000 - February privatization of electricity distribution networks - South Electricity Distribution Networks - Power Networking Centre and Chisinau, as a result entered the local market they formed ICS Spanish investors "Red Union Fenosa" SA, reorganized after the ICS "Natural Gas Fenosa" etc. Transaction value was about 264 million lei (21.85 million USD);
- 2004 - sale purchase in December of stock shares closed JSC "MMT-Bis" worth 283.3 million lei (21.79 million USD), the share transaction was 53.47% of the Total OTC.
- 2009 - recorded higher share purchase and sale transactions of shares in joint stock companies, following amendment to the law on joint stock companies have maintained its statutes purchase-sale of shares the shareholder agreement (in accordance with amendments made in law starting from 01.01.2008 JSC not fall into the closed and open type);
- 2011 - social capital contribution of foreign investors in domestic stock companies was 37.4% and judgments based on transactions - 32.7%, cumulative 70% of OTC.

The reported allow concluding local market participants tend to use all possibilities provided by the segment out of the counter on change of ownership of securities to bypass the shelf stock. As mentioned reasons: the tendency to convey particular individual securities, avoiding the training process of the market price, minimizing transaction costs.

A very important event for the securities market of the Stock Exchange was set up in Chisinau. In November 2011, the Board of the National Commission of Financial Market registered issuance of shares of joint stock companies set up "Chisinau Stock" amounting to 1.5 million and decided to grant license to stock market activity core business of securities with related activities for a period of five years. The Board of Directors meeting of January 12, 2012 NCFM were approved exchange rules, was coordinated size and the perception of taxes, fees and commissions. Exchange rates obtained permission to hold substantial shares in the company for shareholders 7. Exchange broadening of RM system marks a new period in the movement of financial instruments on the domestic market, given the newly created institution intends to trade derivatives brokers to access the trading system of stock exchange out of the shelf, to broaden the typology of transactions in stock exchange to introduce the category of market-maker, etc.

3. Foreign investors on the secondary market

Another indicator of the vitality and efficiency of the secondary market is the fence of participation of foreign investors in the securities business. 2008 financial crisis and political instability in the last three years have resulted in diminished interest foreign investors in the secondary securities market, the value of transactions of purchase and sale of securities is falling

continuously since 2007, registering the lowest 2010 values for over 15 years - purchase transactions - 14.5 million, sales transactions, 55 2 million (Fig. 2). However, 2010 is shaping the tendency of selling packages of shares in domestic companies issuing.

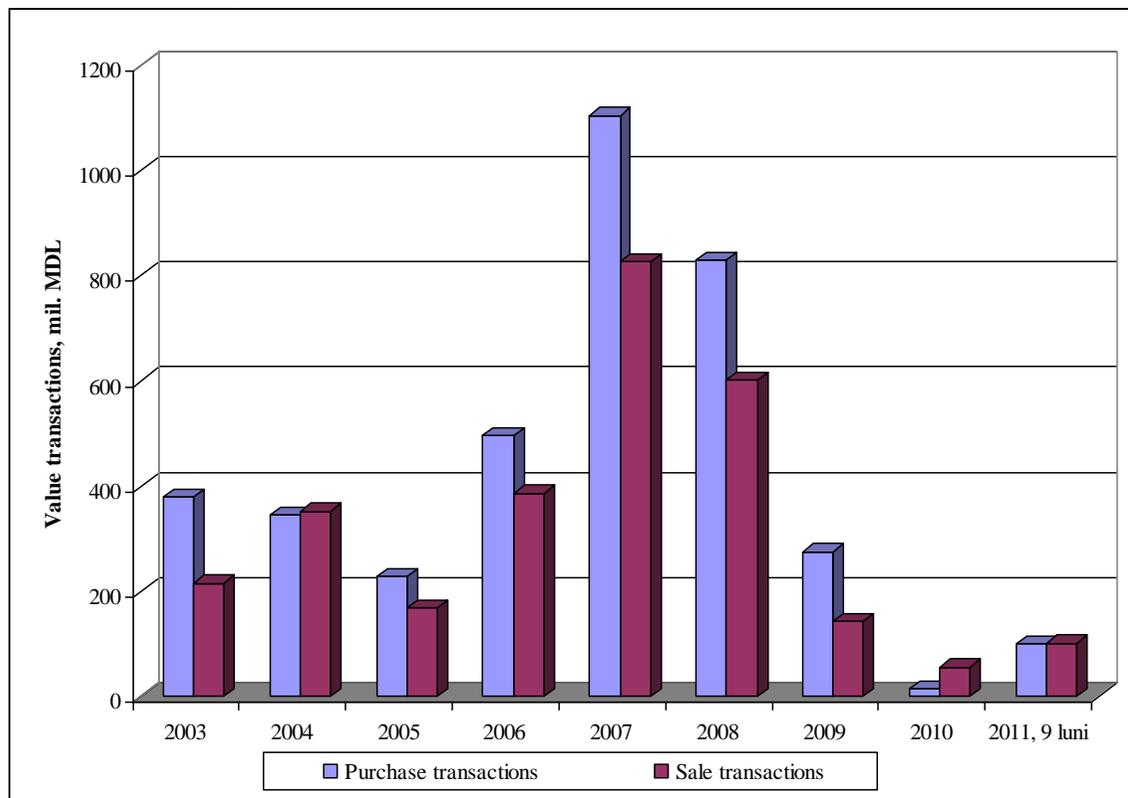


Fig. nr. 2. Dynamics of purchase and sale transactions recorded on the secondary market of RM with participation of foreign investors in the period 2003-9 months, 2011.

Source: made by author based on annual reports of NCFM (NSC) for the years 2003-2011.

A greater share, according to data reported by NCFM for 9 months, 2011 is direct transactions "company capital of the company", or participation of foreign investors in equity securities of companies with limited liability - 1173.1 million lei (102 million) or about 30% of all operations with participation of foreign investors on the secondary market. For the period 2008-2010 the value of this indicator had exceeded 110 million. In this way, foreign investors made in terms of direct transfer of property law, but sale and purchase of securities and, in some cases, information hiding about beneficiary "real" titles.

The presence of certain transactions, unique, due to processes such as privatization of estate state higher minimum regulatory capital required of its banking system, foreign investors entering the local market, investment funds reorganization, re-stock companies generates trends controversial, chaotic and irrelevant in the secondary market in RM.

4. Conclusions - The role of the National Commission of Financial Market

Economic disruptions caused by the influence of recent financial crisis and political instability in the past three years led National Securities Commission to study deeply relevant factors of non-banking financial market failure, particularly securities markets, financial instruments that caused the national economy and guarantor the free movement of capital from an economic entity or individual to another. NCFM developed a strategy on financial unbanking market development in the medium term - 2011-2014, also participating in the development strategy of the country by

2020. Although NCFM aims the reorganization of status holders of securities through a single registrar, forming a central depository, the development of scholarship, creating a system of electronic trading in securities outside the Stock Exchange, itself the status of state regulatory body, supervision and control involving non-bank financial market in the principles of operation, financial market implications, functions and role in determining the policies of development and interaction with other state bodies charged with similar functions in other areas.

Analysis of the practices of countries where financial market mega shows a full control of all financial market segments: securities markets, banking, insurance and reinsurance market, collective investment sector, microfinance, etc. In RM NCFM, as mega does not control the banking system, a fundamental component of the financial market. At present it is necessary to review the principles of interaction between the NCFM and NBM when developing comprehensive policies integrated financial market, comprising both the banking system, as well as non-banking financial market.

Therefore, RM securities market at present is an underdeveloped market, both in terms of infrastructure, as well as the presence of various types of financial instruments, characterized by contradictory trends.

In conclusion, we consider that the situation in the secondary market securities, in particular, and the financial market as a whole could be channeled in a positive trend, if state policies and strategies should provide for concrete measures:

- *political stability, economic and legislative;*
- *review of state tax policy, in order to reduce tax burden and facilitate the work of economic entities;*
- *linking financial market development policies between all components of this market;*
- *review the principles of registration of joint stock companies on stock exchanges, the issuer chooses the category currently quotation - non-listing or listing;*
- *public education viewing on the related opportunities of the market capitalization of equity securities own or obtain additional sources of funding.*

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SPECULATIVE BUBBLES – A BEHAVIORAL APPROACH

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The purpose of this paper is to explain briefly from a behavioral point of view, the appearance and the development of speculative bubbles in financial markets. In the first part of the paper, we have presented the most known speculative bubbles among the history and the principal factors causing them (structural, cultural and behavioral factors). In the second part of the paper we have briefly presented the four main stages of developing speculative bubbles. In the last part of the paper we have concluded that besides the general opinion that bubbles make more harm to investors and economies, the human history has provided us the lesson that some of the bubbles have offered us genuine collective social gains: Apollo program, Human Genome Project and the Dot.com bubbles in the early 2000s. As some studies reflect, besides of the fact the some investors have lost all their money during those bubbles (Dot.com), nowadays we all enjoy the IT infrastructure realized with all those heaps of money that were frenetically invested in.

Keywords: Bubbles, Phases, Behavioral Biases, Smart Money, Euphoria, Collective Social Gain

Jel Classification: D71, D81, D83, D84, G12, G14, Z10

“Bull markets are born in despair, grow amid skepticism, mature in optimism, and die amid euphoria” – Sir John Templeton

A speculative bubble represents „a cumulative movement in the price of an asset whose price is high mainly because speculators believe it will rise still further. ... at some point a bubble will burst, but it is hard to predict when this will happen⁵⁷” (Oxford Dictionary). According to conventional financial theories, speculative bubbles should never happen. According to EMH, the prices of financial assets should always reflect the intrinsic value, due to the fully informed market participants. A little volatility (for instance the noise effects) is considered normal, but overall the prices should reflect the value of the underlying asset.

Shiller (2000) sees the computational era and such related phenomena as online trading and day trading to contribute too much to the market volatility. He thinks today's New Economy was preceded by earlier "new economies" that were at least as important, generated by the automobile, the telephone, and the interstate highway system, for example. Because it is difficult to assess intrinsic values, bubbles are often identified only hindsight, after the bubble bursts.

Both the boom and the bust phases are considered to be part of the positive feedback mechanism, in contrast to the negative feedback that determines the equilibrium prices under normal market circumstances. Shiller (1989) gives the example of US stock market crash of October 1987 – “84% of institutional investors thought that the market was overpriced; 78% of them thought that this belief was shared by the rest of investors and, still, 93% of them were net buyers” (Bianchi & Jehiel 2007) Investors tend to remain invested longer, on the contrary of their opinion that the market is already overpriced. Investors are overconfident about their skills to anticipate the bubble burst, but the bubble bursts when the least people expect it. It usually happens in regular days with no major events.

⁵⁷ Black, John, Hashimzade, Nigar, Myles Gareth, „Oxford – A dictionary of economics”, Oxford University Press, 3rd Edition, 2009, pp 44 – Google Books online.

The term „bubble” derives from the 1711-1720 British South Sea Bubble, and originally referred to the company itself rather than to the general phenomena. The term „mania” originates from the Dutch tulip mania (Goldgar 2007). A few of the main bubbles occurred among the human history might be (Wikipedia):

- Tulip mania (1637)
- The South Sea Company (1720)
- Mississippi Company (1720)
- Railway mania (1840s)
- Florida speculative building bubble (1926)
- Roaring Twenties stock-market bubble (circa 1922-1929)
- Poseidon bubble (1970)
- Japanese asset price bubble (1980s)
- 1997 Asian Financial Crisis (1997)
- The Dot-com bubble (1995–2000)
- Real estate bubbles in Australia, USA, UK, Ireland, Romania, Spanish, China, India, France (2004 – 2008)
- Commodities bubble: uranium, rhodium, exotic live stocks, gold, crude oil, etc - (2007-2009)

The impact of the bubbles has been debated between many schools of economic thought: Austrian economics, sustains that bursting bubbles can destroy a large amount of wealth and cause economic and psychological / behavioral distress (Great Depression in the 1930s, 1990s for Japan or 2007 – 2010 in USA and Europe). Behavioral distress is due to the impact of the burst, on spending habits. People tend to feel richer having their over valued assets and are encouraged to spend more. On the contrary, when bubble bursts, they manifest anchoring biases (referring to the highest prices) and feel poorer, so they tend to consume less. Less consumers means less jobs, less loans and an inevitable recession (or even depression), affecting banks, particularly if banks had bought assets (real estate or shares).

Real estate bursting bubbles nearly always damage banks, because properties are mainly financed with money borrowed from banks. So long as property prices continue to rise and interest payments can be made, loans get repaid, everybody is happy. When the process reverses, problems appear. Borrowers are no longer interested in repaying the loans, because their equity becomes negative and may cause further reasons for prices to fall (as banks tend to demand more collateral) – so called the domino effect (Redhead 2008). Many countries have experienced economic slowdown, financial instability, and sometimes large budgetary costs from the recapitalization of the banking systems after a bubble burst.

Behavioral finance suggests that stock market bubbles occur because of the irrational behavior - the positive feedback trading, other behavioral biases. According to Johnsson, Lindblom and Platan (2002), the factors forming speculative bubbles may be grouped into three main categories:

1. Structural factors:

- The development of new technologies capable to sustain economic growth
- Changes of mentality and people’s beliefs
- Changes in the money supply (remember the changes in the monetary policy of FEDs after September 11, 2001). A rapid growth in money supply could bring price inflation in stock and property markets (Redhead, K. 2008).
- Demographic development and its effect on the economy - „the baby boom” and its perceived effects on the markets
- The development of communications, telecommunications and business media able to inform and give access ordinary people to financial markets -
- The development of pensions and mutual funds industries

- Inflation and money illusion effect
- Expansion of the online trading volume and access to information (brokers, day traders, one-click trading).

2. Cultural and biological factors:

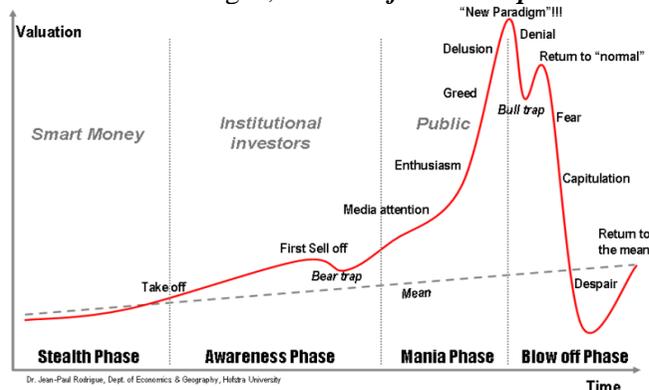
- Differences among genders (females vs. males)
- Investment and financial education among people (especially among youth). See the major differences between US households that invest directly or indirectly on stock exchanges (through their pension and mutual funds) versus the Eastern European households that merely hold their assets in bank deposits and real estate properties.
- Culture and religion (“Sharia (Islamic) Banking”)

3. Psychological traits and behavioral factors (behavioral biases):

- “*The greater fool theory*” - the bubbles continue as long as the fools can find greater fools to pay up for the overvalued asset;
- Moral hazard causes* - see the TARP Program - bailout for many financial and non-financial institutions who speculated in high-risk financial instruments during the housing boom;
- Anchoring* – the tendency of people to attach or anchor the beliefs, thoughts and perceptions to a reference point (past event or trend) even if may have no logical relevance at the first sight;
- Beliefs perseverance* – people are reluctant to search for evidence that contradicts their beliefs and once they find it, they tend to misinterpret everything that goes against their favor;
- Framing* – mental frames are often linked to the language used, to underline the positive or negative aspects with adequate words. The origins of framing may be internal or outside misinformation (external framing) done involuntarily or voluntarily by the informer in order to manipulate;
- Ignorance and lack of study* – people invest faster and easier USD 1000 in a stock than pay for a refrigerator or a TV Set. Before buying the refrigerator, they study dozens of models and search different stores for the best market price, instead for a stock they might decide to buy or sell the stock in a matter of minutes.
- Familiarity biases* – people tend to think that assets they know more about are less risky than the others that do not know much about: for instance, they invest heavily in the company or industry they work for.
- Representativeness biases* – leading to “sample size neglect” bias, by which the probability of an event is similar to its parent population.
- Gambler’s fallacy effect* – people defectively believe that a certain event is more probably to happen following an event or a string of events.
- Conservatism* – manifested to people that lag or postpone their decisions much after the recent evidence tells them to act. They underweight the effects and under react to particular news or event.
- Confirmation Bias* – people tend to filter and pay more attention to information that supports their judgments, ideas, beliefs and positions, while ignoring the rest.
- Hindsight bias* – people understand better the nature of an event after it has happened.
- The Role of affects* – investors tend to fall in love with stocks – they hold positions even when all the information “shouts” for close (sell); they don’t hit the stock until they run into panic and very often they sell it at the minimum price

- Herd behavior* – people tend to mimic gestures of a larger group due to the social pressure of conformity (tulip mania, dot.com bubble or more recently the mania of holding shares of Apple Inc among institutional and retail investors).
- Wishful thinking and overestimating the abilities* – people tend to overestimate their abilities. Besides of the fact that most of the professional money managers are not able to beat the markets returns, most of the retail investors overestimate their abilities when asked about the returns expected to have;
- Mental accounting bias* - may manifest when dealing money differently from sources (hard working money spent or money received from bonuses) and the fact that people tend to put aside money in savings account instead of paying their debts first.

According to Professor Jean Paul Rodrigue, there are *four main phases in a Bubble*⁵⁸:



Main Stages in a Bubble according to Jean Paul Rodrigue

source: http://people.hofstra.edu/jean-paul_rodrigue/jpr_blogs.html

- 1. Stealth** – the period when “smart money” gets in without much noise. In this phase, only very well prepared and skilled people invest. It is usually the market phase where stocks (investments) are considered to be a “dirty word”. People usually keep out of the markets and some even confound trading with gambling.
- 2. Awareness** – It is the phase when very few of the initial investors tend to mark their profits, while smart money buy dips.
- 3. Mania** – Everyone is noticing that prices are going up and the public jumps in for this “investment opportunity of a lifetime”. There is a large propaganda in magazines, tv-shows, a real fashion develops in buying securities. It is the period when everyone, from the taxi-driver until your dentist asks for investment tips. All persons, no matter of what their professions are, become interested in the stock markets. High short term returns, the “easy money” ways attract many new, inexperienced investors, forming euphoric expectations about the length of the bubble. *“Floods of money come in creating even greater expectations and pushing prices to stratospheric levels. The higher the price, the more investments pour in.”* (Rodrigue, J.P.). Investors seeks even hilarious reasons to justify the actual level of the prices (remember the case of the Romanian Stock Market – the stock prices were justified because of Romania’s new membership to European Union and many foreign investors were ready to buy whatever it takes). Bubbles tend to decrease as the mass of rational investors increases. Moreover, rational investors, so called “smart money” tend to leave earlier when they are many, as they need to have enough investors to buy their stocks. In this period, the prices have risen

⁵⁸ Rodrigue, Jean Paul – BLOG – “Bubbles, manias and bears, oh my...”, January 18, 2006 – source: http://people.hofstra.edu/jean-paul_rodrigue/jpr_blogs.html

dramatically, conventional methods of asset valuations are widespread rejected and there are often presented investment schemes that offer high returns very quickly (Bernard Maddoff scheme for instance). There is a widespread enthusiasm regarding the stock market and investments in margin accounts, together with a high trading volume of shares and high selling volume by corporate insiders (Redhead 2008, apud Band 1989). In this period, practicing “short selling” might seem as normal as an extreme sport.

4. Blow-off – It is the moment when suddenly everything has changed. “The house of cards collapses under its own weight and late comers (commonly the general public) are left to hold the bag while the smart money has pulled out a long time ago”. (Rodrigue, J.P.) This is the phase when people cannot find explanations why the stock markets crash and continue to dip further.

Conclusions

Besides the general opinion that bubbles make more harm to investors and economies, the human history has provided us the lesson that some of the bubbles produces also social wealth and benefits. Gisler and Sornette (2009, 2010) assert that bubbles constitute an “essential element in societal processes and in the dynamics of society at large”. They give examples of the Apollo program, the Human Genome Project and other emerging industries that need “animal spirits” and overinvestment in order to sustain innovation. Take example of the Dot.com bubbles, when many technological companies like Yahoo, Google, MSN, and many others have invested extremely amount of money in the IT infrastructure or heavily investments in alternative energy industries that revolutionized technologies in the energy sector. Daniel Gross (2007), asserts that “most investors in the ‘dotcom’ episode lost, but their money built the software and infrastructure that runs today’s Internet”. Instead of seeing bubbles from a catastrophic point of view, others see bubbles as a collec.

EMPIRICAL APPROACH UPON THE RELATIONSHIP BETWEEN CENTRAL BANK INDEPENDENCE AND INFLATION IN DEVELOPED AND DEVELOPING COUNTRIES

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Central bank independence has become over time one of the key concepts in modern theory and policy. Most economists agree that central bank independence is desirable because it helps achieving and maintaining the long – term goal of price stability. Although one might think about alternative mechanisms to reach lower inflation rates, central bank independence is clearly the most often recommended. The empirical trends upon a more independent central bank with a more transparent and accountable monetary policy regime has emerged in economic literature regarding central banking and monetary economics. In recent years, starting from the Maastricht Treaty central bank independence has become the panacea of the monetary economics and monetary policy approaches. Moreover it is important to analyze and assess the impact of this key issue in central banking upon the inflation performances of the central banks. In this article we provide a qualitative overview upon some recent trends in the central bank independence field: does it still matter? How can be it evaluate and stress it's impact upon macroeconomic performances, especially upon inflation. As we can observe in the economic literature upon central bank independence there are several approaches to use several indices in order to measure this qualitative and quatitative institutional variables. The most important debate is to eliminate the gap between de jure and de facto independence in order to flatten the measuring of institutional aspects, the legal implication, the constitutional facts and the actual practices of the central banks. Finally, we suggest that according to the new index for measuring central bank independence and inflation targeting index we can evaluate more accurate the degree of the de jure and de facto independence and stress the impact on inflation performance with a case study for ten developed countries and ten developing countries.

Keywords inflation targeting, central bank transparency, communication strategy, decision-making process, inflation level.

JEL Classification E50, E52, E58.

I. Introduction

In the beginning on the 1990's the stipulations of the Maastricht Treaty embedded with the importance of the central bank independence and the positive impact of it upon the macroeconomic performances. It is highlighted by (David 2009: 19) the importance of central bank independence of the romanian central bank and it's assessments in assuring and maintaining the price stability objective.

It is suggested by (Mishkin 2007: 20) the importance of the monetary policy strategies especially inflation targeting with a special focusing of the central bank independence matter. The overall independence notion translated to the central banks as being free from the influence, guidance or control from the rest of the government, meaning the executive and legislative branches (Thisani 2008: 15).

The central banker is subject to explicit influence of elected principals through contracts and the endogenous interest groups (Gabillon and Martimort 2004: 353-355). The authors suggest that

⁵⁹ This paper is part of post-doctoral research "Central bank as the bureaucracy branch" under the guidance of PhD Professor Silviu Cerna in the post doctoral project: "Post-Doctoral Studies in Economics: training program for elite researchers - SPODE" in the period 2010-2013 developed by the Romanian Academy in partnership with West University of Timisoara, Alexandru Ioan Cuza University of Iasi and Ovidius University of Constanta.

political independence increases those agency costs but significantly stabilizes the politically induced fluctuations of inflation.

Studies developed by (Allesandrini, Calcagnini & Zazzaro 2008: 699-700) and (Huang and Wei 2006: 242-243) reveal that central bank independence has an important role for the ultimate design of monetary policy making institutions.

II. Former approaches regarding the relationship between central bank independence and inflation

The most important indicators for measuring central bank independence was developed by (Cukierman 1992: 369-386). At the beginning at it's studies, the author developed LVAU and LVAW *de jure* indicators for measuring central bank legal independence. Later he had developed two behaviour oriented indicators: turn over rate of central bank Governor and the board members for measuring actual practice accuracy of the central banks.

Recent studies of (Haftel and Thompson 2006: 250-275) and (Patel 2008: 27-41) studied the relationship between central bank independence and inflation in developed and developing countries but had registered divergent conclusions and results. It can be noticed that in cases of high independent central banks it is registered high inflation rates and vice versa: some low inflation level countries exhibit lower scores of central bank independence.

Other authors like (Masciandaro et al. 2008: 833-848) and (Siklos 2008: 802-816) analyzed the connection of different indices for measuring central bank independence and their impact on the inflation rates and have emerged to the conclusion that the divergent results start from the inaccurate indices with several problems in the construction and explicit variable stipulations.

III. Measuring central bank independence and it's connection upon inflation in several developed and developing countries

Analyzing the economic literature regarding central bank independence we can observe that the different approaches are sometimes divergent regarding the soundness and effectiveness of the indicators for measuring central bank independence. This is because there exist still differences between *de jure* and *de facto* independence and also that in some countries there are still developing reforms regarding modernizing the central banks, especially in the less developing countries of Africa and Asia.

For a more accurate measuring of central bank independence we have adopted the (Dumiter 2009: 83-85) and (Dumiter 2010: 183-184) index for measuring central bank independence and inflation targeting. This index is conceived as a sum of numerical values assigned to thirty eight institutional arrangements both in law and practice of central banks: nine attribute to political and legal central bank independence, fifteen attribute to central bank governance and conduct of monetary policy and fourteen attributes for central bank transparency and accountability.

The index for measuring central bank independence and inflation targeting constructed by Dumiter is considered both a *de jure* and *de facto* index because the aggregated value is based not only on the institutional practices or norms of central banks and also what is written in the central bank laws. However, the new index for central bank independence and inflation targeting is an interpretation based on these laws, which are put into actual practices and those practices that are not embedded in the central bank statute.

Table 1 presents the connection between central bank independence and inflation in ten developed countries by using the Dumiter's index in the period 1980-2009 and the average inflation rate (average) in the period 1999-2008. Analyzing the empirical results in the developed countries we can observe that according the first pillar – political and legal central bank independence – the most independent central banks are those of France, Sweden, United States and Denmark; these countries central banks' register longer tenures of central bank Governors and the members of the Governing Board, appointment and dismissal procedures

assign by Parliament, lower turnover rates of central bank Governors' and political non-vulnerability of the central bank Governor. At the opposite side are countries as: New Zealand, Norway and Japan who exhibit lower tenures of the Governor and the Board Members which overlap the political cycle, appointment and dismissal procedures made by the Government and political vulnerability of the central bank Governor.

Regarding the second pillar – central bank governance and conduct of monetary policy – at the top of the hierarchy are countries as: France, Germany, Denmark and United Kingdom by a clear focusing of the final objective of monetary policy – price stability – the bank prevaillance upon the Government in case of policy conflicts, and the unequivocally prohibition of Government direct and indirect lending. The lowest scores of this pillar register countries as: Canada, Norway, New Zealand and Japan because of some aspects as: Government prevaillance in case of policy conflicts, establishing the monetary policy objectives and targets in compliance with the Government and granting potential indirect lending to the government in several cases.

Table 1
Measuring central bank independence and its' relationship with the inflation performances in developed countries¹

Country	P _{PL} ¹	Ran king	P _{GC} ²	Ran king	P _{TA} ³	Ran king	I ⁴	Ran king	I ⁵	Ran King
Canada	7.55	4	6.67	5	10.00	1	8.07	7	2.06	2
Denmark	8.88	2	7.80	2	8.93	3	8.54	4	2.94	5
France	9.44	1	9.33	1	9.64	2	9.47	1	3.15	8
Germany	7.22	5	9.33	1	9.64	2	8.73	3	2.75	4
United Kingdom	8.33	3	7.13	3	9.64	2	8.37	5	2.47	2
Japan	4.33	8	4.33	8	5.71	5	4.79	9	1.39	1
Norway	6.11	7	5.00	6	9.64	2	6.92	8	3.05	7
New Zealand	7.11	6	4.66	7	10.00	1	7.26	7	3.95	10
Sweden	9.44	1	7.00	4	10.00	1	8.81	2	3.29	9
United States	8.88	2	7.13	3	8.21	4	8.07	6	3.00	6

Note: ¹ Measuring central bank independence and inflation targeting in developed countries was made by analyzing central banks websites, government websites, central bank laws and statutes, different norms and regulation and other publication and studies available on the central bank website and on the real practices of the developed central banks in the period 1980 and 2009; the inflation indicator have been estimated by the author as the main average of the inflation variable in the period 1999 – 2008 – the data used by the author is available on: International Monetary Fund – World Economic Outlook Database 2010.

¹ P_{PL} – Pillar I – Political and legal central bank independence.

² P_{GC} - Pillar II – Central bank governance and conduct of monetary policy.

³ P_{TA} - Pillar III – Central bank transparency and accountability.

⁴ I – Index for central bank independence and inflation targeting – overall score.

⁵ i – inflation – average consumer prices – percent change.

The third pillar – central bank transparency and accountability – reveals the most accountable and transparent developed central bank: Canada, New Zealand, Sweden because of the inflation targeting strategies embedded with the high disclosure of the macroeconomic models used for policy conflicts and the quarterly publishing of the time series for the main macroeconomic indicators and the complex communication strategies. The less accountable and transparent central banks are those of: Japan and United States because of promoting the *policy mistique*

without any complex and direct explanations of the present and future policy paths and without any transparent and functional communication strategy.

Overall, the correlation with the inflation rate in the developed country group is the following one: the highest score for the final value of the Dumiter's index have countries as France, Sweden, Germany and Denmark, countries who exhibit lower levels of average inflation (between 2.75 percent in Germany and 3.29 percent in Sweden), the lowest score of the final value on the Dumiter's index in the developed country group register: Canada, New Zealand, Norway and Japan, countries which exhibit different levels of average inflation (lower levels in Japan – 1 percent and Canada – 2 percent and higher levels in Norway – 7 percent and New Zealand – 10 percent).

Table 2

Measuring central bank independence and its' relationship with the inflation performances in developing countries¹

Country	P _{PL} ¹	Ran king	P _{GC} ²	Ran king	P _{TA} ³	Ran king	I ⁴	Ran king	I ⁵	Ran king
Armenia	6.33	8	7.13	3	8.93	2	7.46	4	8.96	9
Bulgaria	6.66	7	6.13	6	6.79	4	6.53	8	7.26	6
Brazilia	3.00	9	4.13	7	8.57	3	5.23	10	5.26	2
Croatia	6.66	7	7.66	2	4.64	6	6.32	9	5.04	1
Estonia	7.11	5	8.00	1	6.79	4	7.30	5	6.83	5
Hungary	7.00	6	7.66	2	9.64	1	8.10	2	8.03	7
Latvia	8.88	1	7.00	4	5.36	5	7.08	6	8.69	8
Lithuania	7.44	4	7.66	2	4.64	6	6.58	7	6.29	4
Poland	7.77	3	6.33	5	8.93	2	7.68	3	5.75	3
Romania	8.22	2	8.00	1	8.93	2	8.38	1	26.82	10

Note: ¹ Measuring central bank independence and inflation targeting in developed countries was made by analyzing central banks websites, government websites, central bank laws and statutes, different norms and regulation and other publication and studies available on the central bank website and on the real practices of the developed central banks in the period 1980 and 2009; the inflation indicator have been estimated by the author as the main average of the inflation variable in the period 1999 – 2008 – the data used by the author is available on: International Monetary Fund – World Economic Outlook Database 2010.

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⁵ i – inflation – average consumer prices – percent change.

Table 2 reveals the connection between central bank independence and inflation in ten developing countries by using the Dumiter's index in the period 1980-2009 and the average inflation rate (average) in the period 1999-2008. The first pillar – political and legal central bank independence exhibits higher levels in: Latvia, Romania, Poland and Lithuania due to the long tenures of the central bank Governor and Board member, lower turnover rates and non-political vulnerability; at the opposite side are: Croatia, Bulgaria, Armenia and Brazilia with lower tenures of the Governor and Board members, political vulnerability and the Government implication in the appointment and dismissal procedures of the Board members.

The second pillar – central bank governance and conduct of monetary policy – applied for the developing country group establishes higher scores for: Estonia, Croatia, Hungary and Lithuania and lower score for Poland, Brazilia and Bulgaria. The main important variables for the highest score were explicit prioritisation of the price stability objective, the bank's ability to establish the objectives and targets and the exclusive prohibition of government lending. The countries which exhibited lower scores had multiple objectives without any prioritisation, government

interferences in the monetary policy process and providing direct and indirect credit to the government.

Pillar III – central bank transparency and accountability – registered highest score in: Hungary, Poland, Romania, Armenia due to the inflation targeting monetary policy strategy with clear objectives and targets, a special communication upon the future paths of monetary policy, explicit direction inclination after the Board decision and *forward-looking* analyzes and approaches. The less transparent and accountable central banks are those of: Bulgaria, Croatia, Brazilia and Lithuania because of less developed central bank websites, unpublic disclosure of important information about the current and future paths of monetary policy, and the Governor's accountability before Government.

The correlation between central bank independence and inflation in the less developing countries shows that the most independent central banks: Romania, Hungary, Poland, Armenia exhibit higher average inflation rates (the lowest rate – Poland – 5.75 percent and the highest Romania – 10 percent) and the less independent central banks: Bulgaria, Croatia, Brazilia and Lithuania exhibit medium averare inflation rates (the lowest rate – Croatia – 5.04 percent and the higher rate – Bulgaria – 7.26 percent).

IV. Conclusions

The empirical observed trends upon a more independent central bank and a more transparent monetary policy regime is sustained by a large extent of the theory and practices of the central banks. Moreover, the importance upon the relationship between central bank independence and inflation rate has to undergone the institutional shifts from the past.

In our article we provided a qualitative overview regarding the connection between central bank independence and inflation in 10 developed and 10 developing countries using the new index for measuring central bank independence and inflation targeting based on three pillars: political and legal central bank independence, central bank governance and conduct of monetary policy and central bank transparency and accountability.

In the developed country group we can observe a direct connection between central bank independence and inflation because the most independent central banks: France, Sweden, Germany and Denmark exhibit moderate levels of inflation. This suggest that in the developing countries central bank independence is neither significant nor mandatory for register lower inflation rates.

In the developing country group the final measurements show the following results: the most independent central banks'are those of: Romania, Hungary, Poland and Armenia which exhibit higher average inflation rates, but the rest of the developing countries registered different connections with the average inflation rate.

The conclusion for measuring the impact of central bank independence on the inflation rate is to reconsider constructing a new index for independence, transparency and accountability with different time variant variables and for inflation the importance of adopting the monetary conditions index.

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THE CORRELATION BETWEEN THE EXCHANGE RATE AND THE DIRECT FOREIGN INVESTMENTS

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Since the fall of the monetary system from Bretton Woods, based on a system of fixed rates, numerous theoretical and empirical articles have emerged through which the volatility of the exchange rate and the commercial influxes was analyzed and the identification of specific connections regarding the transmission of the effects of the modification of the exchange rapport of a currency in economy was tried. The general idea from these works start from the uncertainties regarding the evolution of a currency in comparison to another and their effects on the goods and services balance of a state.

Important works from the domain are evaluated. The authors are renowned researchers in the area of international finances and some of them are part of the personnel of the most important international finance-banking institutions such as the International Monetary Fund and the Bank of International Settlements. The studies regarding the relation between the exchange rates and the direct foreign investments are contradictory: some do not find a significant influence of the exchange rate and other demonstrate that there is a strong connection between the two variables. If a connection between the two variables is established, it remains to be settled if the connection is direct or reversed.

The Granger causality test identified the characteristics of the relation between the direct foreign investments and the exchange rate. The conclusions of the research mark out the complex nature of the relation between the two variables, the results being extremely heterogeneous from one country to another.

Keywords: direct foreign investments, exchange rate, volatility, correlation, impact

J.E.L. classification : E20, E22, E43, E30, G10

Introduction

In the specialty literature, there have been many theories that mark out the bidirectional relation exchange rate-direct foreign investments. The classical theories highlight the fact that the volume of direct foreign investments is influenced by the exchange rate; a depreciated currency encourages the investors to delocalize their operations in the geographical areas where the workforce cost is more reduced.

The exchange rate is influenced by a series of factors, marking out a high interdependence degree and heterogeneous determination degrees. For these reasons, different approaches marking out a holographic dimension of the exchange rate (in terms of exporters/importers, investors or speculators) can demonstrate that on short or longer periods of time, a number of determinant factors can become dominant.

The exchange rate is actually the most synthetic price in economy, being the expression of a generalized equilibrium from the real economy, on one hand, and from the monetary-financial one, on the other hand.

1.Theoretical approaches regarding the causality relation between the exchange rate and direct foreign investments

A debate regarding the advantages and disadvantages of the impact exerted by the floating exchange rate on the international commerce appeared after the fall of the system of fixed rates established at the Bretton Woods Conference.

The volume of transactions on the exchange market increased exponentially based on the role that the American dollar played as pattern gold-specie set by the Bretton Woods Act in 1944 and the proliferation of floating exchange rates, after the fall of the system of fixed rates in 1971. It was due both to the intensification of the globalization process of the financial markets from the last decades and to the explosive development of derived operations in *leverage*. The gap between the Global Brut Product and the market of derived financial products. In this way, the

currency market came to be dominated by speculation operations and the factors that influence the exchange rates diversified and become more and more complicated to quantify.

The opponents of the flexible regime considered that the volatility of the exchange rate has a negative effect on commercial exchanges. In 1973, Wilfred Ethier substantiated a model in which “the behaviour of the merchants implies simultaneously both cover techniques and speculations, both of them correlated in an essential way.” There have been various critiques addressed to term markets regarding a series of deficiencies linked to the incapacity of the term markets to act as a convenient cover tool for the volatility of the exchange rate.

The first refers to the fact that term markets are not deep enough to assure an adequate cover against the uncertainty of the exchange rate. The second comprises a complex relation between the exchange rate and prices in which the foreign exchange variations can affect the participants at the operations of international commerce in two ways: - the modification of the pay or cash in sum denominated in the own currency, respectively the modification of the prices of the exported or imported goods denominated in the own currency.

From this perspective, this type of model leads to a double role played by the participants to the international commerce operations – speculators and arbitrators. On the other hand, more studies marked out that the access to term market implies a cost; in this way the access is limited. At the same time, the effect is known by all market participants, but its intensity remains unknown.

Globally, the literature reveals 2 theories regarding the relation between the exchange rate and the direct foreign investments, reflected in 2 corresponding phases: the first comprises models that affirm that the uncertainty/the volatility of the exchange rate can fully be balanced by cover operations (Kogut (1983), Krugman, (1989).

The second phase includes a series of studies with contradictory results (Cushman (1985, 1988) as well as Goldberg and Kolstadt (1995)). Cushman analyzed the percentage modifications at the level of the exchange rate to avoid difficulties implied by non-stationarity and, additionally, he used the real exchange rate and not the nominally rate. Cushman identified a positive relation between the direct foreign investments (ISD) and the volatility of the exchange rate. He explained this finding by the fact that a multinational corporation reduces the exports as response to the exchange risk, but kind of balances this by increasing the foreign capital and production entries. Cushman’s conclusions were criticized afterwards because “although innovative at the publication moment...his predictions are surely not compatible with the latest researches” (Jeanneret, 2007). Jeanneret underlined some of the deficiencies of the study conducted by Cushman; the volatility of the exchange rate was probably overestimated because the author counted the standard aberration that corresponds to the level values and not the one that corresponds to the first differences (Jeanneret, 2007).

A more recent study conducted by Chakrabarti and Scholnik (2002) did not mark out a negative relation between the variation of the exchange rate and the direct foreign investments. The author revealed the fact that a significant relation between the two variables cannot be estimated econometrically using the data regarding the influxes of direct foreign investments directed from USA to 20 Organization for Economic Co-operation and Development countries during the period 1982-1995, and to estimate the volatility of the exchange rate in the form of standard deviation at the level of the monthly exchange rate registered during the previous year (for example, in the shape of a panel type regression with fixed or chance effects).

In 2007, Jeanneret revealed a U type curve relation between the volatility of the exchange rate and the direct foreign investments, to create a model of multidimensional real options, based on his empirical findings afterwards.

The degree of financial development of a state is a strong argument that is taken into account when the type of suitable exchange regime is established and chosen, with implications on the fluctuation margin in which the exchange rate of the national currency will be en-framed. Depending on the development degree of the capital market, the participants involved in the

international commercial exchanges can protect themselves through hedging operations from the modification of the exchange rate. In these conditions, the volatility of the rate has stronger implications on the international commercial exchanges if the development degree of the financial market is more reduced (Aghion et al., 2009, p.496).

The same idea is developed by Rahman in 2009, paying a special attention to the position towards the exchange risk of the partners involved in the international commercial relations. The same author presents other factors that are worth to be taken into account when realizing the analysis regarding the relation between the foreign exchange and the exports: the existence of multinational corporations involved in international commercial exchanges and the anticipations of the partners regarding the implications linked to the rate modification. Other economists approach the volatility effects from 2 perspectives: the first is the microeconomic one – the activity of the exporting firms depends on the level of the transaction costs influenced, in turn, by the exchange rate, and the second is macroeconomic – the fluctuations of the exchange on long term affects the competitiveness of the products designed for export (Schnabl, 2008, p.74).

The firms register additional costs pertaining to the protection from the exchange risk, the earnings of the partners implied in international commercial relations reducing in this way. The existence of instruments on the financial market allows, in a certain measure, the realization of a certain protection from the exchange risk by paying a bonus according to the value of the contract. Unfortunately, these tools are not used on a large scale, many operators preferring not to protect themselves from the exchange risk.

The biggest part of the works that deal with this subject bring *a reverse connection between the volatility of the exchange rate and the influxes from the balance of goods and services of a certain state* in the forefront. Still, some authors consider that the depreciation of the exchange rate is not enough to reduce the current account deficit if the modification of the rate is not consistent (Gust, 2009, p.173).

2.The effects of the volatility of the exchange rate on direct foreign investments

The reduced volatility of the exchange rate is associated by most economists with high degrees of economic growth, an important volume of direct foreign investments, big deficits of current account and an excess in the credit activity (Arratibel et al., 2010, p.1).

The modern theories underline that foreign investments manifest an impact on the exchange rate, from the financial influxes perspective, a consistent volume of financial influxes denominated in specie determines a stabilization of national currency.

Considering the weight of net capital entries (the difference between the volume of financial influxes direct by the foreign investors in the countries from Central and Eastern Europe and the financial influxes repatriated in their own countries) in Gross Domestic Product as important indicator for the analysis of direct foreign investments, meant to allow the highlight of a proportional relation between Gross Domestic Product and direct foreign investments.

The empirical researches based on Granger's model test a few hypotheses:

(1) The exchange rate has an impact on direct foreign investments

In the context of a weak currency which will probably balance in the future due to a potential stabilization/improvement of the macroeconomic background, the foreign investors will have the motivation to direct the financial influxes to that country because a potential stabilization offers the opportunity to raise the value of the investment.

(2) The direct foreign investments influence the exchange rate

The significant financial influxes directed by foreign investors and denominated in currency encouraged the stabilization of the national currency as a result of the increase of the foreign currency volume.

The statistical results that correspond to the Granger test realized at the level of the countries from Central and Eastern Europe reveal important aspects as far as the relation between the exchange rate and the direct foreign investments is concerned. The probability that corresponds to the null hypothesis allows the acceptance of an impact exerted by direct foreign investments on the exchange rate; on the contrary, the exchange rate does not appear in the shape of a variable that manifests an impact on direct foreign investments. So, the direct foreign investments manifest an impact on the exchange rate in the case of certain countries, whereas in other case, the relation is not validated which marks out that the direct foreign investments and the exchange rate are not linked.

The research has allowed the issuance of an important conclusion regarding the role played by foreign investments in the process to determine the dynamics of the exchange rate at the level of the countries from Central and Eastern Europe.

Although the transition process followed by these countries implies periods of significant depreciation of their national currency, it didn't represent the main stimulus for the delocalization of the foreign investments; on the contrary, the exchange rate seems to be strongly affected by the volume of financial influses.

The countries in whose case the fact that the direct foreign investments manifest an impact on the exchange rate was confirmed are precisely the ones that managed to attract the highest level of direct foreign investments. This ascertainment is in concordance with the latest research realized at the level of the macroeconomic environment from Central and Eastern Europe. More studies (Yartey, 2007) marked out the fact that during 2004-2007 the registered economic growth took place mainly in the context of the positive effects of the direct foreign investments and of the stabilization of the national currency which gave the possibility to create workplaces, to extend the range of services and products.

The authors marked out that the stabilization of the national currencies was partly artificial, in the sense that it was not based on economic grounds but on external financial influses that determined the growth of the volume of foreign exchange (Triandafil and Brezeanu, 2009).

In conformity with this idea, we can assess that the foreign investors were mainly motivated by the advantages regarding the reduced cost of the workforce, the high qualification level or a permissive financial fiscal offered by the countries from this area (Kiyota and Urata, 2004).

The conclusions of the study reveal a strong dependence not only of the currencies of these countries but also of the macroeconomic background in rapport with the external financial influses. In fact, there are some chain propagation effects that can be underlined in: Central and Eastern Europe, the stability of the macroeconomic environment depends on the volatility on the exchange rate very much which, in turns, depends on the volume of financial influses. This aspect determined real imbalances after the triggering of the financial crisis. The retreat of the financial influses took place in the context of a strong aversion towards the risk which suddenly led to the depreciation of the national currencies.

The specialty literature has identified by choice 4 factors as determiners that explain the evolution on medium-long term of the real exchange rate:

- the productivity differential (the Harrod-Balassa-Samuelson phenomenon)
- the stockpile of net external actives
- governmental costs
- the exchange rate

The importance of net external actives as determiner of real exchange rate was recently marked out by Lane and Milesi-Ferretti (2000). A country with an increased negative level of net external actives cannot easily finance the current account deficit and cannot support a competitiveness loss associated with a more stabilized real exchange rate.

As a generally valid rule, the level of long term equilibrium of the exchange rate should be consistent with a stable weight of international investment position in Gross Domestic Product.

The action way of the net external actives as weight in Gross Domestic Product manifest by means of 2 channels: (i) the risk bonus and (ii) the payment balance.

The first channel is linked to the portfolio theory and it states that because of the worsening of the international investment position (as Gross Domestic Product weight) of a country, international investors will ask for a higher capacity to provide the capital influxes that are necessary to finance the current account deficit. If the interest rates do not change, the higher risk bonus will determine the depreciation of the currency of the country with net debt to the exterior. So, the interest rate that has to be paid for the accumulated duty as result of consecutive current account deficits has to be counter-balanced by excesses of the commercial balance on long term. This excess can be obtained by depreciating the national currency which will make exports more attractive.

The data series regarding the international investment position are generally relatively short, and even more in Romania's case (there isn't a continuous series in fact). As a result, a frequently used proxy in estimates is obtained by the accumulation of the current account stock – although this way presents drawbacks. Fiscal variables can have a significant influence on the real exchange rate. On long term, the increase of governmental expenses is simultaneously associated with an increase of budget deficit. The general level of economies will reduce supposing that the population does not increase its savings to compensate the decrease from the level of public authorities. As a result, both the current account and the net external actives will worsen. The channels that were earlier described act further on.

From a broader perspective, excessive governmental expenses were interpreted as variable that surprises a multitude of economic distortions, having a negative impact on the perspectives of economic growth and on the real rate. This approach has the hypothesis according to which the increase of governmental expenses and excessive indebtedness will erode the confidence in the national currency as result of the waiting regarding taxes increases in the future at its basis. On short term, though, the effect can be a stabilization of the national currency one both through the effect on the aggregated demand and through the rate of interest increase. The exchange rapport has significant structural implications as, although the workforce from an emerging country is weakly trained, it recovers this gap compared to a developed country through education, international know-how transfer in time; it is very likely that this process improve the competitiveness of exports and to allow the practice of bigger prices as result of a higher quality of goods and services.

As a result, the exchange rapport has a considerable impact on the commercial balance – the most important component of the current account. The worsening of the exchange rapport (that resulted from the modification of the consumers' preferences or from increases of the goods price) should determine the depreciation of the real exchange rate in order to keep the competitiveness of the exports. Since preferences are hard to quantify, the exchange rapport is often approximated with the oil price in literature. The increase of oil price improves the international competitiveness of a country that is dependant on oil imports in a small measure. If this approximation is used in assessments the effect on medium term must be commented because the oil price can float considerably on short term.

Although the under-evaluation of the national currency has positive effects on short term leading to the export increase, to the improvement of the current account situation and to the rise of economic competitiveness, the situation has to be analyzed with the utmost prudence on long term. It needs to be done especially by the countries that recently adhered to the European Union or about do adhere. These countries are to adhere to the Economic and Monetary Union in a future phase and they will have to adopt a fixed rate consequently.

A real stabilization of the national currency realized in the conditions of an exchange market characterized by reduced interventions of the central bank did not affect the external competitiveness due to the fact that the productivity in the tradable sector increased. The rate

under-evaluation from 1999 as result of the strong depreciation of the nominal rate had as consequence an export growth. The imports adjustment due to the decrease of internal demand and the exports increase led to the improvement of the commercial balance account.

The massive capital entries both from direct foreign investments and from other capitals as well starting from 2003 determined a stabilization of the equilibrium exchange rate which lead to a sub-evaluation of the national currency, under-evaluation that decreased in the fourth trimester of the year 2004 when BNR changed its exchange rate policy, passing to a bigger flexibilization of the exchange rate. This flexibilization of the exchange rate was necessary as a phase for the preparation of the passing at the aiming of inflation as strategy of economic policy from 2005 and for the passing over the liberalization step of the capital account from April 2005 – the access of non-residentials to term deposits in lei.

The massive capital entries from the last years due to the improvement of the country rating and the integration in the European Union as well as the stabilization feeling that prevailed in the actions of the participants at the exchange market strongly stabilized the exchange rate.

As far as the exchange rate is concerned, it is estimated a moderate stabilization of the exchange rate for 2012, but it will still contribute to the decrease of import and operated prices wired to the euro currency.

These expectations in the dynamics of the exchange rate are also sustained by a favourable evolution as far as the direct foreign investments are concerned also in the next period and by the keeping of structural tendencies of economic growth, concomitantly with a slowing down in the consumption rhythm.

Conclusions

It is very important to surpass the maximum moment of the capital entries that are envisioned to continue also after the entrance in the European Union from the perspective of correct choosing of central par of exchange at the entrance in the exchange rates Mechanism and ulterior Euro embracement by Romania programmed in the period 2012-2014). This thing is motivated by the capacity to estimate the balanced exchange rate as precisely as possible to have a good foundation of central parity of exchange. The results obtained by econometrical techniques of co-integration in the work lead to the conclusion that a differential increase between the relative prices of the non-tradable goods in comparison to tradable ones in Romania with regard to EU-12 and an increase in the net external actives of the banking system appreciate the equilibrium exchange rate. The national currency had both periods in which it was under-evaluated and periods when it was over-evaluated on the basis of the estimation of the real equilibrium exchange rate. Although the under-evaluation of the national currency has positive effects on short term leading to the export increase, to the improvement of the current account situation and to the rise of economic competitiveness, the situation has to be analyzed with the utmost prudence on long term.

The liberalization of capital accounts and the increase of the volume of international transactions lead to the amplification of the volatility of the exchange rate. At the same time, the proliferation of hedging operations reduced from the vulnerability of the partners implied in the international commerce in the face of exchange risk.

Some particularities, ideas, opinions from the specialty literature regarding the relation between the exchange rate and the direct foreign investments were marked out taking these considerations into account. The theoretical and practical contributions of the authors mark out the preponderance of the negative link between the 2 variables but the relation is not cogent. The obtained results depend on a series of factors: the region about which the analysis is made, the development degree of the capital market, the considered period, the economy cycle.

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THE DIMENSION OF THE DETERMINATION OF THE RISK OF THE DIRECT FOREIGN INVESTMENTS IN ROMANIA

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It was marked out that the investors should be prepared for permanent changes of the forms in which the risk can manifest itself from the evolution of market economy grounded in the industrialized countries: operational, financial, strategic risks are also added to the traditional exposition to chance, caused by a series of factors, as legislation modifications, certain standards and European codes, the risks imposed by the evolution of the new economy, pressures that emerge in the personnel policy domain, the new needs for technical equipment, the costs efficiency, the spontaneous (unexpected, unplanned) economical events.

It is interesting to analyze in what measure one can talk about the risk management in the strategies to attract the foreign investors in this context. This supposes an additional effort of the authorities to identify and subsequently eradicate the risk that could emerge in the case of some direct foreign investments in Romania.

Keywords: direct foreign investments, risk, risk management, uncertainty

J.E.L. classification: E20, E22, G32, D81

Introduction

The reality proved us repeatedly that any human activity is deployed in conditions of risks, these risks being more or less serious, more or less known, easier or more difficult to avoid. The deficient knowledge of risks, their wrong evaluation, the lack of an adequate protection against them will affect the result of the activity directly.

The risk, that is one of the key elements of the evolution of economy, represents a concept that wasn't debated enough in the specialty theory, the people being still unable to master its identification and the avoidance techniques during their deployment.

The risk is regarded as a phenomenon that come from circumstances for which the decision maker is in measure to identify possible evolutions/events, and even the probability of their production (materialization), without being able though to specify which of these events will effectively occur. So, one can say that the risk derives from the impossibility to ascertain with a certain accuracy which is the possible event, identified as such by the decision maker that will effectively materialize and will determine a certain risk level. The decision maker cannot be sure if that event is the one that will occur certainly and not another even if the estimated probability for the effective materialization of a certain factor that generates risk is high; it is possible that a phenomenon whose probability was assessed at a reduced level or even an unexpected event be produced.

It has been assessed that "the risk is constituted by the possibility that a fact with unwanted consequences can be produced" in the definition given by the Organization for Economic Cooperation and Development in 1983 ; this definition has the eventuality that an (anticipated with a certain probability or a not predicted by the decision maker) event materialize and negatively affect certain aspects of the economic activity (the investment process) at its basis. In fact, the accent falls on the effects that the respective event trigger in this concept.

There is a great number of definitions of risk through which the finding of new valences and significances of it on the investment activity are tried: "the risk represents the variability of the possible result depending on an uncertain event"; "the risk is the uncertainty with regard to a loss"; "the risk can be defined as the possibility that losses be bigger than expected"; "the risk

represent the uncertainty with regard to the production of a damage” or “the risk is that situation in which there is the possibility of a deviation withstander to the hoped result”.

One can notice certain common characteristics, certain criteria to define the risk by analyzing all these definitions. Firstly, one can say that the risk derives from uncertainty: the adoption of the decision takes place presently and its implementation and the generated results will produce in the future. The uncertainty comes from not knowing regarding which event of the identified ones will happen and when, which will be the real effects and the amplitude of its production. Secondly, the risk implies the idea of potential loss (of any type), generated by an evolution of the risk factor contrary to the decision-maker’s expectations.

The risk – essential factor in the investment decision

The risk is a multi-dimensional concept whose level cannot be reduced to a single element, to a cipher. It is important for any firm that an acceptable level of the investment risks that it is willing to take be determined. The acceptable risk level refers to the “maximum” risk that the investor is willing to take: it is necessary that the obtaining of a minimum capitalization to justify the operation costs be certain. There isn’t a unique acceptable level, but it differs from the concrete conditions of each economic activity / investment and the decision maker’s attitude regarding risk.

The uncertainty has two components: an objective component – the objective uncertainty (identified with the risk concept not few times) – and a subjective component – the subjective uncertainty. The distinction between these two concepts is important in the case of direct foreign investments (and of international affairs generally). The subjective character of the uncertainty has to be assessed in the sense that the estimates regarding the production of a certain event that generates risk is based on the decision maker’s own appreciations and perceptions depending on the pieces of information he has at the respective moment, and the experience he has in the respective domain. The objective uncertainty can be assimilated to the situation in which all possible results are known and most of those implied in the decision process are unanimous in the estimation of the same production possibility of each of the identified effects on the basis of data delivered by previous evolutions.

The managers’ evaluations regarding the future deployment conditions of a business have a predominantly subjective character. An improvement of the quantity and quality of the pieces of information has to be imposed for a foundation of the decision of investments and the reduction of the number of “unfamiliar” with which one operates as good as possible, and a “a conversion of the unfamiliar into risk” has to be realized.

The risk represents that probability factor that can be associated to a possible result when the decision factor knows all the possible future effects of the taken decision. The uncertainty emerges when the decision factor knows all the possible future effects but it cannot associate them, for various reasons, to no probability factor of the possible result. The uncertainty is “more drastic” than the risk and comes in most cases from the lack of information, the precarious quality of the information or as a result of certain dysfunctionalities of the decision maker’s information system.

In the Romanian economy, the risks to which economic agents expose themselves are the risk caused by inflation, the evolution of the exchange rate and the economic-financial blocking, that is the non-payment risk.

The risk management represents a complex process that comprises a series of activities meant to diminish the risk that could appear once with the entrepreneur’s initiative. The risk management implies the identification of risks, the analysis of risks (the ranking of their importance and their impact on the company), the treating of the risks, that is by the financed or non-financed retention of risks, by the risks transfer, by contract or through insurances and capital markets, by reducing risks and by changing the activity, if it is the case.

The diverse types of exposures specific both to the banking sector and to the commercial companies include all the financial risks – the currency risk, the price risk, the credit risk, the liquidity risk, the operational risk, the legal risk.

An explosive development of projects to control risks was registered in the developed countries in the last years. A great variety of tools was used or revised to respond to the demands of the controlling risks management. The main economic function of futures markets is hedging (the cover of risks). Hedging represents the buy and sale of futures contracts to compensate the risk of the emergence of some price changes on the spot market. This mechanism of risk transfer made the futures contracts indispensable to the companies and institutions from the entire world.

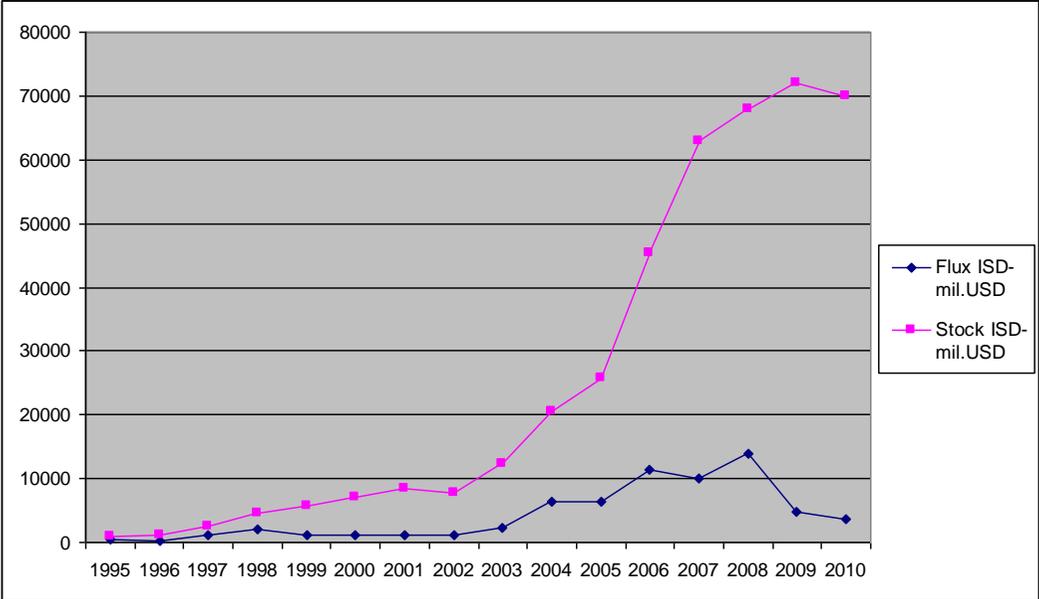
The risk management is an attribution not only of the entrepreneur but also of the state that whose intervention should be as righteous as possible, without creating unilateral precedent.

The attraction of direct foreign investments is an important source of efficient reorganization of the regions and implicitly of the national economy. Financial capital, efficient management methods, assurance of unfolded retail sales markets, capacity of placement on the European and global market are a few of the benefits of the entrance of foreign capital.

We have to know the foreign investors’ criteria to estimate the risk to invest in Romania in order to create an attractive environment for them and these criteria will have to assure a correct use of the community funds meant for economic reorganization and to exploit the created, legal, institutional background efficiently to ensure a stable and attractive environment for the foreign investors.

2. The direct foreign investments in Romania

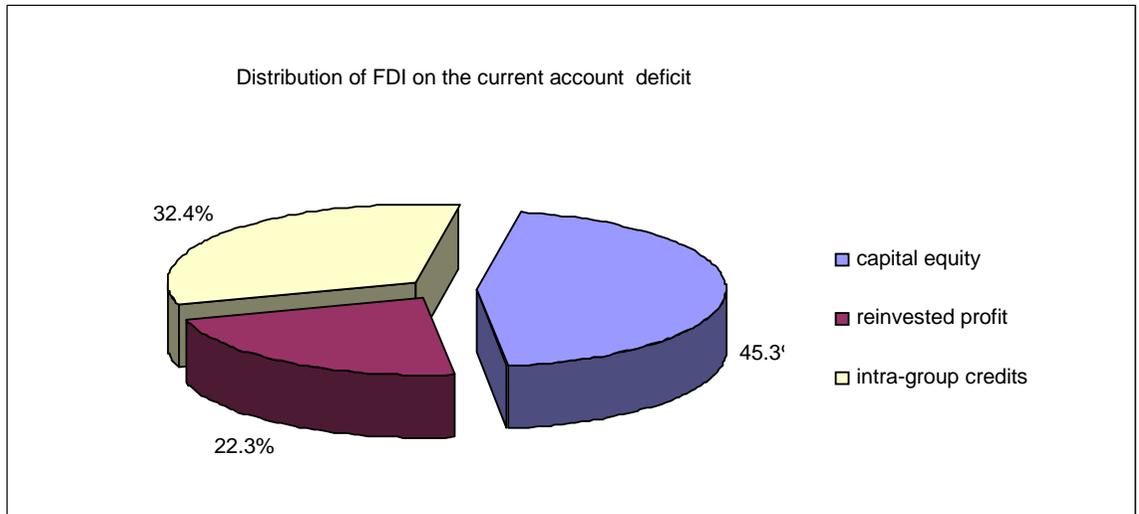
The net influx of direct foreign investments reached the level of 2,22 billion Euro, from which 1,824 billion Euro capital participations (82,2 %) and 396 million Euro net credit received from the foreign investors (17,8%), according to the statistical research conducted by the National Bank of Romania in collaboration with the National Statistics Institute.



Source: Report of the National Bank of Romania
 Figure 1. The evolution of direct foreign investments in Romania

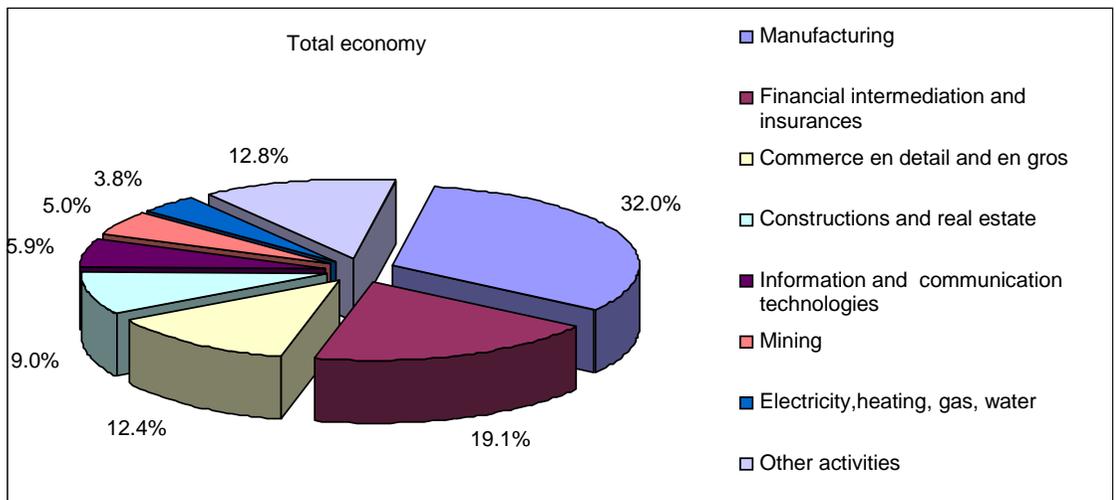
The final balance account of direct foreign investments on the 31st of December 2010 registered the value of 52,585 billion Euro, from which 35,529 billion Euro capital participations, including

reinvested profit (67,6%) and 17,056 billion Euro net credit received from the foreign investors (32,4%).



Source: Report of the National Bank of Romania

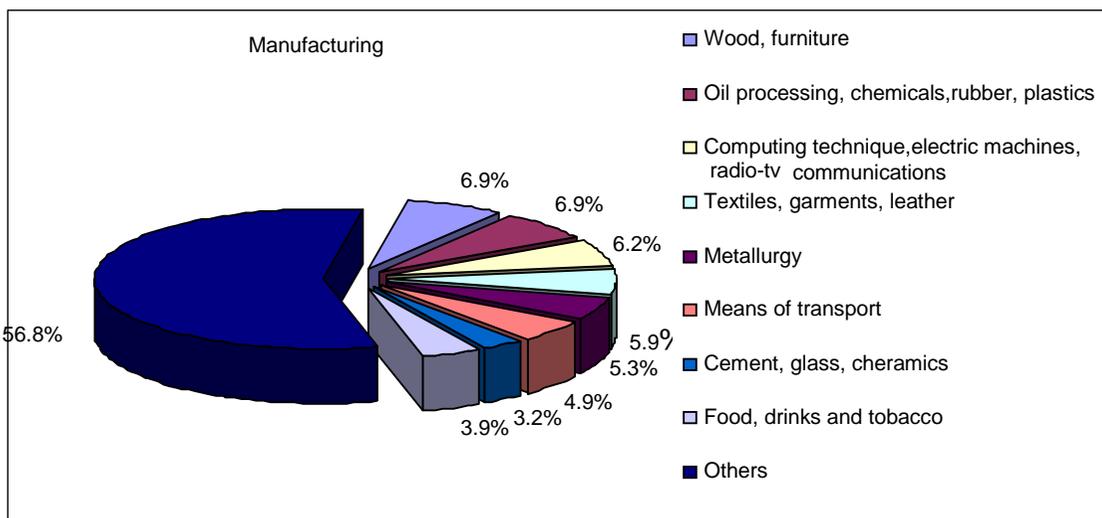
Figure 2. The structure of attracted foreign direct investments



Source: www.reportereconomic.ro

Figure 3. The distribution of the foreign direct investments balance of current account on the main economic activities

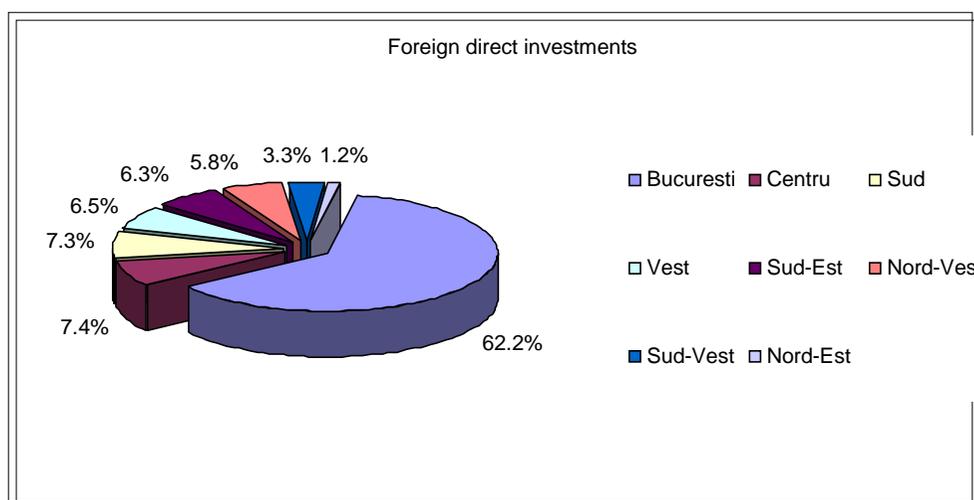
From the point of view of the foreign investors' orientation to economic branches (according to CAEN Rev.2), the direct foreign investments located mainly in the manufacturing industry (32% of the total amount). The best represented branches within this industry are: the oil processing, chemical products, rubber and plastic masses (6,9% of the total), metallurgy (5,3%), the means of transportation industry (4,9%), the aliment, beverages and tobacco industry (3,9%) and cement, glass, ceramics (3,2%).



Source: www.reportereconomic.ro

Figure 4. The share of direct foreign investments balance on current account on the main economic activities

Apart from industry, activities that attracted important direct foreign investments are financial intermediaries and the insurances (they represent 19,1% of the total direct foreign investments), retail and wholesale commerce (12,4%), constructions and real estate transactions (9%), information technology and communications (5,9%).

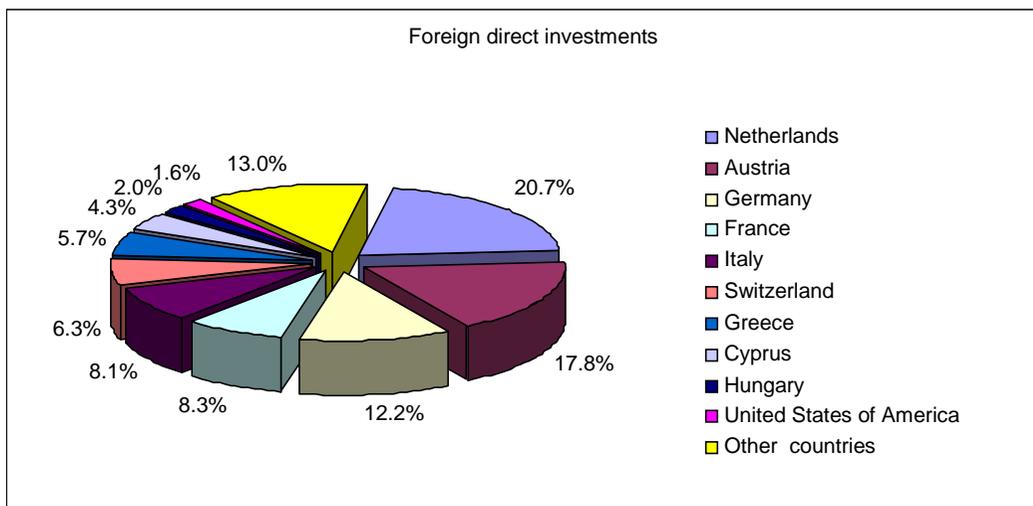


Source: www.reportereconomic.ro

Figure 5. Foreign direct investments on development regions

From the point of view of the territory it is noticeable the orientation by choice of direct foreign investments to the development region București-Ilfov (52,585 billion Euro – 62,2% of the total), other beneficiary development regions of direct foreign investments being the Centre Region (3,909 billion euro – 7,4%), the South Region-Muntenia (3,816 billion Lei – 7,3%), the Western Region (3,446 billion Lei – 6,5%) and the South-Eastern Region (3,29 billion Lei – 6,3%).

The distribution was realised depending on the country of the direct holder of at least 10% of the social capital of the companies' resident direct investment, according to the principle "Immediate Country Basis".



Source: www.reportereconomic.ro

Figure 6. The foreign direct investments by countries of provenience

The first 5 countries that came out according to the weight held in the direct foreign investments balance on current account are: the Netherlands (10,903 billion Euro – 20,7% of direct foreign investments balance on current account at the end of the year 2010), Austria (9,346 billion Euro – 17,8 %), Germany (6,398 billion Euro – 12,2%), France (4,384 billion Euro – 8,3%) and Greece (3,0016 billion Euro – 5,7%), hierarchy also registered in the year 2009.

Corporal and non-corporal immobilisations, with a balance on current account in value of 24,309 billion Euro at the end of the year 2010 represent 46,2% of the total direct foreign investments balance on current account, inducing a significant stability degree of the direct foreign investment.

The influx of capital participations in the direct foreign investments companies in value of 4,067 billion Euro is differenced in green field, merger & acquisition, and firms development.

In the year 2010, the greenfield investments registered a very reduced level, of only 46 million Euro, representing 1,1% from the capital participations in the direct foreign investments companies in the year 2010, in the same category being the investments from the merger & acquisition (M&A) category with 93 million Euro; the dominant weight in the influx of capital participations in 2010 is represented by the developments of firms with a value of 3928 million Euro, respectively 96,6 % of the participations.

The accumulations of direct foreign investments (balances on current account) in the companies established through greenfield investments named greenfield companies were also marked out to appreciate the duration impact of greenfield investments.

The activity of the direct foreign investments companies, in its ensemble, has a positive impact on Romania's external commerce, the contribution to exports being of 72,4%, while at the imports it is of 62,5%. The direct foreign investments will decrease by 20% in 2012, while the exports dynamics will be decelerated to an increase of approximately 10%, according to the surveys conducted by the Romanian Institute for Evaluation and Strategy.

As far as the workforce is concerned, according to IRES surveys, the migration risk to other European Union countries is of 77%, being one of the biggest risks registered in the last years

and there is a decrease of confidence in the European Union, only 46% of the Romanians having expectations to improve the standards of living from the European Community.

3. The evolution of direct foreign investments in crisis conditions

The impact of the economic and financial crisis on direct foreign investments occupies a primary position, but various positive factors will trigger a recurrence of the influxes of international investments sooner or later. The actual financial crisis is different from the previous ones for the following reasons:

- it was triggered in the developed countries, it had a rapid impact in the entire global economy because of the existence of various spreading channels of the globalisation effects;
- it is not part of a normal business cycle, marking out the weaknesses of the regulations of the global financial system as the lack of transparency and control mechanisms and the inability to prevent abnormal states, regulations that are excessively based upon obtaining short term profits;
- it should also mark out the changes within the economic power between the advanced economies and the emerging countries.

This situation could have a negative effect on the dynamics of investments influxes and the spread of an uncertainty state regarding the future evolution of direct foreign investments.

The crisis period can offer the companies the opportunity to buy actives at reasonable prices. The acquisition of under-evaluated actives can increase the investments. The evolution of the exchange rate and the prices decrease of the actions can lead to a series of acquisitions that aim at transactions and the possibility of consolidations in certain areas such as petroleum, the mining industry, the car industry and the financial services.

On medium term, companies are tempted to increase their internationalization degree, an aspect that represents a significant indicator in the evolution of investments influxes.

The actual crisis could be both a source of threats but also of opportunities for the public policies of direct foreign investments. The crisis could offer the chance for global policies to be implemented to consolidate the stability of the financial system and to stimulate the economic growth.

The specific measures can be adapted to stimulate the investments and maintain a favourable business and investment climate, far from protectionist measures at the level of each country.

According to a Deloitte study, Romania is the most interesting market for fusions and acquisitions from Central and Eastern Europe, a situation that won't change in the years to come. Romania occupies one of the leading positions with respect to the M&A (mergers & acquisitions) specialists for fusions and acquisitions from Belgium, Central Europe, Denmark, Germany, the Netherlands.

In Romania, the most important M&A transactions took place in the manufacturing industry, the sector of financial services, constructions and real estate transactions.

In Europe, a significant part from the merger and acquisition activity took place in the consumption and production sectors, followed by the phone sectors in Western Europe and energy and resources in Central Europe. The tendency was to close more and more cross-border transactions on the basis of the extension of the big retail operators.

The evolution of Merger & Acquisition can register a decrease as multinational companies are forced to reduce their expenses, shows the World Bank.

There is the possibility that some companies opt for the temporary or definite moving of production plants from Romania as a result of the banks bankruptcies from USA and the more and more difficult conditions to face the financial crisis. The reason for this reduction could be the reduction of expenses and the postponement of the expansion plans.

The most difficult part for the investors could be the more and more harsh access to credits to finance the activity if they don't have their own financing sources.

On the other hand, the companies that could be affected by the actual financial crisis could enter in the payment incapacity of the residual credits leading to the worsening of the situation in this way. The possibility of the acquisition by companies or fusions is not excluded in the case of the worsening of the financial situation of the companies. This moment of the economic crisis is a good moment to develop for the companies that have liquidities.

The financial crisis from USA left its mark on Romania. The need to prevent the unfavourable effects is necessary. That is why, the companies from Romania need to re-evaluate the risks to which they are periodically exposed and to carry on the necessary measures to diminish the risks that might appear.

Conclusions

The direct foreign investment in Romania still has symptoms of the relatively reduced level, respectively the imbalance of the influx on short periods. Compared analysis shows that the direct foreign investments dynamics in Romania was among the best in Eastern Europe in the last years, but the level of the yearly influx between Romania's relatively reduced volume as compared to the neighbouring countries' was and still is diminished.

Romania will have to attract capital influxes, including direct foreign investments of 15 billion Euro per year to cover a balance on current account deficit. The variable exchange rate of Romania offered it a greater flexibility and the capacity to use the monetary policies as part of its macroeconomic stabilization program. One of the priorities of the authorities should be the maintenance of Romania's attractiveness for foreign investors, even in crisis conditions.

Romania remains favoured in respect to other countries regarding the attraction of direct foreign investments, by the volume of energetic resources, by the low exports and credits weight within the Gross Domestic Product, by the fact that it doesn't have a fixed rate regime. An intelligent mobilization of the political forces so that the Romanian market remains attractive and stable further on for foreign investor is important now but also in the next period. What should we do to maintain the interest of foreign investors in Romania? A solution would be an increased predictability, for example of the exchange rate, so that investments can be planned. A fiscal stability and predictability, without increases of taxes and excise taxes, is also important.

Romania can consolidate the increasing role for many multinational corporations that operate here also in the period to come, the position of regional pole being bestowed on it not only because of its size, but mainly because of geographical positioning, being the frontier country of the European Union, with opening possibilities towards the Caucasus, Central Asia, the Balkans, Turkey.

Important element of the reorganization strategy of an economy, the attraction of direct foreign investments can have a series of advantages on its evolution, the exploitation of local resources in the benefit of growth and development, the increase of inland competition, the advantages in comparison with other variants of external financing, the improving of the exchange rate of the national currency, welfare effects.

Acknowledgment

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CAPITAL FLOWS AND THEIR SECTORAL DESTINATIONS

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Since 2003, New European Union Member States have made large capital inflows, which led to a credit crunch and recession. Whether they are foreign direct investment, or banking flows, capital inflows ultimately affect GDP, depending on how they are invested.

In the specialty literature, analysis of capital flows was done especially in terms of their structure, with a lack of analysis in terms of final destination of capital inflows. Therefore, we analyzed the effect of capital inflows on GDP in the New Member States of the European Union (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia) over the last economic cycle. Based on experiences of the new Member States during the recent boom and crisis, the paper studies the impact of capital inflows on GDP growth, inflows channeled to economic sectors, such as real estate and corporate investment sector.

The results of this research tries to highlight the extent to which the final destination of capital flows is important for the evolution of GDP.

Keywords: capital flows, gross domestic product, sectors, Euro zone, loans.

JEL Classification: F21, F32, F34.

I. Introduction

Crisis of the new European Union member states shows that sectors where there is capital flows are very important. While many factors have influenced GDP growth during episodes of crisis, growth and sharp decline in capital inflows in new EU member states seems to coincide with GDP growth and sharp decline.

In the last decade before the crisis, capital flows have focused particularly on areas with limited impact on export capacity, leading to economic development focused on sectors producing non-tradables goods, such as: trade, real estate sector, construction. This was a feature specific for countries in Central and Eastern Europe, especially for new EU member states.

The effect of capital inflows on GDP was influenced by several factors. According to Rodrik and Velasco (1999) and Allen et al. (2002), the major influencing factors were: maturity, currency capital flows, size of capital flows and their transmission channels. Studies of crisis in the new EU Member States indicate that capital inflows into the banking system led to a generous offer of credit and then domestic demand has exploded, which led to large increases in GDP, but these increases were collapsed, with the sudden slowdown in capital inflows.

However, credit growth is not always directly proportional to GDP growth. For example, compared to Romania, Bulgaria had a much higher growth of loans relative to GDP, but the GDP evolution of the two countries was similar, suggesting that other factors may play a role. Capital inflows have led to significant changes in other economic sectors. For example, capital in the real estate market fueled speculative attacks, resulting in high economic growth until the bubble exploded and followed a severe recession.

Whether they are foreign direct investments or banking flows, capital inflows ultimately affect GDP, depending on how they are invested. Foreign capital channeled to the corporate sector affect GDP differently than when it is channeled into real estate sector.

II. Literature review

So far, the role of economic sectors, in which capital flows occur, had a limited analysis in empirical research, in financial literature. The positive influence of financial development (often measured as a function of the stock of credit) on GDP is presented in Levine (2005) and Khan

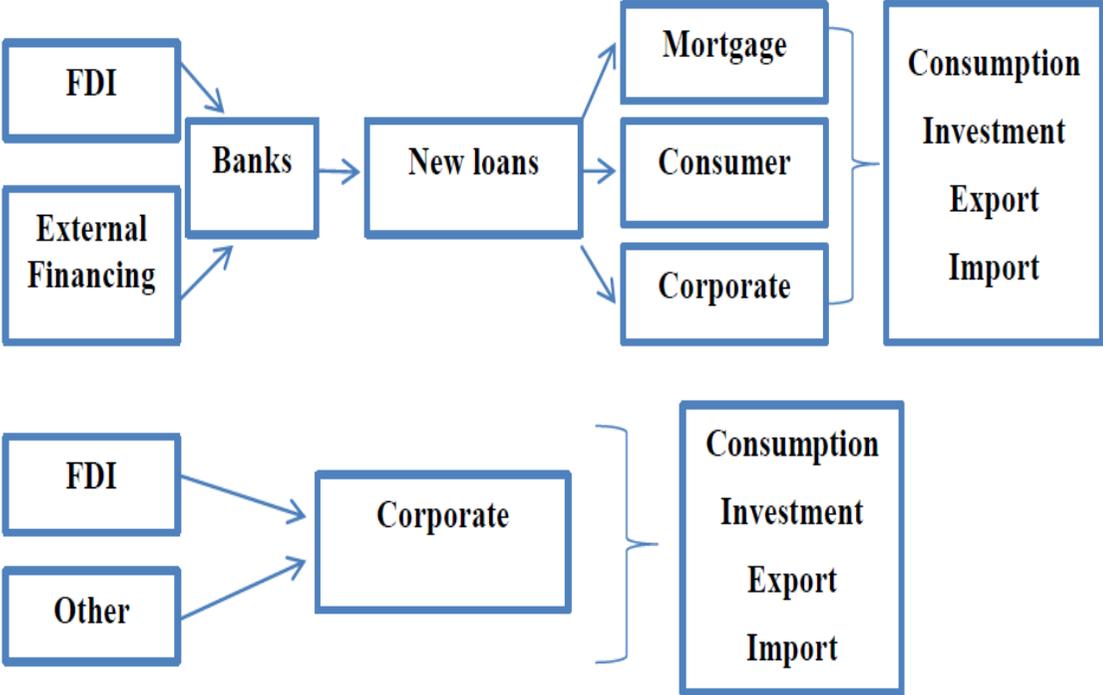
and Senhadji (2003). In recent years, the literature has focused on the impact of credit flows (as opposed to stocks) on GDP.

Cappiello et al. (2010) found a positive relationship, not insignificant, between increased credit flows and GDP growth for the euro area, as opposed to Driscoll (2004), which didn't find similar evidence for the United States of America. From Borensztein et al. (1998), many studies have also found a positive relationship between FDI and economic growth, as summarized in the work of Ozturk (2007). This study contributes to the literature by examining the importance of sectors where there are inflows of bank credit and foreign direct investment.

III The results of the research

Capital inflows have impact on GDP by draining in the economic sectors that affect consumption, investment, exports and imports (Figure 1).

Figure 1. The impact of capital flows on GDP



Source: Mitra, 2011;

The presumption is that capital inflows are directed to:

- Households, through banks, that is offering mortgages and household consumption, so the consumption increase, and therefore GDP. Capital inflows through banks may take the form of FDI, foreign loans and deposits (often the parent bank) in local banks. These flows may have a positive impact on investment - for example, when real estate stocks increase to meet the growing demand in the real estate market.
- The real estate properties of the corporate, through bank loans or through foreign direct investment, supporting investment. For example, corporations that build vacation homes, targeting foreigners, have a direct effect on investment, but not on consumption.

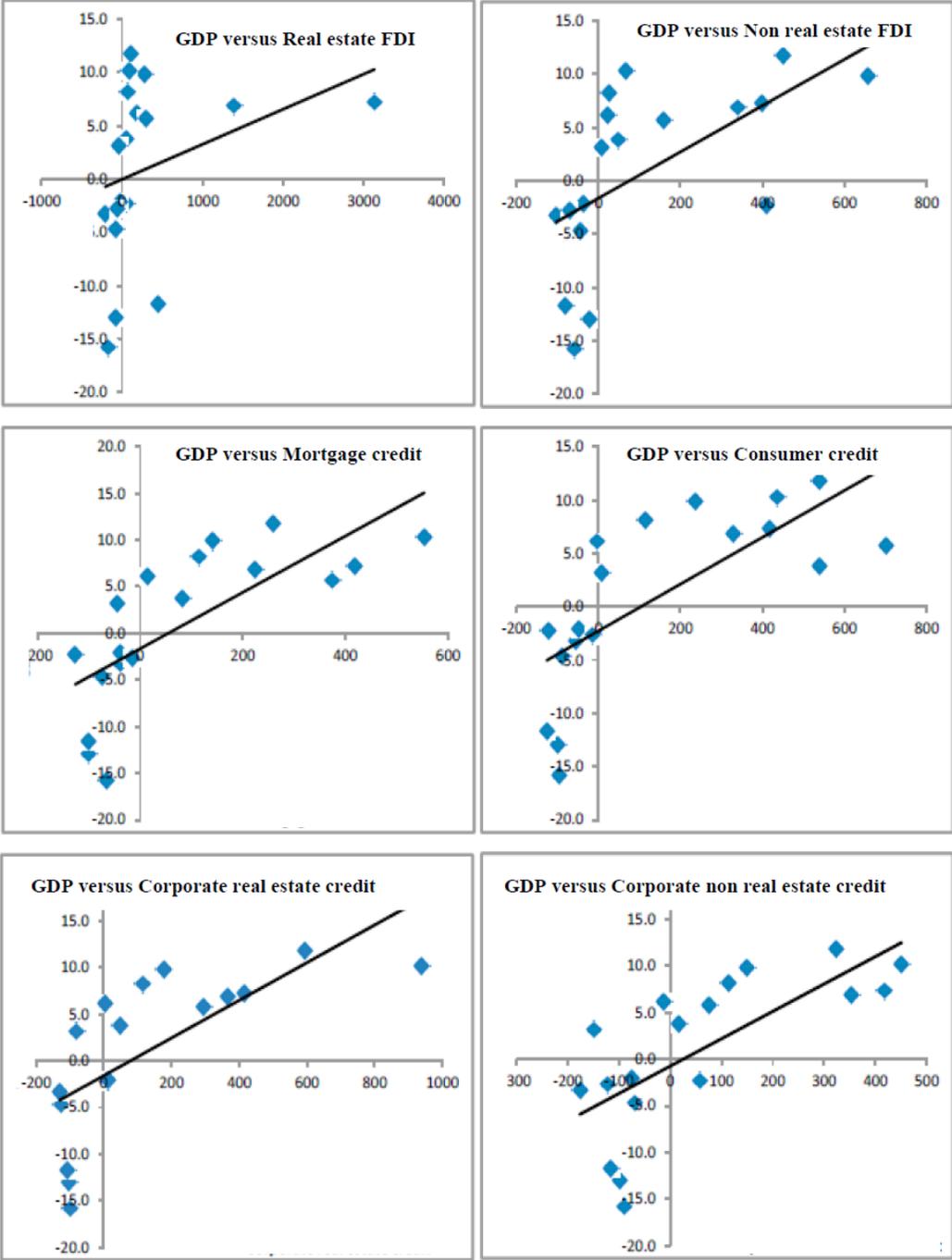
- Outside the corporate real estate sectors, both through bank credit and foreign direct investment, increasing investment. Also, exports are positively affected when capital inflows supports investment in export industries (figure 2).

In the analysis, we can detach a few main ideas. Crisis of the new EU member states shows that the sectors where there are capital flows have of great importance. After analyzing the degree that economic sectors, supported by capital flows, had or didn't had an impact on GDP, we noted that large swings in capital inflows in the new Member States coincide with large fluctuations of GDP, there is a proportional relationship . However, these relations depends on the sectors in which there are capital inflows.

Capital inflows in real estate sector seem to have a greater impact on GDP, than in other sectors. In the past seven years, GDP in the new EU member states has been strongly influenced by fluctuations in capital inflows. Most capital inflows consisted of FDI or capital in the banking system, thus fueling credit growth. However, GDP growth is strongly influenced by the destination of capital flows, than by the form of capital inflows.

The empirical analysis shows that capital inflows have been directed towards the real estate sector (in particular through mortgage flows and real estate FDI flows) have the greatest impact on GDP growth. However, this impact is more significant than the impact of capital inflows on growth. However, non-real estate FDI flows have the greatest impact on any single variable. This may reflect one or both FDI flows in non-negotiable, such as restaurants, hotels and retail, which are cycles of consumption or negotiable FDI flows. As the new wave of capital inflows were directed to emerging markets, attention to policies that support flows to production and attention to supporting the growth sectors of the economy, can be useful. Lessons, learned from the recent economic cycle in the new EU member states, can be applied to other emerging markets that have experienced large capital inflows. Although empirical evidence shows that to the capital inflows, fiscal policies have a direct reduced impact on GDP growth, strong fiscal and financial sectors were the key to overcome the experience well from the crisis and to maintain exchange rate stability (Mitra, 2011).

Figure 2. The growth of GDP, credit and FDI flows, during the recent economic cycle, from 9 new EU member states countries: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia



Source: Mitra, 2011;

In conclusion, there are sectors where capital flows are very important. After analyzing the degree that economic sectors, supported by capital flows, had or didn't had an impact on GDP, have the following results, which we present in the correlation order:

- Highly significant positive correlation between GDP and real estate capital flows;
- Significant positive correlation between GDP and FDI flows in sectors not related to real estate;
- Positive correlation, but less significant flows between GDP and corporate loans and consumer loans;
- Taking into account only the control parameters of the policy, fiscal policy didn't had a significant impact during the recent episode of the economic cycle;
- The exchange rate has no significant impact on GDP growth nor enhances the effects of credit flows and FDI flows on GDP in a given sector.

To reduce fluctuations in GDP growth and to ensure a sustainable growth trend, I think that would be beneficial policies that focus on areas (such as infrastructure and education) to enhance the attractiveness of tradables for capital inflows. Strengthening financial sector supervision and corporate governance in emerging market economies, could also help this process.

IV. Conclusions

Large oscillation in capital inflows in the new EU Member States coincide with large fluctuations of GDP, being a proportional relationship. However, these relations depends on the sectors in which there are capital inflows.

Capital inflows in real estate seem to have a greater impact on GDP than in other sectors. In recent years, GDP in the new EU Member States was strongly influenced by fluctuations in capital inflows. Most capital inflows consisted of foreign direct investment or capital in the banking system, thus fueling credit growth. However, GDP growth is strongly influenced by the destination of capital flows, than by the form of capital inflows.

Capital inflows that have been directed towards the real estate sector have the greatest impact on GDP growth.

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OWNERSHIP CONCENTRATION AND CORPORATE GOVERNANCE DISCLOSURE – THE CASE OF FINANCIAL INSTITUTIONS

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Disclosure and the quality of corporate governance system are more often appreciated as closely related concepts - the higher the level of transparency, the better the quality corporate governance practices. As regards disclosure, if in a widely held company (ownership dispersion) its role is to signal that the managers are acting in the best interests of the principals, in a highly concentrated company (ownership concentration), it comes to annihilate the conflicts of interest between “insiders” (controlling shareholders and managers) and outside investors.

Basing on this background, we focused on corporate governance disclosure, analyzing possible influences over it coming from corporate governance dimensions. Therefore, the objective of our paper is to identify possible associations between corporate governance features and the level of disclosure through annual reports in case of banking institutions listed at London Stock Exchange focusing on ownership concentration.

Most empirical studies that have tested the correlation between ownership concentration and the level of disclosure reached to a negative relationship (Barako et al., 2006; Tsamenyi, et al., 2007; Haniffa and Cooke, 2002; Huafang and Jianguo, 2007; Patelli and Prencipe, 2007; Chau and Gray, 2002; Cooke, 1989). However, there are also studies that could not find any association (Arcay and Vazquez, 2005; Ghazali and Weetman, 2006; Holm and Scholer, 2010; Parsa, et al., 2007; Baek, et al., 2009; Makhija and Patton, 2004; Depoers, 2000). Basing both on assertions supported by the agency theory that companies with concentrated ownership do not have to rely on external disclosures to the same extent as companies with dispersed ownership, as well as on most prior empirical findings that provide evidence in this respect, we proposed the following hypothesis:

“(H): There is a negative association between ownership concentration and the extent of disclosure”.

The research methodology used for achieving our goal is based on econometric analysis using statistical tools - correlations for identifying the relationships and regressions for assessing them - all of these being performed using SPSS software. In this respect, firstly, we developed a disclosure index made of three sub-indices, one for each type of disclosure: mandatory, recommended and voluntary.

The results of the performed analysis reveal significant negative influences of ownership concentration on the level of disclosure, thus confirming our assumptions that the extent of disclosure is negatively associated with ownership concentration. Thus we can assert that the higher the dispersion of shareholders, the higher the level of transparency, our results being consistent with some general prior literature findings on the same topic (e.g. Barako et al., 2006; Tsamenyi, et al., 2007; Haniffa and Cooke, 2002; Huafang and Jianguo, 2007; Patelli and Prencipe, 2007; Chau and Gray, 2002; Cooke, 1989).

Unlike prior research studies which were focused on similar goals - to test possible influences of corporate governance features over the level of corporate governance disclosure at companies level, our paper provides a particular approach on a specific business field, the banking one that was little explored on this topic before. Thus, we had the chance to enrich the research literature with this empirical study, whose disclosure index developed ensures it as well with originality.

Keywords: corporate governance, disclosure, ownership concentration, banking, UK

M10, G30

1. Introduction

The lack of transparency and disclosure was often considered as one of the major cause of the latest corporate scandals and governance failures, adversely affecting public confidence in the reliability of corporate and financial reporting, too. Thus, while we assisted at a “wake-up” for better corporate governance and transparency all over the world, these also became one of the most attractive, dynamic and challenging research subject.

Moreover, disclosure and the quality of corporate governance system are more often appreciated as closely related concepts - the higher the level of transparency, the better the quality corporate governance practices. Basing on this background, we focused on corporate governance disclosure, analyzing possible influences over it coming from corporate governance dimensions. Therefore, the *objective of our paper* is to identify possible *associations* between *ownership* features and the level of *disclosure* through annual reports in case of *banking institutions*.

Unlike prior research studies which were focused on similar goals - to test possible influences of corporate governance features like board of directors size and independence, CEO duality or various ownership' features over the level of corporate governance disclosure at companies level, our paper provides a particular approach on a specific business field, the banking one that was little explored on this topic before, focusing on one of the most important attribute of corporate governance – *ownership concentration*, thus adding value to research literature on this field.

2. Literature review and hypotheses development

Due to the separation of ownership and control, there is a likelihood of agency conflicts (Jensen and Meckling, 1976) and the probability to incur is higher when shares are widely held than when it is in the hands of a few (Fama and Jensen, 1983). Also, the agency costs of equity are higher where a company's shares are being held by a relatively small number of shareholders (Friedland, 2003).

Thus, diffuse ownership structure yields higher information asymmetry, while information asymmetry is negatively related to corporate disclosures (Warfield et al., 1995). According to the agency theory, in a diffused ownership situation, firms increase disclosure by providing additional information to signal that the managers are acting in the best interests of the principals, in order to reduce information asymmetry, and thereby agency costs.

Consequently, ownership diffusion is appreciated as a required feature for a good corporate governance mechanism, at least from the following reasons: the impossibility of shareholders to influence company's reporting practices (Zeckhauser and Pound, 1990); each shareholder's intention to scrutinize managerial performance, thereby improving corporate governance (Coulton et al. 2003).

In case of a concentrated ownership, the situations becomes more complicated because since managers pursue their own interest, higher management shareholding would imply a larger sharing of the loss, and ultimately, a lower possibility that management would lower corporate value (Jensen and Meckling, 1976). Also, in this case, conflicts of interest are not between managers and shareholders, but between large and small shareholders (Shleifer and Vishny, 1997). When ownership control is high enough to ensure its position, management has the incentive to behave against the interests of other smaller shareholders because of its strong voting power to appoint someone it trusts to be CEO, directors and/or board chairman (Morck, et. al., 1988). Besides expropriating minority interests directly, these controlling shareholders can enrich themselves through connected party transactions in which profits are transferred to other companies they control (Chau and Gray, 2010).

According to prior studies, ownership concentration appreciated as an issue of bad governance, mainly due to:

- the ability and motivation of large stockholders to monitor their interests directly (Shleifer and Vishny, 1997). Thus, it is considered easier for fewer shareholders to voice an opinion to which management will be forced to listen (Yeoh and Jubb 2001);
- the direct access to the information by dominant owners (Cormier et al. 2005). Thus, in a concentrated ownership environment, the flow of information is affected which in turn reduces corporate transparency and increases agency costs (Fan and Wong, 2002). This may lead to increased demands for organizational information that can be used to monitor management (Gelb, 2000).

Ownership concentration appears to be closely linked to managerial ownership. As prior literature reveal, in case of ownership concentration, outside ownership can help reduce agency conflicts because they have the power and incentive to prevent expropriation by insiders (Shleifer and Vishny, 1997) and the extent of voluntary disclosure proved to be higher (Morock 1988), as well as the organizational performances (Gavrea and Stegeran, 2011).

Most empirical studies that have tested the correlation between ownership concentration and the level of disclosure reached to a negative relationship (Barako et al., 2006; Tsamenyi, et al., 2007; Haniffa and Cooke, 2002; Huafang and Jianguo, 2007; Patelli and Prencipe, 2007; Chau and Gray, 2002; Cooke, 1989). However, there are also studies that could not find any association (Arcay and Vazquez, 2005; Ghazali and Weetman, 2006; Holm and Scholer, 2010; Parsa, et al., 2007; Baek, et al., 2009; Makhija and Patton, 2004; Depoers, 2000).

As regards disclosure, if in a widely held company (ownership dispersion) its role is to signal that the managers are acting in the best interests of the principals, in a highly concentrated company (ownership concentration), it comes to annihilate the conflicts of interest between “insiders” (controlling shareholders and managers) and outside investors.

Basing both on assertions supported by the agency theory that companies with concentrated ownership do not have to rely on external disclosures to the same extent as companies with dispersed ownership, as well as on most prior empirical findings that provide evidence in this respect, we proposed the following hypothesis:

H: There is a negative association between ownership concentration and the extent of disclosure.

3. Research methodology

The sample of our paper is made of all credit institutions listed on London Stock Exchange (46 banks according to the information available for the 2011). Data collection was based on information provided by banks’ websites, the process being divided into two parts. Firstly, we measured the level of disclosure by using a checklist developed in this respect. For this, we used banks’ annual reports for year 2010 by downloading them from their websites. Secondly, we collected data related to banks’ governance system by searching in addition through their financial statements and general information provided by their website.

Because the main purpose of our study is to identify possible associations between corporate governance dimensions and the level of disclosure, two sets of dependent and independent variables for performing the correlation analysis are needed.

Thus, for measuring the level of disclosure, which is *the dependent variable*, we made use of a Disclosure Index (TD) especially developed in this respect that mainly consists of three sub-indices, each of them measuring a different type of disclosure, namely: *mandatory (MD)*, *recommended (RD)* or *voluntary (VD)*. These indices measure the extent of each type of disclosure, being calculated as a ratio of the total number of items disclosed to the maximum possible number obtainable for each category of disclosure. Thus, we compiled three separate lists of disclosure, namely:

- a checklist of *mandatory disclosures* for entities listed at London Stock Exchange, based on the most recently Corporate Governance Disclosure Checklist (Delloite, 2011), considering The Listing Rules and The UK Corporate Governance Code, as well as the recently requirements

supplemented by The Disclosure and Transparency Rules on Audit Committees and Corporate Governance Statements (2008), The Revised Version of the Turnbull Guidance on Internal Control (2005), The Guidance on Audit Committees (2010). This checklist comprises 44 items divided into six main categories of information related to general aspects, leadership, effectiveness, accountability, remuneration and relation with shareholders;

- a checklist of *recommended disclosures* based on OECD Principles, which propose that the corporate governance framework should ensure that timely and accurate disclosure is made on companies' "financial situation, performance, ownership and governance" (OECD, 1999). This checklist comprises 51 items divided into four categories, according to the disclosures required by the principles, as follows: rights of shareholders and key ownership functions, equitable treatment of shareholders, disclosure and transparency, responsibilities of the board;

- a checklist of *voluntary disclosure*, based on the Standard & Poor's list of 98 transparency and disclosure questions used for its study developed for Europe in 2003. This checklist comprises 88 items divided into three categories outlining ownership, company performance and boards (governance). This approach of developing the disclosure index was often used in prior studies aiming on the same goal (Mangena and Tauringana, 2007; Tsamenyi, et al., 2007; Aksu and Kosedag, 2006).

After joining the three separate checklists, a final checklist of 142 items was structured, basing on S&P's study, into 4 main categories: *general provisions* (2), *ownership structure and investor rights* (43), *financial transparency and information disclosure* (46), *board structure and process* (78). This was supplemented with 8 additional items used in at least one previously published study focused on the same topic and 15 own items, thus resulting a comprehensive checklist list of 167 items consisted of 31 mandatory, 54 recommended and 82 voluntary disclosures.

For developing the disclosure index each item of the checklist was scored using *binary classification*, each issue from the list being treated a dummy variable, where "1" indicates that the annual report discloses the information and '0' indicates that there is not disclosed any information about that issue. The disclosure index was computed using an *un-weighted scoring approach* of the disclosure items, basing on the assumption that each item of information disclosure is of equal importance in the corporate information users' decision-making process. The main reason to do so is related to the subjectivity that might occur when different weights are assigned to reflect the importance of certain types of information. Our approach is supported by most prior studies aimed to develop such an index of disclosure, unlike weighted scores, which were rarely used before (Barako et al., 2006; Cheng and Courtenay, 2006; Patelli and Prencepe, 2007). *The independent variables* consists of one of the most controversial attribute of corporate governance that was widely debated in researchers' world and, according to prior studies proved to have significant influences over the level of disclosure – *ownership concentration (O_Conc)*, measured through the percentage of shares owned by the majority shareholder.

4. Empirical findings

For testing our hypothesis firstly we performed a correlation analysis between each dependent variables – disclosure indices (TD, MD, RD and VD) and the corporate governance attribute tested – *ownership concentration (O_Conc)*, whose results are detailed in Table 1.

Table 1. The correlation matrix between variables

		TD_Index	MD_Index	RD_Index	VD_Index	O_Conc
TD_Index	Pearson Correl.	1	,788**	,944**	,893**	-,555**
	Sig. (2-tailed)		,000	,000	,000	,000
MD_Index	Pearson Correl.	,788**	1	,694**	,513**	-,556**
	Sig. (2-tailed)	,000		,000	,000	,000

RD_Index	Pearson Correl.	,944**	,694**	1	,765**	-,495**
	Sig. (2-tailed)	,000	,000		,000	,000
VD_Index	Pearson Correl.	,893**	,513**	,765**	1	-,450**
	Sig. (2-tailed)	,000	,000	,000		,002
	N	46	46	46	46	46

**Correlation significant at the 0.01 level / *. Correlation is significant at the 0.05 level

Source: own results using SPSS software

Basing both on assertions supported by the agency theory that companies with concentrated ownership do not have to rely on external disclosures to the same extent as companies with dispersed ownership, we hypothesize that

H: There is a negative association between ownership concentration and the extent of disclosure
 Pearson coefficient values reveal the existence of a negative correlation between variables tested, having a medium intensity (0,555 in case of total disclosure) and a probability of 99% (Sig. <0,01). Correlation analysis provide a stronger positive correlation in case of mandatory disclosure (0,556), while recommended and voluntary disclosures proved to be less associated with ownership concentration (0,495, respectively 0,450). Moreover, according to the linear regression results presented in table 2, the significant negative correlation of medium intensity and a probability of 99% (Sig. <0,01) identified between variables tested (0,555 in case of total disclosure) is explained in 29,2% of cases.

Table 2. Linear regression analysis results

Coefficients ^a						
Model		Unstandardized Coeff.		Standardized Coeff.	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	66,689	3,251		21,130	,000
	O_Conc	-,249	,056	-,555	-4,427	,000
R Square: .308 Adjusted R Square: .292				F value: 19.597 F significance: .000		
a. Dependent Variable: TD_Index						

Source: own results using SPSS software

Medium intensity associations with the same significance were identified in case of disclosure sub-indices, too, Pearson's values being between 0,450 in case of voluntary disclosures and 0,556 in case of mandatory ones.

In conclusion, our hypothesis will be accepted and consequently we could state that the extent of disclosure is negatively associated with ownership concentration in case of banking institutions listed on London Stock Exchange system, being thus consistent with the prior research findings.

5. Conclusions

The relationship between various attributes of corporate governance and the level of disclosure was a highly debated topic of worldwide research, whose outcomes are mixed. Irrespective of prior studies, which were focused on corporate governance features like board of directors size and independence, CEO duality or various ownership' features, analyzing their possible associations at companies level, our study comes to add value to corporate governance literature by testing one of the most controversial corporate governance attribute – ownership concentration in banking sphere. Thus, because banking system was little explored on this topic before, we had the chance to enrich the research literature with this empirical study, whose disclosure index

developed ensures it as well with originality. The results of the performed analysis reveal negative relationships between ownership concentration and the level of disclosure. Thus we can assert that the higher the dispersion of shareholders, the higher the level of transparency. Our results are consistent with some general prior literature findings on the same topic (e.g. Barako et al., 2006; Tsamenyi, et al., 2007; Haniffa and Cooke, 2002; Huafang and Jianguo, 2007; Patelli and Prencipe, 2007; Chau and Gray, 2002; Cooke, 1989)

Finally, being aware of our study's limitations, coming from the sample of banks, the limited number of factors and the fact that only one year data were considered for analysis, we are appreciating these as a challenge that give us outlooks for future research.

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CARDS MARKET – A RESISTANT MARKET TO CRISIS

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At the same time with the development of market and consumer behavior of Romanians, the growth rate of cards market accelerated. Of course, infrastructure and acceptance network were very important, they are the factors that allowed the widespread use of cards.

Currently, any natural person or legal entity is engaged in commercial relationships involving financial transactions, the electronic payments having an important role, representing virtually future transactions, both nationally and across borders.

The financial institutions have made a more rapid segmentation of the portfolio of cards and began to focus increasingly on services and benefits situated behind the payment instruments. Meanwhile, cardholders were becoming more educated and sophisticated, knowing what to ask of cards. More, many financial institutions have adapted so that network to accept chip cards.

On the Romanian market, the chip cards will increase which are much more effective in terms of security transactions, as well as for co-branded cards, that offers the possibility of the loyalty of the customers. They will try to get as many benefits from different types of cards, but at the same time, they will focus on niche products, business cards, cards for shopping or for payment of public services.

The scientific paper aims to capture aspects that emphasize the fact that the permanent market monitoring and the continuous adaptation of it will become necessary for the next period. The current client is more demanding, more educated and less tolerant in the relation to the suppliers of any kind and especially with those of financial services.

The tendency to use co-branded cards for everyday payments will increase as merchants and issuing banks will attach more and more benefits on these cards, which will ultimately increase trading volumes on the card to merchants. The bank clients benefited of the cutting - edge technologies, of dual cards functionality - debit and credit.

Keywords: cards market, crisis, markets segmentation, personalized card, co-branded card

JEL Classification: E42, E50

In a computerized society, on a global and strong competitive market, the spreading of the electronic transactions is very dynamic both in the economic and banking fields. The banking sector is characterized by a high dynamic of services and products offer (e-banking, e-payment, m-banking etc.). The development of some commercial activities between the participants placed at large geographic distances can not exist without using electronic payment systems. The introduction and use of the electronic payment tools ensure a better administration of the companies business and cash in a shorter period of time and with reduced costs. The cards represent electronic (modern) payment instruments.

To ensure the success of the banking activity to impose the cards as payment instrument in the Romanian economy, it might be necessary the achievement of the following objectives: (Vechiu et al. 2009: 106-107)

- the design and putting into place in a short period of time an « aggressive » promotion program of the card as a payment instrument. The concise and convincing articles launched in the writing press, the suggestive publicity clips presented many times on a day in the visual environment and other actions can generate the attraction of the individuals and legal persons in using the cards. It is unanimously recognized the fact that the success of one product launch is related, in proportion of 70% of the quality and efficiency of the implemented publicity campaigns. Taking into account the increased costs of the publicity activities, it is necessary an efficient message leading in mass-media. Throwing on the market, publicity slogans as “X card is the future but also the present” is on the detriment of that bank because no matter of the veracity of the message sent, the patterns create only the idea of some dangerous receiver leveling. In order to avoid such inconveniences, the bank must clearly define the product that will launch and also the market segment addressed to. In this manner, the product will be received especially by the target subjects and the product success will be immediately.

The Romanian banks will succeed also using publicity campaigns, in a short time, the development of a new payment behavior in the economic environment;

- setting-up of some specialized departments within the banks to ensure the design, implementation and administration of an integrated cards program. The activity involving cards needs specialized and sustained efforts, but also the twinning of work results of a strictly specialized personnel exclusively for this field (marketing, publicity, behavior sociology on the market, banking methodology). In order to obtain the estimated results, it is absolutely necessary a strictly specialization of the banking personnel working in this field. Solutions like borrowing staff from credits, payment or banking treasury departments mean only a superficial approach of this new field and the solutions can occur late due to the behavior lack of involvement. Without making the apology of the market behavior studies or of a «banking philosophy», it can be considered that a positive financial result will occur late if the banking personnel will not be responsible of the product optimal functioning as a result of the day by day activity.

2009 was the first year of the Romanian cards market history when the number of valid cards in circulation was less than 2008. Nevertheless, in only 10 years, the number of cards in circulation increased more than ten times. In 2009, was the same situation also in other 13 European States. Romania was rated on the third place with a diminution of 5% of the number of cards in circulation (also in Bulgaria), after Greece (13%) and Irish (8%).

In 2008, the cards market was characterized by important launches being also continued the trend started in 2005-2006 which marked the diversification of the financial institutions products portfolio and the issue of different types of credit cards: standard, co-branded or premium. The financial institutions introduced a more accelerate segmentation of the cards portfolio and started to emphasize the services and the benefits of the payment instruments. In the same time, the cards holders were more and more trained and sophisticated knowing what to ask about cards. Moreover, in 2008, most of the financial institutions adapted their network in order to accept cards with chip.

Otherwise, out of the 25 new programs launched by the MasterCard in 2008, only 2 programs were debit cards (the debit card „Marea Unire” launched in partnership with Leumi Bank – special edition and a debit card in euro launched in partnership with the „Carpatica” Commercial Bank), the rest were credit cards, special editions, with chip or co-branded.

In comparison with 2008, 2009 was the year of reduction the operating costs, materialized through the diminution of the cards portfolio – through closing the inactive accounts – till the renouncing of some acceptance contracts with traders which didn’t generate transactions. So, in the end of 2009, although the issuing activity was not stopped, the valid cards portfolio in circulation was about 12.8 mil. of cards, with approx..3.5% less than the level registered in the end of 2008.

The most severe contraction was registered at the credit cards, which beginning with March 2009 until June 2009, were reduced with almost half of a million. Practically, in only 3 months, it was negated the increase registered in an entire year (March 2008 – March 2009). This portfolio „cleaning” had instead a benefic effect because led to the increase level of activation, regarding the cards weight that generate transactions in the total number of valid cards, from 81.6% in September 2008 at 89.1% in September 2009. Also, another crisis reaction was the adjustment of the portfolio for the traders by keeping only the ones with activity.

Despite the heavy economic context, the market of the bank cards had actually a positive evolution. In the end of 2009, the Romanian National Bank statistics showed that the number of the payment transactions by the debit cards reached 16.3 mil. Euro, from 14.33mil. Euro in the first quarter of 2009 and the number of the payment transactions by the credit cards reached 4.22 mil. Euro, from 4.03 mil. Euro in the first trimester.

Due to the crisis, the total card portfolio (banks and non-banking financial institutions) decreased during December 2008 – December 2010, with one million cards until approx. 12.6 mil.

In 2010, the Romanian cards market continued to be active in all aspects – issuing, acceptance, transactions – that led to a significant increase of the main indicators in the field. The innovation and the thematic segmentation represented important landmarks for the non-cash payment activity. The bank clients benefited of the cutting-edge technologies, of dual cards functionality – debit and credit. The operators from these fields attached to the cards additional loyalty benefits, such as: discounts to the traders, opportunity of cash back, favored access in the waiting rooms from the airports, insurance offers, assistance services.

According to the RomCard, the electronic commerce with on-line payment increased in 2010 with 38% in comparison with 2009 and the volumes of the transactions were twice compared with 2008 reaching 127.8 millions euro.

In 2010, the contraction trend of the cards issuing was maintained, thus in the end of 2010, from the total number of the cards issued, the number of the valid cards was about 12.58 mil, of which 2.1 mil. were credit cards. The cards total number decreased with 2.2% in 2010, but the number of the credit cards decreased with 5.6% in comparison with 2009 and with 22% in comparison with 2008.

Taking into account the heavy economic environment, most of the credit cards holders focused on buying essential products. The average amount of the transactions using the credit cards decreased with 11.6% underlining that the Romanian citizens reduced the large amounts of expenses, in other words, they are not buying any more expensive products like they did in other years. The segment of business cards registered a positive trend on all the indicators, there were issued more Visa business cards (+12.5%), the transactions on those cards were increased (+25.7%) and the number of transactions to the traders was also increased (+26%) which indicate the increased interest of the companies to use cards.

In 2011, Visa encouraged even more the card use for traders through awareness raising campaigns, promotions, products and new services and will continue to enlarge the acceptance network also for the local and central public authorities in order to be possible to pay the taxes and other contributions using the card.

During the financial crisis, the banks are looking for solutions, in this matter, in 2010, MasterCard Europe developed a study in Romania focused on the market cards that analysed the habits related to the cards use by the persons aged over 15 years. The study indicated that during the crisis, people are paying more attention to their expenses and the cards holders try to benefit of those products advantages. For example, 27% of those people, started to search more information about the financial products, 13% of the persons told that they are paying their buying in the grace period, 11% searched information about the loyalty programs, 10% are paying frequently with the card to the traders in order to avoid the cash withdrawal fee and 9% started to find a credit card with the possibility to pay in several installments without interest.

At national level, 41% of the Romanian citizens hold a credit card and at urban level, the percentage is about 54%. The percentages are very much influenced by the education level, from 20% of the persons with primary education until 86% of the high-educated persons.

Most of the Romanian citizens buy a credit card as a result of the bank offer – 39%, in order to have any time at their disposal an amount of money – 34%, but also in order to facilitate the transactions – 27%. Regarding choosing one credit card or another, the most important are the small commissions and interests – for the 63% of the people and the issuing bank – for 53%; the grace period is important for 38% and the maximum credit allowed for the 36%. The high-educated persons are even more interest on those aspects: for 78% of the persons asked, there are important the interests and the commissions, for 50%, the grace period and for 46%, the maximum credit allowed.

The Romanian marked registered important steps, 17% of the holders said that they are paying by card even for the amounts less than 100 RON. 21% of the credit cards holders agree on this kind of payment. For the amounts more than 1000 RON, the percentages increase at 27% and 32% for the credit cards holders.

In the same context, the study “saving and investment” developed by the Romanian GFK Market Research Institute, on a panel of 1,200 persons from urban area which use at least one financial-banking instrument, shows that in our country, the most used banking product is the debit card. This, with the exception of the current account is hold by three quarters of the banking clients. Lately, the banks target was not only the increased number of the debit cards but the customers training for using them and also the credit cards.

Table no. 1. The main operators of card market at 31.12.2011

Bank	Total number of cards at 31.12.2011	Credit cards number (at 31.12.2011)	New credit cards number in 2011	Debit cards number (at 31.12.2011)	New debit cards number in 2011	Total number of transactions in 2011****	ATM number at 31.12.2011	POS number at 31.12.2011
BRD-GSG	2.239.328	45.311	0	2.194.017	2.676	63.854.416	1.527	23.953
BCR	2.000.000	160.000*	n/a	1.840.000	n/a	n/a	2.400	16.000
Banca Transilvania	1.906.000	170.000	34.500	1.736.000	408.000	50.000.000	840	16.634
Raiffeisen Bank	1.825.284	350.000	98.000	1.475.284**	n/a	57.294.349	1.128	10.718
ING Bank Romania	1.000.000	30.000	7.000	970.000	300.000	34.721.571	441	3.727
CEC Bank	953.701	46.236	2.208	907.465	218.031	12.271.755	981	3286***
Bancpost*	660.000	60.000	n/a	600.000	n/a	n/a	700	8.500
UniCredit Tiriac Bank	434.611	51.056	12.753	385.555	102.568	13.592.265	545	11.775
Credit Europe Bank	415.000	325.000	n/a	90.000	n/a	n/a	168	10.000
Garanti Bank	230.000	111.250	n/a	118.750	44.262	n/a	194	7.340
Alpha Bank Romania	216.000	64.000	16.500	152.000	50.000	n/a	226	4.100
BC Carpatica	84.162	2.343	991	81.819	24.094	1.369.172	232	595
Banca Romaneasca	64.450	15.704	5.204	48.746	16.900	1.219.615	153	0
ProCredit Bank	17.786	0	0	17.786	n/a	618.835	58	n/a

* Financial market estimation; ** natural persons: 1.425.284 legal entity: 50.000; *** of which 1.192 desks agencies, and the rest to economic agents; **** including own cards

Source: Commercial banks

Despite the crisis which affects the banks cards portfolio, on 7th of June 2011, at NOCASH Gala for the banks activity in 2010, the cards industry awarded BRD-InstantPay “The pioneering in the payment industry without cash” and “The year opening” was considered the money transfer service at ATM launched by Western Union in partnership with “Transilvania” Bank.

The Commercial Banks competed on a restrained market due to the financial crisis, but even so, they obtained important results, for example:

- the best promotion. The competition was between the Romanian Commercial Bank-Bucharest Autonomous Transport Administration (RATB) with the campaign « We keep your place for an year » for the promotion of the operations regarding the charge/recharge of the RATB transport card in the Romanian Commercial Bank network; the BRD with the campaigns « A la carte » - « Create a card as original as you », « Point Card » and « Instant Pay » - « Live in speed, pay in super speed » ; The Romanian Bank with the campaign « A smart card for intelligent buying » ; the “Transilvania” Bank with the campaign « Pay by card the local taxes and contributions » ; Garanti Bank – Bonus Card campaigns for the product increased use and to build the brand on the market ; Raiffeisen Bank with the campaigns – Multishop – bonus and installments without interest program and «Studentocard – it fits perfectly to your lifestyle ». The winner was GarantiBank – “Bonus card Campaign”, because after the promotion campaigns, GarantiBank obtained the following increase in 2010 in comparison with 2009 : cards portfolio with 52% increase ; active cards with 62% increase ; the number of transactions with 230% increase ; transactions value with 270% increase.
- pioneering in cards industry registered BRD – Instant Pay – for the first development of an application that allows the travel payment in the public transportation using the « contactless » technology ; The Romanian Commercial Bank – for the opportunity to recharge the Active Transport Card directly to the ATM placed at the Subway.
- the Year Bank on cards market is « Transilvania » Bank. In 2010, the bank registered the most important increase of the valid cards portfolio in circulation and of the POS terminals network. Also, the « Transilvania » Bank was the most active bank as regards the products and services launch in the market without cash payment

Table no. 2. The results of the « Transilvania » Bank between 2009-2010

Indicators	2009	2010	Increase
Cards	1,706,874	1,804,294	97,420
Cards accounts	1,570,432	1,667,307	96,875
No of ATM	766	805	39
No of POS	11,717	14,770	3,053
Contracts	9,619	9,223	-
Products launched	The card for doctors	Visa Gold Rotary; MC Gold Debit; Money transfer ATM “BT” application for iPhone and Android ; ADS implementation	
No. of transactions with own cards	40,836,093	44,806,455	3,970,362

Source: www.nocash.info.ro

- co-branded Card is still a solution for the financial crisis, this fact was also proved by the competition of the most important banking players for this product. Thus, the most successful card and co-brand program was Raiffeisen – Vodafone with the following results: number of transactions in 2010 – 1,760,000; the transactions value in 2010 - 220 mil. Lei; new card accounts in 2010 – 1,100. A similar success had: « Transilvania » Bank – Rotary ; BRD – ISIC ; GARANTI-AVON.

In this way, the banks are permanently looking for solutions and products to stimulate the customers interest for using the card for acquisitions, as a response to the traditional credit that was discouraged due to the financial crisis.

On the Romanian market, the banks offer cards with chip, more efficient as regards the transactions security, also in the case of co-branded cards which offer the possibility to reward the loyal customers. They will try to obtain as much as possible advantages from the diverse range of cards, but, in the same time, they will concentrate on the niche products, business cards for purchases or payment of public services.

The Romanian citizens started to use co-branded cards which are actually credits. Their number increased rapidly to 300,000. Apparently, the banks which work with the co-branded cards are not obtaining major profits because if the loan is paid in less than a month, the interest is zero. But sooner or later, everybody is late and the bank has also other advantages: it is promoted outside the branch and has cards sold through shops. In the business world it is a word „to sell on co-branded card means to sell more and better”. The trend to use the co-branded cards for usual payments will be accelerated when the traders and the issuing bank will give more benefits on those cards and in the end it will lead to the increase of the transactions volumes on card to the traders. Moreover, in the last period of time, the banks are negotiated with many retailers, reductions for their clients.

In a crisis period, the creativity was also tested in terms of cards. The careful products segmentation – personalized cards, photo cards, offers for young people or women was one of the cards market characteristics.

The card from the wallet can be more than a payment instrument. Custom with the client picture, perfumed or decorated with a small mirror, the plastic card becomes a real accessory. The everyday polyvinyl chloride (PVC) is more attractive if it has something different, a reason for the holder to take off more often from the wallet. Actually, they are payment instruments that can be used for shopping, to on-line payment or to POS of taxes and contributions but also to the simple withdraw of cash from ATM. Moreover, in the case of the cards with photo, the holders identity can be easily checked by the traders.

Also, with the support of the member banks, the Local Office of Visa Europe will introduce innovative products to meet the clients needs, as follows: contactless cards, cash back service, on-line payment of the taxes and contributions.

For the development of cards use at traders and of the co-branded card, the banks must better explain the card advantages starting from the way of working and to the convincing of the obtained advantages accepting as payment the banking card. Also, the bank must play the client « role » and to think viable reasons to determine the trader to accept the card, to convince that in this way, the selling will be increased. The mentality of each trader is the same no matter of its typology or size: it presents a well-known product and he knows that it will be sold;

- paying more attention on the products/services quality and also on the quality of the client-bank interface (the easy access of the bank)

- in this period of time when the clients are paying more attention at what they pay and what they get, the remote electronic channels have great chances of promotion due to the efficiency, accuracy and the decreased operational cost;

- it is necessary the compensation of incomes from interests with those from commissions. It will be necessary to increase the level of cards use and to develop the offer of higher added value for client;

- the cards industry will oscillate between two approaches – to continue independently, at the level of each issuing/acceptant body, on the basis of some bilateral arrangements with partners from different fields or to make the step to a systemic collaboration, in national projects to solve major clients expectations (the unitary payment of taxes and contributions, invoices, penalties, health services etc.). On this trend of collaboration, there must be speculated the serious

opportunities for the enlargement of the actual EMV technology (global standard for the debit and credit cards based on chip technology) with connection to the contactless, which may cover, for example, the public transport and also all the payment applications of small value that need a big execution speed. (Moga et al. 2011: 38-44)

The banking business with cards, in general and with the co-branded cards, in particular, represent an important potential to obtain profit in the case of the banks which are engaged in the design and administration of some cards integrated programs. Taking into account the permanent interest of the Romanian banking companies to modernize their activities and to adopt the world techniques to operate at the medium level of payments from our country, it is for granted that the payments by cards will become a daily reality in a short period of time.

The Romanian cards market was characterized in the past years by an increase of two digits, being one of the most active from the region, on all its components: cards issuing, dynamic of setting-up of new POS and ATM terminals, payment transactions volume or cash withdraw. Although the first cards were issued in Romania about fourteen years ago, the behavior of the cards holders is specific to the incipient market, respectively, only 12.5% of the transactions volume are performed to the traders (the rest being cash withdraw from ATM).

As a conclusion, the period in which any actor in the market had rapid and consistent results on the base of classic patterns is coming to an end. There will survive only the ones that will combine the quality with the price, the technology with the efficiency and the imagination with the implementation speed.

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SUB-SECTION: ACCOUNTING

IMPROVING CORPORATE GOVERNANCE IN EMERGING ECONOMIES – AN ANALYSIS OF THE IMPLICATIONS ON THE ACCOUNTANTS’ ROLES AND COMPETENCIES⁶⁰

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Corporate governance became in the last decade an important domain of reforms in emerging economies. The reforms in the corporate governance models and in accounting should assign a more important role for accountants. The objective of this paper is to analyze the changes in the accountants’ roles and competencies as a result of the reforms in corporate governance model of an emerging economy. We focus on a single-country case study, i.e. Romania, because it is acknowledged that each country is characterized by a unique set of institutional factors. We correlate information from the job offers (as indicators of the role and competencies expected from accountants) and from the corporate governance disclosures (as indicators of the application of roles and competencies) in order to discuss the recent changes in the Romanian accounting profession roles and competencies. Our results contribute to the understanding of the factors related to the modernization of the accounting profession in emerging economies, illustrating the challenges associated with the “import” of Western models.

Keywords: accountants, accountants’ roles and competencies, corporate governance, Romania

JEL classification: M 41, M 14

1. INTRODUCTION

Corporate governance, as a mechanism of increasing the accountability and responsibility of organizations (Christopher, 2010: 683-695), became in the last decade an important domain of reforms in emerging economies. The economic importance of these countries for the global economy raised the importance of improving the organizations’ management and responsibility. Corporate governance codes were implemented, especially as a result of strategies, recommendations and support of international organizations, such as OECD, World Bank or International Monetary Fund (Vurro and Perrini, 2011: 459-474). These programs conducted to the modernization of corporate governance and accounting in emerging economies by the adoption or adaption of Western models. In this context, Ezzamel and Xiao (2011: 625-637) raised a number of fundamental research questions, one of which being how managers and accountants in emerging economies embrace Western ideas.

It is acknowledged that in emerging economies the role of accounting and accountants is undervalued. For example, during the communism the role of accountants was limited to bookkeeping, and this role assigned to accounting was difficult to be changed after the fall of communism. Accounting should evolve in these countries from bookkeeping to fulfilling the users’ needs, both internal and external (Anderson and Lanen, 1999: 379-412). The reforms in the corporate governance models and in accounting assign a more important role for accountants. The objective of this paper is to analyze the changes in the accountants’ roles and competencies as a result of the reforms in corporate governance model of an emerging economy. We focus on a single-country case study, because it is acknowledged that each country is characterized by a

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unique set of institutional factors, such as the complexity and structure of the business environment, the efficiency of the capital market, the competencies of the accounting profession, the culture, law system and management practices (Peters et al., 2011: 429-445). We correlate information from the job offers (as indicators of the role and competencies expected from accountants) and from the corporate governance disclosures (as indicators of the application of roles and competencies) in order to discuss the recent changes in the Romanian accounting profession roles and competencies.

Our results contribute to the understanding of the factors related to the modernization of the accounting profession in emerging economies, illustrating the challenges associated with the “import” of Western models. After a literature review on corporate governance and accountant’s roles and competencies, we present the methodology, results and implications of our research.

2. LITERATURE REVIEW

2.1 CORPORATE GOVERNANCE

The interest in corporate governance increased in recent years, and it is advanced that the economic crisis will further raise the interest in governance (Christopher, 2010: 683-695). CG is understood as the general set of principles underlying the manner in which an organization is managed and is accountable to the stakeholders. Corporate governance has been explained initially by the agency theory, but recently the legitimacy theory, the institutional theory, or the stakeholder theory (Perrault Crawford and Clark Williams, 2010: 512 – 526; Vurro and Perrini, 2011: 459-474) are also advanced as justifying and influencing CG practices. Previous literature in emerging economies documents the variety of practices (Boytun et al., 2011: 41-60). Because observing CG practices is difficult, many studies use the CG disclosures as an indicator of these practices. Generally it is noticed that emerging economies have a reduced level of disclosures (see for example ISAR, 2008), this being an indication of the underdevelopment of the CG practices. However, improvements were been made in recent years in emerging economies.

After the fall of communism in 1989, Romania engaged in drastic reforms, which also affected accounting. The corporate governance became relatively late a part of this reform. But on the other hand, Romania is presented in literature as developing one of the first corporate governance codes in the CEE region (Przybyłowski et al., 2011: 77-98). A program of developing CG practice was established in 2001, when OECD elaborated a strategy including recommendations and guidelines. BSE has accordingly adopted a Corporate Governance Code in the same year (2001). A new and improved Code was issued in 2008 and is applied starting 2010 by listed companies. Răileanu et al. (2011: 11-15) analyze the information included in the Annual reports of the entities listed on the BSE in order to discuss the corporate governance practices. They consider that Romanian managers have less incentive to fulfill the provisions related to transparency. Gîrbină et al. (2012) also find a reduced level of disclosure and advance several reasons for this, of which one being the attitude and competencies of managers and accountants. In the next section we discuss the roles and competencies of accountants.

2.2 ACCOUNTANTS’ ROLES AND COMPETENCIES

A competency is defined as a specific behavior whereby a professional applies knowledge, skills, and professional values in a work environment, and this behavior can be defined, demonstrated and assessed. A competency group represents the major responsibility areas in the professional practice (CGA, 2009). Literature reports that the accountant’s role in organizations changed over the last decades because of the changes in the global business environment, such as the globalization, the IT developments, or the stakeholders’ expectations. The accountant transformed from a ‘bookkeeper’ and a ‘number cruncher’ into a business analyst, a partner in decision making, a consultant, a ‘knowledge worker’ (Gammie et al., 2002: 63-78).

In a literature review on the changes in the accountants' roles, Albu et al. (2011a: 153-182.) synthesize the position of different associations of accounting professionals. The authors use IFAC (2002) which identifies some directions of evolution through interviews conducted with professionals: managing the information flow, supporting strategic changes, and developing and sustaining the organization's vision. Also, they use ICAA (2004) which identifies three types of contributions that future accounting may have: compliance (through audit, communication, forecasting, IFRS), strategic and commercial (business plans, managing costs) and people-related (manage relationships, lead, provide support). Albu et al. (2011a: 153-182.) concludes that in literature these transformations are closely related to the orientation towards CG and corporate social responsibility practices. This is seen as an enrichment of the previous responsibilities of accountants, because besides the core areas of action, they have to expand such issues as corporate governance, risk management, and strategic management.

IFAC underlines the importance of accountants in improving governance in organizations, stating that the accepted responsibility to act in the public interest is an important element of good governance (IFAC, 2009). Ramaswamy (2005) identifies the following areas in which the accountants have to play a role in the context of strengthening CG practices: formulating and applying a comprehensive governance policy, establishing an efficient control system and preventing fraud, creating a positive work environment, establishing effective lines of communication, monitoring activity and reformulating governance policies.

Based on this literature review, we conclude that with the increasing importance attached to CG, the accounting profession has to change. Accountants have to play a crucial role in organizations in areas such as reporting, transparency, ethics, legal compliance, communication with stakeholders, and resource consumption. This implies that the reforms in CG in Romania have to lead to improvements in the roles and competencies of accountants.

Previous studies on Romania indicate a reduced level of adoption of management accounting practices and an increased role of taxation (Albu et al., 2011a: 153-182; Glăvan et al., 2007: 103-115), thus suggesting a reduced level of accountability. On the other hand, these studies indicate that it seems to be a difference in the role and competencies of accountants between large entities and the smaller ones, between the entities with Romanian and foreign capital. Our aim is to analyze the accountants' roles and competencies in association with the improvements in CG. The next section presents the research methodology employed in this respect.

3. METHODOLOGY

Data collection is one of the major issues in doing research in emerging economies (Hopper et al., 2009: 469-514). Accordingly, researchers search for alternative methods to collect data. In this research, we used two types of publicly-available data, with relevance for accountants' competencies and roles. We use the CG disclosures of first iter listed entities on the Bucharest Stock Exchange. We also use job offer announcements as indicators of accounting practices, because they describe the roles and competencies of accountants. 200 job offer announcements classified in the "finance and accounting domain" were collected in 2010 and 2011 (100 in each year) by monitoring the most representative job advertising national websites. A content analysis was performed in order to identify the roles and competencies and to relate them to corporate governance.

4. RESULTS

As previously mentioned, Romania undergone a number of reforms in accounting and more recently in corporate governance, with impact on accountants' work. The Directive 2003/51 (the 'Modernisation Directive') amended the Accounting Directives and added that European companies are required to include non-financial information in their annual and consolidated reports if it is necessary for an understanding of the company's development, performance or

position. Another amendment of the Accounting Directives (Directive 2006/46) introduced an obligation for listed companies to include a corporate governance statement in their annual report. Both directives were implemented in Romania. Listed companies begin to publish “comply or explain” statements related to the application of best practices in CG. ISAR (Intergovernmental Working Group of Experts on International Standards of Accounting developed a list of 53 items related to CG grouped into 5 categories (ISAR, 2008): (1) financial transparency, (2) board and management structure and process, (3) ownership structure and exercise of control rights, (4) corporate responsibility and compliance (CSR), and (5) auditing. Of the 53 items included in the ISAR benchmark, Romanian entities listed on the first tier of the BSE disclose between 8 and 34, with a median of 24, which we interpret to be a rather low level of disclosure. The results also indicate variations between entities in terms of the level of disclosures and in terms of the information’s category. Managers are inclined to disclose less information on auditing and CSR than on other CG items. In relation with the 5 categories described by ISAR, the role of accountants in business is important especially in two areas: financial transparency and corporate responsibility and compliance. We will correlate for each of these domains the data obtained by analyzing the disclosures and the job offer announcements in order to identify the implications on the Romanian accountants’ roles and competencies.

4.1 FINANCIAL TRANSPARENCY AND IFRS

Financial transparency concerns the disclosure of financial and operating results, critical accounting estimates, and related-party transactions. In our sample of companies listed in the first tier, 53.84% published financial statements in compliance with IFRS. Noncompliance cases were identified, meaning cases in which consolidated financial statements are published under the national regulations and not under IFRS. One company claimed compliance with both national regulations and IFRS for the same set of financial statements. This situation raises questions about the competencies of accountants in IFRS. EUO no 90/2008 implementing Statutory Audit Directive introduced the requirement for public interest entities to establish an audit committee with at least one independent member with competencies in accounting and/or auditing. We found that 36% from the first tier listed companies did not set an audit committee.

Our job offer analysis for 2010 and 2011 also indicated a moderate level of requested IFRS competencies. 24% of job offers in 2010 and 28% in 2011 require competencies in IFRS. While IFRS is seen as a framework providing better information for users, these results may surprise. On the other hand, there is a reduced level of the application of IFRS by Romanian entities. Besides the listed entities (which do not comply all of them with the request to apply IFRS), some other entities use IFRS in a second set of financial statements, as a results of the users’ pressures. Therefore, we might imply that the level of the IFRS competencies required depends on the entity’s characteristics: larger entities, with foreign capital and/or foreign managers, and entities having demanding users are more inclined to apply IFRS, and therefore to request IFRS competencies to their accountants.

4.2 CORPORATE SOCIAL RESPONSIBILITY

The CG disclosures on CSR indicate that the majority (73%) of our entities disclosed that they have a policy and specific activities in connection with environmental and social responsibility. But the number of pages allocated to CSR activities in their annual reports was very small (0 to 3). One company from the sample presented a CSR report, another company has a web page dedicated to CSR policy, CSR actions and a prize obtained for its eco-friendly practices. The reduced level of disclosures might indicate a reduced level of CSR practices by Romanian entities. It is consistent with previous studies realized by KPMG (2008, 2011) indicating an increasing, but still low level of disclosure and assurance on CSR issues.

The content analysis of the job offer announcement indicate some references to area generally related to CSR such as risk management, performance management and use of non-financial information. However, as regards the specific areas of CSR, such as environmental and social reporting, evaluation of CSR impact and compliance with environmental and social regulations, our textual analysis of the advertisements shows a lower occurrence in the competencies and task required from Romanian accountants. These results are in line with Albu et al. (2011b) which for the years 2007, 2008 and 2009 indicate an implication of accountants in transposing the general framework of CSR, which is legal compliance, communication with stakeholders and performance measurement, thus leading to an increase in the importance of the accounting function in organization. Our results for 2010 and 2011 indicate the same trend, accountants being required to analyze social information, to elaborate strategies for the environmental and social implications of the business, and to deal with tax issues related to environment laws.

5. CONCLUSION

The purpose of our study was to analyze the changes in the accountants' roles and competencies as a result of the reforms in corporate governance model of an emerging economy, i.e. Romania. If during the communism, accounting was reduced to bookkeeping, it is expected that the reforms in accounting and corporate governance changed the accountant's role. Our study continues and complements the results of other studies on the case of Romania (Albu et al., 2011a: 153-182., b: 221 – 234; Gîrbină et al., 2012). We correlated information from the job offers (as indicators of the role and competencies expected from accountants) and from the corporate governance disclosures (as indicators of the application of roles and competencies) in order to discuss the recent changes in the Romanian accounting profession roles and competencies.

We focused our analysis on two areas of CG elements close related to accountants work: financial transparency and corporate responsibility and compliance. Our results indicate a better disclosure of the financial results than in the case of CSR. We pursued the investigation by analyzing the competencies required in job offers announcements. Besides the core technical competencies related to these areas, literature documents that other related competencies (such as personal, ethics, leadership, communication) are related to good CG practices. The content analysis of job offer announcements indicate a reduced but increasing demand of competencies related to IFRS and even lower demand for CSR. However, we confirm that job offer announcements requiring technical competencies in these areas also requested the complementary competencies associated in literature to good CG practices. These results indicate a slow improvement in the role of accountants in Romania. The reforms in CG (at a legislative level) are important, but in order to have good CG practices, improvements in the business environment and in the accountants' and managers' education are necessary.

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MORALITIES AND ETHICS. THE PARADOX OF THE PARABLE OF THE UNJUST STEWARD AND THE PARADOX OF CREATIVE ACCOUNTING

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The paper targets the approach of the implications regarding the compliance or non-compliance with ethical principles in the accounting profession, the interest for this debate being the profound crisis we are experiencing which makes us come back to fundamentals, the current world trying to discover them morally and ethically.

In order to reach the purpose of our research, we have carried out an exploratory research, as a specific research method, using the analysis of secondary data. In this view, starting from the behaviour of the characters of the controversial biblical parable of the unjust steward bringing it into the context of our days, we can notice that the wit of the above mentioned steward mentioned above, it cannot be underestimated and we cannot, even now, underestimate the creativity of a “good” accountant when he has “to solve” a problem or to reach a certain purpose. Also, we have used a descriptive research, too, the research method used being the survey. In making up the surveys, we used the 5 level Likert scale, this type of scale targeting aspects related to the relation ethics-morality-religious values with which, the respondents, in our case represented by a sample made up of the managers of large enterprises and those of the SMEs in the Bihor County, agreed or disagreed.

This paper shows that, from a philosophical and spiritual point of view, the contemporary crisis is a conscience crisis and a crisis of the humanity’s moral values, emphasising the idea that humankind must enter a phase of new humanism, meant to cultivate the features of a morally developed man, endowed with responsibility regarding the choices that he makes as well as the capacity to suffer the consequences of his choices.

In our opinion, the parable mentioned has in view the accentuation of the moral aspects of the steward’s behaviour and, extrapolating, of the accounting professional in creating a solid basis for an ethical behaviour. Thus, the solution for the economic, political, or environmental problems we identify in the world we live in, depend, to a high extent, to the way in which the moral problem is solved, a problem depending, in our opinion, on the spiritual problem.

Keywords : ethics, morality, creative accounting, economic crisis

JEL Classification : M 41

1.Introduction

The relation between ethics and moral philosophy, as it is defined by Paul Ricoeur (quoted by Crăciun D.,2005), is a relation “perfectly applicable to enterprise”, the economic and business environment. According to the latter, intention and purpose bring together and connect ethics and moral philosophy; they precede, in his opinion, the notions of law, of moral exigency. The author presents in his work *Soi meme comme un autre* (1990) the basic triangle of ethics as being composed of Me, You, Him.

In his first study, Ricoeur notes, I believe in my freedom: “I do what I can and I can what I am”: an act of evulsion, of power stating, the esteem form your own person. Yet, actually, we really enter ethics when we state both our own will and the other’s freedom: an act of absolution. Therefore, the ethics is born out of this transgression: to act in such a way that “the other man’s

freedom is like my freedom". In other words, "the other is my fellow creature". According to Ricoeur, the *Him* pole "qualifies the meditation of the rule".

In business relations, this idea might be translated as such: "To agree my own project with the institutional project" Meditation permits coexistence" "your freedom is as worth as my freedom". In this way, we can move on from ethics to philosophical moral with the notion of exigency and law. Thus, formalism in ethics defines morality.

The profound crisis that the world is experiencing represents one of the first factors raising the interest for ethical debates. In this context, we notice a statement from The Declaration of Global Ethic, adopted in 1993 in Chicago by the Parliament of the World's Religions according to which: "The world is agonising. The agony is so overwhelming and penetrating that we are forced to unveil all the manifestations, thus underlying the depth of crisis of the world" (Kung, quoted by Singer, 2006:14).

A second factor is the religion's resurgence at the planetary level. Gilles Keppel (quoted by Singer, 2006:14) stated: "God takes His revenge". After, at the end of the 19th century and the beginning of the following century, Nietzsche enacted "God's death" (by the famously known statement "God is dead"), we are witnessing an opposite movement.

The third factor is related to real life itself, with its more and more varied aspects. The numerous problems starting with those referring to global governance or the environment preservation and ending to those referring to the behaviour towards fellow creatures, require that ethics should be acknowledged and, also, taken into consideration. Thus, the solution to economic, political, environmental a.s.o problems that we identify in the world we live in, highly depend to the way in which the moral problem is perceived and solved, a problem depending, in our opinion, on the spiritual problem. This thing was perceived even at the level of common sense, in this view being eloquent the statement of a rescue teams member, who, after the tragic events of September 11th 2001 in the United States of America, said: "we either accept the Ten international Commands as compulsory or we will perish together."

2. Research methodology

To reach the purpose of our research, we performed an exploratory research, and we used as specific research method the analysis of secondary data. In this view, we started from the biblical parable of the unjust steward trying to transpose it in our days and to identify the aspects related to the creativity of professional accountant. Also, we used a descriptive research, too, the research method used being Likert's scale with 5 levels of appreciation, this type of scale targeting aspects connected to the ethics-morality-religious values relation to which the respondents, in our case represented by a sample made up of the managers of large enterprises and SMEs in Bihor county, expressed their agreement or disagreement.

3. The paradox of the Parable of the unjust steward and that of creative accounting

For the times we live force us to go back to bases, the current world trying to rediscover them morally and spiritually. Therefore, we found both interesting and opportunistic the idea of debating in this paper the parable of unjust steward for, from our point of view, the religious aspects concur to a great extent to shaping an ethical profile of any individual, being able to easily to extrapolate to the one at the basis of his professional rationale formulation. Let's see first the content of the parable:

"1. And he said also unto his disciples, There was a certain rich man, which had a steward; and the same was accused unto him that he had wasted his goods. 2. And he called him, and said unto him, How is it that I hear this of thee? give an account of thy stewardship; for thou mayest be no longer steward. 3. Then the steward said within himself, What shall I do? for my lord taketh away from me the stewardship: I cannot dig; to beg I am ashamed. 4. I am resolved what to do, that, when I am put out of the stewardship, they may receive me into their houses. 5. So he called every

one of his lord's debtors unto him, and said unto the first, How much owest thou unto my lord? 6. And he said, An hundred measures of oil. And he said unto him, Take thy bill, and sit down quickly, and write fifty. 7. Then said he to another, And how much owest thou? And he said, An hundred measures of wheat. And he said unto him, Take thy bill, and write fourscore. 8. And the lord commended the unjust steward, because he had done wisely: for the children of this world are in their generation wiser than the children of light. 9. And I say unto you, Make to yourselves friends of the mammon of unrighteousness; that, when ye fail, they may receive you into everlasting habitations. 10. He that is faithful in that which is least is faithful also in much: and he that is unjust in the least is unjust also in much. 11. If therefore ye have not been faithful in the unrighteous mammon, who will commit to your trust the true riches? 12. And if ye have not been faithful in that which is another man's, who shall give you that which is your own? 13. No servant can serve two masters: for either he will hate the one, and love the other; or else he will hold to the one, and despise the other. Ye cannot serve God and mammon. (Luke 16)

Let's try to further analyse the **characters of the parable**.

The first character is "a certain *rich man* who had a steward" (v. 1-2)

This second character, the *steward*, handles the master's businesses. He can sell and lend, forgive and pay debts in the name of his master, earning his existence from the commissions and taxes resulting from the transactions he makes. From the parable, it follows that the steward must carefully record all his transactions (according to the rabbinic tradition, the copies of the transactions were usually made in two copies – one for each party). In this way, the steward dealt with his master's debtors, those identified by us as the third character of this parable. They could be those who took goods from the estate – for which they have not yet paid – or the lessees who agreed to pay in a fixed quantity of products for the annual rent. Thus, the steward could directly deal with the people indebted to his master.

It seems hard to believe how the main character of this parable, from an unjust person can become a model followed by others. He would have used the reduction of debts either by eliminating any hidden extortion-like debts or by eliminating the commission requested for himself previous to the writing of the documents.

Bringing this parable to our times we can, without great difficulty, identify common elements, "the wisdom" of the steward being assimilated to the accountant's "creativity".

This orientation towards creativity is told also by Feleagă (2002: 447) in transposing the story of the creative accountant that we are going to present further:

The manager: "Mister Accountant, could you explain these figures in the financial statements? Do you think I hired you to destroy my business? You have two weeks to fix this. Otherwise, you will be fired."

The accountant: "I cannot believe this. I will lose my job. What will I do? I am too old to change my profession and too proud to ask for my family's help. Yet, I might use these two weeks to my interest..."

"Hello! Client X? The accountant speaking. We have not heard from each other since the last receipt. Tell me, how much do you owe to our enterprise? 80,000,000 m.u.? If I grant you a 50% discount, do you think it will be easier for you to pay us right now? I think this is to your advantage. By the way, I am thinking of changing my work place. If your business goes well, I might come and work for you. Keep in touch."

The manager: "Mister Accountant, I can see you can do a good job when you want. Yet, your actions cost me too much and you are fired. I will give you, though, good references because I liked your creativity".

Even though, they were fired, the steward from our parable and the accountant from the story are given an unlimited period of time to prepare their reports about their economy, yet they still having the power to act (in a certain way) for a short period. The story maintains the tension by creating this scheme of "already/not yet" for report or judgement.

Verse 3 brings us closer to the steward character, discovering his thoughts through a monologue. The monologue in itself has the role to put us in his place. This internal reflection suggests the **huge importance of the crisis and decision moment**.

The steward is thinking to what kind of job could find if he were rejected from his position or if he could live from the others' goodwill. The steward knows his limits, setting up a plan based on his power of execution. In the first place, the steward rejects a plan of action in which he can count on himself. Also, he cannot conceive a plan based on his generosity, without any implication on his part.

In the second place, the terms "when the lord taketh away from me my stewardship" and "they may receive me" refer explicitly to the character's unjustness and to the debtors' houses, expressing a financial and a judgement relation. These two concepts – the threat to be fired and the hope to be well received – become the two coordinates of the steward's rationale.

The steward's plan to impoverish the rich man from the capital which was lent, using the practice of writing a debt document for the amount lent plus interest, not noticing any difference to what is officially written on the official receipt. The wit people demonstrated the permissiveness of rabbinic writings to support this practice as a way to make businesses profitably, **without breaking the law (creative accounting)**. Hence, the well organised usury practices in Palestine against the Israelite law. We learn from his deed that, being afraid not to be thrown away from the people's houses, the steward is reducing their financial obligations for his master.

The steward's ingenuity consisted in the fact that he knew how to use the means he had, thus ensuring his future. By reducing so generously the loan agreements, the steward significantly favoured the debtors; for he is further the rich man's steward, his agreements with these debtors being compulsory. Money lending and interest charge (which is forbidden, for example in Exit 22,25), presents a juridical fiction conceived through the payment of projected interests, modified from that written in the initial credit. In v. 5-7 the steward is simply detached from this interest his commission and his engagement in unfair activities. Similarly, it is postulated that the steward is the one having the power to release the debtors from the interest charged against the loans, in contradiction to the Jewish law against the usury.

The steward has become the benefactor of those who borrowed and, in exchange, he can expect reciprocity through the hospitality granted by these, thus allowing him in their houses. Thus, the steward enjoys the advantage of his current status, using the time interval in which he was a steward and makes a wealth management accounting (v 2), ensuring his future. The parable ends surprisingly. The master praised the steward for unjustness, yet he was unfair. The master suffered substantial losses, but the new debt can be considered, according to the Mosaic Law requirements, "little or a trifle". The steward moved from the position of being fired and thrown in the street to a favourable position due to the quickness he solved the urge of the moment. The master does not praise the steward for his lack of honesty, but his prudence in making business. "The children of this world", says Messiah, must understand how the world works and how everything is used to have benefits.

There are many questions without answer in the parable, for example: the steward was unjust his entire career? Does he continue as a steward because he gave up to the interest for himself and for his master, concentrating on debt collection? The limited space that we have does not allow us to give an answer here to all these questions, leaving yet the possibility to meditate on the message that this parable wishes to send us. A possible interpretation could be mirrored in Father Arsenie Boca's learning (2006) : "By forgiving, you erase what you forgive. What you forgive in another, it will be erased to you. This judgement takes you from the Judgment."

4. The economic crisis viewed through the relation among ethics, morality, and religious values

The circuit of businesses and its information networks operate as efficiently as any others. The persons with arguable intentions are discreetly identified and avoided. In the world of businesses, somebody bragging how they have cheated or stolen from other people will be tacitly avoided. People can continue to be polite, yet nobody wants to make business with them, being afraid not to be the next victim.

Ethics in itself represents a system of moral principles and methods to apply them, providing the instruments needed to draw up the moral judgement. In this view we have to take into consideration a series of ethical principles characterising current behaviour: what we must do, how we must do; people's customs and attitudes regarding the good and bad, truth and lie, equity and discrimination, freedom and constraints general concepts etc.

The application of ethics to business is made on at least 3 levels, that is:

The micro level – being the one established among individuals based on the principle of trade, containing promises, intentions, consequences, individual rights. All these are governed (as Coșuț I stated, 2008), by the principles of fair trade, fair treatment.

Individual or personal ethical orientations refer to each individual's ethics in an organization. They are the result of a more varied set of ethical pressures or influences. As an individual, each of us “enjoys” a series of ethical pressures influences containing the following: parents, social groups, religion, culture, profession etc.

The macro level – refers to institutional or social rules of the business world. The main concepts afferent to operating within this level are usually the result of political, cultural, legal and religious pressures.

The corporation level – implies aspects related to social responsibility.

The three application levels show the society's interest, as a whole, for the use of ethics both at the individual level through work relations, the preoccupation with the application and compliance with the professional ethical codes, the preoccupation with the creation of the feeling of belonging to a professional group (the micro level), at the national level – in institutions, governmental organizations, state bodies, the emphasis being on the preoccupation with transparency of national decisions to the detriment of personal or group interests, the preoccupation to ensure the fair legislative framework, the preoccupation with economic, social policies etc. of national interest (the macro level) and at world level through multinational corporations (the corporation level). Taking into consideration the last aspect, the current trend is to implement social responsibility programmes, strengthening this preoccupation both at the company level and at the consumers and business' third party level.

Social responsibility, as a component part of corporate responsibility, implies, in the European Commission's vision the corporations' preoccupation to voluntarily contribute to the society's welfare and to the environment's protection. The difference between ethics in business and corporate social responsibility consists in the fact that the first means to do things ethically (“doing ethical things”). This differentiation is made taking into consideration the importance that the corporation gives to the community where it works. The European Commission's official document directly hints to the advantages coming from the manifestation of social corporate responsibility: the reputation of a company in the place it works, its image as employer and producer, and also as an actor on the local stage surely influences its competitiveness. (Pantelică, 2008)

Currently, humankind lives within an interactive social system based on « being the first », »being more successful » encouraging the old-fashioned corruption and unfair behaviours when, actually, in a truly enlightened society, the purpose would be everybody's survival, a better life for everybody, the secret being transparency, as it has already said: »Know the truth and the truth will set you free.» (Walsch, 2003), because in such a society nobody would want to get anything on someone else's expense. Instead, the governments, the politicians, the world corporations do not want to allow the promotion of such an economic-social system, taking into account that the

law of gain and the law for power are promoted. We are invited to remain open in order to live the experience of a new system of thinking within a society based on the principle of transparency, without being afraid that someone might have something to lose. Our contemporary thinkers agree that the new model of economic-social development will depend on a renewal of minds, mentalities, and of human beliefs, by directing human will towards the reception of the source of superior Consciousness, generator of unconditioned love, freedom of expression, creativity, inspiration and intuition that human mind can transform into material, concrete experiences and manifestations, for everybody's welfare.

The capitalism, which replaced the ideological dictatorship of communism, through that of money and private ownership, creating the image of an individual sure of his destiny, torn from his metaphysical roots, capable of finding happiness in the prosperity of his life and material success, has proved its inefficiency to ensure the balance of life both affectively and morally.

The actual crisis emphasises these contradictions and the vulnerability of the two systems, opening up a new perspective of reconciliation of private property with collective property, of re-opening the human spirit towards humanistic values and the source of divine wisdom to rebuild a world as it was imagined by the greatest visionaries of all times.

To support the creation of an economic model of quality and transparency, of generosity and simple life yet complex through the Chapter 7-8), this being the authentic paradigm of human relations in the business world and everyday life.

The contemporary world can have this interior force to enrich from the experiences of the past, opening up to new potentialities to explore life at the level of its political, economic, and social institutions.

We consider as purposeful the presentation of the results obtained after applying a survey to the managers of Bihor county, their answers to two questions being relevant for the specificity of this paper. At the first question – When making a managerial decision, is the use of ethics a priority? – the highest part of the managers in the sample chosen (110 of 125, which represents a percentage of 88%) consider that the use of ethics represents a priority in making a decision.

For ethics can be defines from the large perspective as being a set of moral principles or values, that each of us has them defined in a more or less explicit way and because when applying them religious doctrines are also used, we designed the second question: Are ethics and moralities influenced by religious values? The answers to this question show the fact that almost half of the respondents agree or strongly agree, while only 28% do not agree with this statement.

According to the participative theory of the firm, the company does not have obligations only to one group but to the whole variety of social groups affected by the firm's activity. Starting from this enlarged perspective of corporations towards multiple groups of participants, we can conclude that because the managers get a new role, that of finding a balance between the shareholders' interests and the concurrent interests of the other groups of participants to ensure the company's long term survival, rather than the maximization of the profit and the promotion of a single group's interests. Therefore, the purpose of a business is to ensure efficient operations, in the same time answering to a variety of ethical requests of all the parties interested.

5. Conclusions

Starting from the assumption that the profit is the target had in view in any business, are created the premises determining the management of an entity in using the choice between two or more accounting options in order to reach the desired result, therefore they could motivate the management to use creative accounting techniques in order to reach this wish. We insist on this "could" for, in our opinion, the existence of several alternatives and, implicitly, of the possibility to choose among them do not automatically overlap with the idea of accounting manipulation permission. This "permission" exists only in the mind of those for whom, in our opinion, the spirit of the law has become an old-fashioned concept.

In our opinion, the parable mentioned has the purpose to emphasise the moral aspects of the steward's behaviour and, extrapolating, of the accounting professional's in creating a solid base for an ethical behaviour.

From a philosophical and spiritual point of view, the contemporary crisis is humankind's crisis of conscience and moral values culture. We agree with contemporary great philosophers and visionaries thus supporting the idea that humanity should enter the phase of new type humanism, meant to cultivate the features of a morally evolved individual, endowed with the spirit of responsibility regarding the choices he makes as well as the capacity to assume the consequences of these choices. In the specialists' writings more and more often it is used the term of "business transparency", which requires a new typology of business people, a new vision of the essential sense of making material goods and a new conscience of the relation between man and nature and the environment.

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EUROPEAN HARMONIZATION OF CONSOLIDATED FINANCIAL STATEMENTS REGULATIONS?

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The purpose of this paper is to analyze the degree of formal accounting harmonization within the European Union with respect to the EC Regulation No. 1606/2002 adopted by the European Parliament and European Council on the 19th of July 2002, which regulates the application of IAS/IFRS regarding the financial reporting of listed European companies. The conclusions of the paper were drawn after the completion of a thorough analysis performed by using correlation and/ or association coefficients, namely: the Jaccard's Correlation Coefficients, Rogers and Tanimoto Coefficient, Lance and Williams Coefficient and Binary Euclidian Distance Coefficient. The results lead us to conclude that although our first hypothesis is verified, the degree of harmonization between the accounting systems of EU Member States could be truly quantified only through an analysis of the material accounting harmonization, more precisely by analyzing the way the companies put into practice the requirements imposed through the EC Regulation No. 1606/2002.

KEYWORDS: formal accounting harmonization, consolidated financial statements, regulatory framework

JEL: M40, M41, M48

I. Introduction

Nowadays, more than ever, the effort to improve the international accounting system through a set of globally accepted and implemented financial reporting standards is considered a topic issue. The main reason for this is the extensively discussed possibility by the international forums according to which the international accounting system and the extant accounting regulations represent one of the factors, if not the most important factor that instigated, or at least led to the exacerbation of the economic and financial crisis in 2007. (Ojo 2010: 606-607)

This paper approaches the international accounting system domain by proposing a special focus on the formal accounting harmonization process regarding the consolidated financial reporting standards. The central theme of the paper is developed in a structure consisting of three parts. The first part includes a brief overview of the extensive literature on formal accounting harmonization process in order to develop a perspective on the current state of knowledge of the topic addressed, but also for a better understanding of key concepts that are operating in this field of study. The key concepts are also summarized in the first part of this work. Our study is completed with an empirical analysis over the degree of comparability between the accounting system of Romania with respect to consolidated financial reporting standards, on the one hand, and the accounting system of each member state of the European Union, all in the light of the EC Regulation No. 1606/2002 adopted by the European Parliament and the EU Council on July 19, 2002. The comparability analysis was performed by measuring the degree of formal accounting harmonization with respect to consolidated financial reporting standards, from two major points of view. First, the similitude, or the degree of similarity extant between the accounting systems was analyzed. Afterwards, the focus was shifted on the analysis of the dissimilitude, or the degree

of dissimilarity between the accounting systems, taking into account the EC Regulation No. 1606/2002. Following the empirical analysis we were able to draw certain conclusions presented in the last section of this paper.

II. Literature review

The existing body of research papers on formal (*de jure*) accounting harmonization process includes studies that address this issue through a theoretical viewpoint, by analyzing the accounting systems and/ or the accounting regulations, or the extant studies published on the subject (Standish 2003: 1-25; Larson and Street 2004: 89-119; Yüksel et al. 2008: 279-294; Wüstemann and Wüstemann 2010: 1-27; Feleagă et al. 2009: 1-12). Other studies approach the subject of formal accounting harmonization by analyzing the factors that have contributed the most to this process by influencing its development (Judge et al. 2011: 161-174). The subject of formal accounting harmonization process has also been developed through research papers in which the analysis is based on the actual measurement of formal accounting harmonization. This body of research literature can be distinguished taking into account the research methods used in the analysis. Thus, based on these criteria the studies extant on this subject can be organized into two categories, the first of which includes papers presenting research methods grounded on descriptive statistics, in which the analysis involves determining the number, or percentage of the sample analyzed according to certain selection criteria considered. The second category includes studies containing analysis that was developed on the basis of correlation and/or association coefficients, or analysis developed by using other mathematical methods. In this category we find research studies using methods based on the concept of distance, namely: Mahalanobis Distance Method (used for the first time in the study of Rahman et al. 1996: 316-333); Euclidean Distances (Garrido et al. 2002: 1-26; Fontes et al. 2005: 415-436); or fuzzy clustering analysis (Qu and Zhang 2010: 334-355); studies using correlation coefficients, respectively: Spearman Rank Correlation Coefficient (Fontes et al., 2005: 415-436) and Pearson Correlation Coefficient (Ding et al. 2007: 1-38), but also studies in which we can find the association coefficients: Jaccard's Coefficients (Fontes et al. 2005: 415-436).

Conceptual framework

After consulting the research literature, we appreciate that the concept of *accounting harmonization* designates the decrease in the degree of international accounting diversity and the growth of accounting uniformity (Tay and Parker 1990: 73; Mustață 2008: 60-93). The concept of accounting harmonization also refers to the degree of compatibility and/ or comparability between a national and an international accounting referential, in the same time implying the orientation of the national accounting referential towards the international financial reporting framework by assuming greater efforts to reduce disparities (Mustață 2008: 60-93).

The concept of accounting harmonization was developed in the research literature by Tay and Parker 1990: 73. Thus, two other new concepts were created, respectively: *formal (de jure) accounting harmonization* and *material (de facto) accounting harmonization*. The clear distinction made by the two authors mentioned above between formal (*de jure*) accounting harmonization and material (*de facto*) accounting harmonization can be found in other research papers too (Van der Tas 1992: 470; Parker 1996: 317; Canibano and Mora 2000: 351-353). According to the literature references mentioned above, the concept of *formal accounting harmonization* refers to the degree of comparability between regulations and accounting standards, whereas *material accounting harmonization* takes the meaning of the degree to which accounting rules and methods provided in the regulations and/ or standards are observed and enforced by companies in their financial reporting practices. In general, in the research literature the material accounting harmonization is seen as a process that occurs as a consequence of formal

accounting harmonization. This fact can be considered a proof that in an accounting system the rules and standards are the first to be harmonized, followed by the accounting practice.

III. Research methodology

The central theme of this article is restricted in our study to the existing de jure accounting harmonization within the European Union regarding the EC Regulation No. 1606/2002 adopted by the European Parliament and the European Council on the 19th of July 2002. This regulation deals with the application of IAS/IFRS in the consolidated financial statements of European companies that are listed on the stock market.

This paper is an empirical research that addresses from a comparative perspective the degree of de jure accounting harmonization between Romania and other EU Member Countries, taking into account how the EC Regulation No. 1606/2002 was adopted in their legislation. The research methodology of this paper includes both qualitative and quantitative research methods, which are based on computing the degree of similarity and dissimilarity between Romania and other EU Member Countries using correlation and/or association coefficients. Among the research methods used both at theoretical and empirical perspective level we can distinguish the analysis of documents, the comparative method, the interpretative method and last but not least the mathematical and statistical research methods, whose instruments, the correlation and/or association coefficients, will be described in detail in the case study.

IV. Case study: Quantifying the degree of formal accounting harmonization at a European level

The case study is based on an empirical analysis of the degree of comparability, or more precisely of the degree of formal (de jure) accounting harmonization, that exists between the accounting system of Romania and the accounting system of each EU Member Country. In other words, the empirical analysis regards the way in which the above mentioned accounting systems adopted the EC Regulation No. 1606/2002. This regulation deals with the compulsory application of IAS/IFRS in consolidated financial statements of European companies listed on the stock market, starting no later than 2005. The analysis of the level of comparability was made from two main viewpoints, the first referring to the similarity that exists between the analyzed accounting systems and the second referring to the dissimilarity between the analyzed accounting systems related to the adoption of EC Regulation No. 1606/2002. (Deloitte 2010; IAS Plus 2010)

The starting point of the empirical analysis consisted in establishing two hypotheses which were tested by applying correlation and/or association coefficients.

Hypothesis 1: The first hypothesis refers to the degree of similarity supposed to be higher among the Romanian accounting system and the accounting systems of the countries which are traditionally representatives of the continental accounting system: France, Germany, Austria, Belgium, Italy, Spain, Portugal and Sweden. Also, the degree of similarity is assumed to be lower between the Romanian accounting system and the Anglo-Saxon accounting systems belonging to Great Britain, Ireland and Holland. This hypothesis was established taking into consideration the fact that during 1994-1999, Romania adopted a dualist accounting model inspired by the French continental accounting system. (Matiş and Pop 2007: 20-40).

Hypothesis 2: The second hypothesis makes reference to the degree of similarity supposed to be very high among the Romanian accounting system and the accounting systems of the Central and Eastern European countries that adhered to EU in 2004: Czech Republic, Estonia, Latvia, Lithuania, Poland, Slovakia, Slovenia, Hungary and in 2007, respectively: Bulgaria. This hypothesis is based on the economical characteristics of these countries, considered to be very similar, (all the countries are rated as being developing economies, all these countries adopted a series of reforms aimed at improving the economic growth and development), characteristics that are also reflected in their accounting systems. (EU 2012)

In order to quantify the level of similarity and dissimilarity between the Romanian accounting system and the accounting systems of the other EU Member States regarding the adoption of EC Regulation No. 1606/2002, a series of items was identified: 1. The adoption of IAS/IFRS; 2. The permission/compulsoriness of using IAS/IFRS for individual financial statements of companies listed in 2010; 3. The permission/compulsoriness of using IAS/IFRS for consolidated financial statements of companies not listed in 2010; 4. The permission/compulsoriness of using IAS/IFRS for individual financial statements of companies not listed in 2010. For each element identified in these items, by using the comparative method, an analysis of the fulfillment of the condition of existence of each element in the accounting systems taken into consideration was done in order to allocate the value 1 or 0.

The empirical analysis was developed and finalized by using a series of correlation and/ or association coefficients. Among these coefficients the most known and used (Fontes et al. 2005: 415-436; Strouhal et al. 2008: 101-122) are Jaccard's Association Coefficients. This type of correlation/ association coefficients have the advantage of making possible the quantification of both the degree of similarity and dissimilarity between two accounting systems that are analyzed from a formal (de jure) harmonization point of view. The results obtained through the analysis based on the Jaccard's Association Coefficients were corroborated with the results obtained by applying over the same data other correlation and/ or association coefficients, respectively: Rogers and Tanimoto Coefficient (in the case of the results regarding the degree of similarity); Lance and Williams Coefficient and Binary Euclidian Distance Coefficient (in the case of the results obtained regarding the degree of dissimilarity).

V. Conclusions

As mentioned previously, this study establishes two hypotheses, which will be discussed through empirical results, while addressing the two quantified issues: the degree of similarity and the degree of dissimilarity.

Regarding the first hypothesis, it is noted that Jaccard's Similarity Coefficient values calculated between the Romanian accounting system and the accounting systems of the countries that are classified as having a continental (European) accounting system, namely: Austria, Germany, France, Belgium Spain, Portugal, Italy, Sweden is high, recording the following values: 0.824, 0.824, 0.822, 0.833, 0.822, 0.882, 0.700, 0.619 and 0.882 respectively. We can notice that the highest values are found in the case of Spain and Sweden, and the lowest values are found in the case of Portugal and Italy. The values computed with the use of Rogers and Tanimoto Coefficient verify the results obtained through Jaccard's Similarity Coefficient. Unlike these values, the results obtained by comparing the Romanian accounting system and the accounting systems of the states classified as Anglo-Saxon (Holland, Ireland and UK) are generally lower for both coefficients used to check the similarity. Therefore, for Jaccard's Similarity Coefficient these values are: 0,684; 0,667; 0,632. However, we can see that the values exceed the results obtained through Jaccard's and Lance-Williams Dissimilarity Coefficients. As the results obtained so far cannot be considered conclusive enough, we will analyze and interpret the values of Binary Euclidian Distance Coefficient, which in the case of the comparison between the Romanian accounting system and the accounting systems classified as Anglo-Saxon are higher (2.449; 2.449; 2.646) than the values obtained in the majority of the cases of countries with continental accounting system. The exceptions are represented by Italy and Portugal, in which case the registered values are 2.828 and 2.449.

With the exception of these two cases, we can conclude that hypothesis 1 is verified, the degree of similarity is higher between the Romanian accounting system and the accounting systems of the countries that are by tradition representatives of the continental accounting system: France, Germany, Austria, Belgium, Italy, Spain, Portugal and Sweden. In the same time, the degree of

similarity extant between the Romanian accounting system and the Anglo-Saxon accounting systems belonging to Great Britain, Ireland and Holland is lower.

In the case of hypothesis 2, we notice the fact that the Jaccard's Similarity Coefficient values computed between the Romanian accounting system and the accounting systems of Czech Republic, Estonia, Latvia, Lithuania, Poland, Slovakia, Slovenia, Hungary and Bulgaria are the following: 0.722; 0.550; 0.579; 0.550; 0.579; 0.478; 0.550; 0.882; 0.550. We can notice that generally the values are quite low, being almost equal to those obtained through Jaccard's Dissimilarity Coefficient. The highest values are registered in the case of Czech Republic and Hungary, and the lowest values are registered in the case of Slovakia and Estonia, Lithuania, Slovenia and Bulgaria (representing the same value). The values computed through Rogers and Tanimoto Coefficient verify the results obtained through Jaccard's Similarity Coefficient. Unlike these values, the results obtained after comparing the Romanian accounting system and the above mentioned accounting systems through Lance-Williams Dissimilarity Coefficient are quite low. So, we consider that a valid conclusion can be drawn only after analyzing and interpreting the Binary Euclidian Distance Coefficient. The conclusion drawn after checking the values obtained through the Binary Euclidian Distance Coefficient (2.236; 3; 2.828; 3; 2.828; 3.464; 3; 1.414; 3) is obviously that the hypothesis 2 is not verified, the degree of similarity is not very high between the Romanian accounting system and the accounting systems of the Central and Eastern European countries that adhered to EU in 2004: Czech Republic, Estonia, Latvia, Lithuania, Poland, Slovakia, Slovenia, Hungary and in 2007 respectively: Bulgaria.

The general conclusion drawn following our empirical study is that despite the results obtained after analyzing the degree of formal accounting harmonization existing between Romania and the other countries, some relevant results regarding the degree of harmonization between these accounting systems could be obtained only through an analysis of the material accounting harmonization, more precisely by analyzing the way the companies are applying into their financial disclosures the requirements imposed through EC Regulation No. 1606/2002.

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ACCOUNTING STANDARD SETTING IN THE INTERNATIONAL ARENA: UPDATE ON THE CONVERGENCE PROJECT

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Our paper contributes to the literature on international accounting by focusing on the standard setting process. As documented by research literature, accounting regulation can enhance corporate governance (Melis and Carta, 2010), corporate reporting being expected to reduce information asymmetry. Based on accounting research and trade literature we first synthesize recent evolutions in the international accounting arena. We therefore position our study within current realities significantly marked by uncertainty in relation to the world wide globalization process. The objective of our paper is to perform an analysis that would help assess further developments of the convergence project. This is done by looking at the current status of the projects being developed under the IASB –FASB collaboration, as well as by developing a comparison between IFRS and US GAAP. The employed research methodology relies on analyzing data provided through the IASB and the FASB’s websites, as well as other official documents being issued by the two Boards. The assessment of the projects was done by reviewing exposure documents and monitoring the Boards’ deliberations, while the developed comparison requires accounting regulations content analysis. Concluding upon the Boards’ ongoing projects, we might identify areas in which convergence seems to be quite close (such as revenue recognition and leasing), but also areas in which convergence becomes even more challenging (such as financial instruments or the particular case of offsetting). Similar to other studies being developed within accounting research and trade literature (SEC 2011: 8) we may conclude that, generally, US GAAP present more detailed, specific requirements than IFRS.

Keywords: International Accounting Standards Board, Financial Accounting Standards Board, corporate reporting, IFRS, US GAAP.

JEL Code: M41.

1. Historical evolutions and landmarks in the international accounting arena

It is a well known fact that national differences impact upon national accounting systems, accounting research literature identifying a series of reasons for differences in the financial reporting process, including the character of the national legal system, the way in which industry is financed, the relationship of the tax and reporting systems, the influence and status of the accounting profession, the extent to which accounting theory is developed, language, etc. On the other hand, economic realities closely linked to the globalization process encourage us to aim the diminishing of such differences. In this regard literature offers the option of the standardization approach (referring to rules to account for similar items in all countries) and the harmonization approach (aiming to provide a common framework while allowing for some different national approaches). The therefore generated benefits would mainly relate to permitting greater comparability and reducing training costs for the accounting profession on the long run.

A significant role under the given circumstances belongs to accounting standard setting bodies based on their accountability for the accounting standards’ (financial reporting standards’) due process. When positioning our analysis in the international arena we implicitly relate to the

International Accounting Standards Board (IASB), former International Accounting Standards Council (IASC). Furthermore, we must also relate to the Financial Accounting Standards Board (FASB) as being the regulatory body for the world's largest economy, the United States (US) representing an attractive source of capital for foreign companies. This also takes us to the Securities and Exchange Commission closely monitoring the accounting standard setting process in the US. Looking back on the relation between the IASB and the FASB, we consider it safe to assess that there was always an apparent competition for international supremacy between the two accounting standard setters and the corresponding regulations which they issue (namely the International Financial Reporting Standards – IFRS (including the International Accounting Standards -IAS) and US Generally Accepted Accounting Principles – US GAAP). Despite such potential competition, the above mentioned process of globalization also impacted their relation due to the manifestation of a need for accounting harmonization. Perhaps a more suitable term when discussing the IASB and FASB would be accounting convergence. Following such a purpose, the IASB and FASB signed in 2002 what we all know as the Memorandum of Understanding (MoU - The Norwalk Agreement, September 2002), both Boards acknowledging their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting.

While US GAAP were perceived as high quality accounting standards until the 21st century, it was the large US bankruptcies that became known world wide (Enron, Parmalat, WorldCom) that also brought doubts with regard to the accounting regulations that would allow for such manifestation without signaling stakeholders. It was also at the beginning of the 21st century that the European Union (EU) started negotiations in order to adopt a set of accounting regulations. Considering the negative impact of the previously mentioned bankruptcies taking place under the watch of the FASB, but without forgetting the IASB's flexibility in the negotiation process, it therefore becomes easy to follow the EU's decision. It was Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards and Regulation (EC) No 1725/2003 of the European Parliament and of the Council of 29 September 2003 on adoption of certain international accounting standards in accordance to Regulation (EC) No 1606/2002 that became landmarks in the evolution of the accounting standard setting process in the international arena. In accordance to these regulations, consolidated financial statements of companies listed on EU capital markets had to be filed in based on IFRS starting with year 2005.

This can of course also be easily seen as one of IASB's victories over the FASB. The following was to come in 2007 when the SEC and the FASB were recognizing IFRS for the purposes of foreign companies listed in the US (mentioning that this applied only to IFRS as issued by the IASB since the SEC was not at all pleased with the IAS 39 carve out that the IASB accepted under European lobby). Things were looking quite promising for the IASB, considering the fact that by the end of 2007 IFRS were used in more than 100 countries round the world. It was through a subsequent MoU (September 2008) that the FASB and the IASB agreed that a common set of high-quality, global standards remained their long-term strategic priority and established a plan to align the financial reporting of US issuers under US GAAP with that of companies using IFRS (AICPA, 2011). Very soon (November 2008) the SEC issued a proposed roadmap that included seven milestones for continuing US progress toward acceptance of IFRS.

Evolutions in the international arena started storming and it was only turbulent times that were able to slow things down. The 2007-2009 financial crisis determined shareholders to also question the high quality of IFRS considering that this time it happened under the watch of both the IASB and the FASB. Furthermore, SEC's new chair, Mary Schapiro, stated she did not feel bound by the existing roadmap, arguing that another assessment should be made regarding the decision (Millman, 2009 quoted by Erickson et al., 2009), and early in 2009 expressing reservations about the progress and proposing a timetable of IFRS convergence, criticizing the

IASB and indicating reluctance to adopt IFRS (WebCPA, 2009 quoted by Rezaee, 2010). It was in 2011 that the SEC should have decided whether to incorporate IFRS into the US financial reporting system for US issuers, and in case of deciding so, when and how. In early January 2012 Schapiro was promising a decision in the next few months, adding that there are some challenges that have to be addressed before the SEC will be comfortable making the ultimate decision (IFRS USA, 2012).

Positioning our study under the above discussed setting, the purpose of our paper is to develop an analysis that would help assess further developments of the convergence project. This is done by looking at the current status of the projects being developed under the IASB –FASB collaboration as well as by developing a comparison between IFRS and US GAAP.

2. Research methodology

The employed research methodology relies on analyzing data provided through the IASB and the FASB’s websites, as well as other official documents being issued by the two Boards. The developed analysis comprises two parts. The first focuses on the actual stage of the IASB-FASB collaboration in terms of undertaken projects. The assessment of the projects was done by reviewing exposure documents and monitoring the Boards’ deliberations. The second part of the analysis develops content analysis of IFRS and US GAAP in order to establish differences without considering their impact in practice, which would be more difficult to assess. Developing the comparison between IFRS and US GAAP is done based on accounting regulations content analysis.

3. IASB - FASB collaboration: actual stage of projects

When looking at projects which the IASB and the FASB undertook in their collaboration when considering the accounting standard setting process we have to consider both the MoU and their other joint projects. The two accounting standard setting bodies issued the MoU in 2006 and further updated it in 2008 with the purpose of identifying the accounting standard setting projects that they considered to mostly require improvement in the near-term. The MoU included both short-term projects and longer-term projects. Establishing the two Boards’ priorities was mainly done by considering the purpose of increased convergence between IFRS and US GAAP as well as higher quality for the two sets of accounting standards. The manner in which the Boards considered it suitable to do so primarily related to the development of new standards. We will further synthesize the longer-term projects based on their status:

Table 1: MoU longer term projects

<i>Completed</i>
Business combinations
Fair value measurement
Post-employment benefits
<i>Project scope reassessed</i>
Derecognition
<i>Re-exposure of proposals</i>
Insurance
Leases
Revenue recognition
<i>Redeliberation of exposure draft</i>
Insurance
Leases
<i>Reassessed as a lower priority project</i>
Financial statement presentation
Financial instruments with characteristics of equity
Intangible assets

<i>Differentiated on project elements</i>
Financial instruments: classification and measurement, impairment, hedge accounting, and balance sheet offsetting.
<i>Ongoing</i>
Consolidations

Source: (authors' projection based on information available on IASB's and FASB's website)

If we are to select the projects that are considered to have greater priority, we have to make reference to financial instruments, revenue recognition and leasing, all requiring the Boards final decision regarding technical aspects. We will further synthesize the two Boards' collaboration on these topics, all representing active on-going MoU projects.

With regard to the financial instruments project (which includes the elements mentioned within the above presented table), the two Boards aim the issuance of converged standards, but actual timing and phasing in their development was differentiated. The IASB chose to consider each of the above mentioned elements of the project as a separate phase which is approached under the development of IFRS 9 Financial Instruments. Meanwhile, the FASB initially approached the project by considering the following two phases: classification and measurement, impairment, and hedging; and balance sheet offsetting. Offsetting represents a significant aspect due to the fact that the different requirements result in a significant difference between amounts presented in statements of financial position prepared in accordance with IFRS and amounts presented in statements of financial position prepared in accordance with US GAAP, particularly for entities that have large amounts of derivative activities. Despite the fact that the Boards jointly issued the exposure draft on offsetting in January 2011 (proposing changes to address the differences between IFRS and US GAAP), it seems like the received feedback encouraged them to continue further with different offsetting models. Still, considering the fact that users consistently asked that information be provided to help reconcile differences in the offsetting requirements between IFRS and US GAAP, the Boards decided to work on converging disclosure requirements to assist users in this regard (SEC 2011: 4).

As seen from the above presented table, in June 2011 the revenue recognition project was considered to require re-exposure (despite their due process requirements stating that re-exposure was not required) of the proposals due to the special nature of revenue. The two Boards had previously published a joint discussion paper (in December 2008) and a joint exposure draft (in June 2010) related to revenue from contracts with customers. The leasing related project was also included in the re-exposure of proposal category. After jointly publishing a discussion paper (in March 2009) and a joint exposure draft (in August 2010) related to leases, it was in July 2011 that the two Boards decided to re-expose the revised proposals due to the fact that up to date decisions were significantly different when compared to the exposure draft, and therefore required re-exposure. A more detailed content analysis of IFRS and US GAAP will further be developed within the following section with the purpose of providing the synthesis of such a comparison.

4. Where are we today? Synthesis of IFRS and US GAAP comparison

We will further synthesize the results of the developed comparison between IFRS and US GAAP by considering specific areas and factors that are relevant (SEC 2011) for the convergence process nowadays still under debate.

Intangibles (IAS 38 and ASC (Accounting Standards Codification) Topic 350): require initial capitalization of acquired intangibles and preclude the recognition of most internally-generated intangibles. While IFRS allow entities to elect between the cost model and the revaluation model, US GAAP requires the cost model for all intangible assets within the scope of ASC Topic 350, the revaluation model therefore not being permitted. Still, practical implementation of the

revaluation model is perceived to be limited even under IFRS due to the existence of several restrictions (fair value needs to be determined by reference to an active market, and the revaluation must be kept sufficiently up-to-date so that the carrying amount of the asset does not differ materially from its fair value). *Research and development* (IAS 38 and ASC Topic 730): IFRS require capitalization of development costs under given criteria, with costs incurred before the criteria being met having to be expensed as incurred; meanwhile US GAAP require research and development costs to be expensed as incurred, with the exemption of computer software development that requires capitalization under criteria that is similar to those in IFRS. *Property, Plant, and Equipment* (IAS 16 and ASC Topic 360): require initial capitalization at an amount based on cost and subsequent depreciation of the capitalized asset, with impairment tests being required in case there is an indicator of impairment. While we notice general consistency between the principles of IFRS and US GAAP, there are some differences with regard to definitions and mostly in detailed guidance. SEC (2011: 26) exemplifies what it considers some of the potentially more significant differences including: asset depreciation, remeasurement of residual value, option for revaluation, impairment and impairment reversals. *Investment Property* represents another area that might generate differences due to the fact that IAS 40 Investment Property allows the use of the fair value model and the cost model (based on the entity's election) while US GAAP only allows for the cost model (unless the entity meets the criteria of an investment company measuring its assets at fair value).

Inventory (IAS 2 and ASC Topic 330): require initial recording at cost and subsequent testing for impairment by reference to a market-based value. Among the significant differences we would mention: IFRS require inventory to be carried at the lower of cost or net realizable value while US GAAP requiring the lower of cost or market; IFRS require reversal of inventory impairments in the period in which an impairment condition reverses while US GAAP precludes a reversal of previous inventory write-downs; US GAAP permit the use of LIFO (last-in, first-out) method which is not permitted under IFRS. *Cash and Cash Equivalents* (IAS 7 and ASC Topic 305): similar principles (such as cash equivalent instruments requirements: short-duration, highly liquid, and readily convertible to cash), IFRS articulating certain requirements in a less prescriptive manner than US GAAP. *Liabilities* (IAS 39 and ASC Topic 405): mainly consistent accounting guidance for the extinguishment of liabilities. US GAAP offer application guidance for circumstances which are less (or not at all) covered under IFRS (such as transactions, transfers of noncash financial assets in settlement of a creditor's receivable). *Contingencies* (IAS 37 and ASC Topic 450): require that loss contingencies are recorded when a future economic outflow is probable, with the term probable itself being defined differently (IFRS: more likely than not to occur, US GAAP: the future event or events are likely to occur), but allowing similar interpretations (more than 50%).

Share-based Payment (IFRS 2 and ASC Topic 718): include similar share-based payment models requiring fair value measurement. Significant differences can be noted in relation to the classification of share-based payment awards. *Foreign Currency Related Aspects and Inflation* (IAS 21 and ASC Topic 830): require translation of financial statements of foreign operations into the reporting currency, with recognition of the effects of changes in exchange rates in other comprehensive income and remeasurement of foreign currency transactions into the entity's functional currency with impact upon income; operating in hyperinflationary economies imposes special accounting. SEC (2011) emphasizes some significant differences including exchange rates for translation, cumulative translation adjustment and impairment, translation of entities with multi-level organizational structures, monetary items forming part of net investment in foreign operation, application of highly inflationary accounting, and cessation of highly inflationary accounting. *Risks and Uncertainties* (IAS 1 and ASC Topic 275): include similar principles, but US GAAP present more particular disclosure requirements that are not required

under IFRS. Main differences that might generate differential disclosure are linked to vulnerabilities due to certain concentrations and estimates and uncertainties.

5. Concluding remarks, research limitations and research perspectives

The above presented synthesis represents a selection of topics that were approached and could further be developed by enlarging the list of analyzed topics. We consider this to represent both a limitation of our paper and an opportunity for its future development. Another limitation of aiming to develop a similar comprehensive comparison between IFRS and US GAAP comes from the fact that differences affect stakeholders in different manners and to different extent, therefore making their assessment difficult. Concluding upon the Boards' ongoing projects, we might identify areas in which convergence seems to be quite close (such as revenue recognition and leasing), but also areas in which convergence becomes even more challenging (such as financial instruments or the particular case of offsetting). Furthermore, it is also difficult to position the Boards' decisions related to the priority of the approached projects in relation to the so-called roadmap for convergence previously being undertaken and which again is currently under significant uncertainty. More precisely we must not forget that the US representatives keep delaying the decision related to the incorporation of IFRS into the financial reporting system for US issuers.

Similar to other studies being developed within accounting research and trade literature (SEC 2011: 8) we may conclude that, generally, US GAAP present more detailed, specific requirements than IFRS. Nevertheless, there are cases in which IFRS offer higher-level or general guidance, as there are also cases in which they do not contain any corresponding guidance when compared to US GAAP. We therefore relate to SEC (2011: 11) emphasizing the fact that any developed comparison between IFRS and US GAAP should consider the existent fundamental differences linked to:

- IFRS containing broad principles to account for transactions across industries, with limited specific guidance and stated exceptions to the general guidance; and
- fundamental differences existing between the FASB and IASB conceptual frameworks. Ohlson et al. (2010) discuss how standard setters and most academics maintain that accounting standards should be guided by a set of precepts and principles spelled out in a conceptual framework document. As Whittington (2008) and Ronen (2008) note, both the FASB and the IASB already had conceptual frameworks in place, the FASB's, dating mainly from the 1970s, comprising seven substantial concepts statements, each published separately, and the IASB's 1989 briefer framework in one document containing 110 paragraphs. The IASB and FASB are currently jointly facing the challenge of developing a comprehensive project (added on their agendas in 2004) having the purpose to replace existing documents with an improved, common conceptual framework that builds on their existing frameworks.

The developed historical retrospective documents how things started to move quickly in relation to the IASB – FASB collaboration after the 2002 Norwalk Agreement, providing a roadmap for convergence that was recently stormed by turbulent times such as the financial crisis. Discussing the IASB - FASB collaboration on recent projects as well as developing a comparison content analysis of IFRS and US GAAP might prove helpful in assessing the developments as well as perspectives of the convergence process.

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ACCOUNTING ON THE PARTICULARITIES THAT CONCESSION AGRICULTURAL UNITS

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*Agriculture*⁶¹ represents the branch of the material production which deals with growing crops and raising animals in order to obtain farm produce and some raw materials, as well as the totality of works and methods used for this purpose. Agriculture has specific traits mainly induced by the traits of its results. Thereupon, what sets apart agriculture from other sectors of the economy is the volume, structure and concretization of the resources in the process of their consumption. The essential cause of these differences is the fact that land is the main production factor and that, compared to the development level of the production forces and the natural and biological factors, it behaves in a specific manner. Definitions and characteristics of agricultural activities are given also in *The International Financial Reporting Standards (IFRS)*⁶², respectively IAS 41, “Agriculture”. Hence, according to IAS 41 “Agriculture”, **agricultural activity** is defined as the management of the biological transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The received concessions represent an important characteristic of these units and, as a particular case concerning such concessions, we will tackle the issue of terrains pertaining to the assets sold by the Romsilva National Forests Administration.

KEYWORDS: agricultural activity, concession, forest land, agricultural exploitation

COD JEL: M – Business Administration and Business Economics; Marketing; Accounting M4 / Accounting, M41-Accounting

1. Introduction

The particularities which differentiate agriculture from the other branches of material production are: Agriculture is the only branch in which inorganic matter is transformed into organic matter, assimilable by man, capable to sustain his/her physiological functions and, moreover, all other economic and social functions. From this point of view, agriculture is and will always be a the primary pre-requisite of life and of any activity; Land(soil and the immediate subsoil layers) has an active role, owed to fertility (a characteristic of the land/soil used for agricultural production and without which the whole agricultural activity could not be made possible); In agriculture the production process unfolds with the help of life organisms, the help of plants and animals; Agricultural production is under the incidence of natural conditions; Raw materials and materials used by man in the technologic process specific to agriculture, can be smaller, in number, volume and weight, than the produce obtained, these being composed of the

biologically created, new, organic matter; when growing plants, during the biologic transformation, the plants are bound to the land; in agriculture differences occur in the shorter work time and the longer production time; this production time include the longer or shorter periods in which living organisms suffer physical, chemical, physiological transformations, without the direct intervention of man⁶³; for accomplishing the biological transformation, the expenses are gradually borne, in accordance with the biological rhythm.

Agriculture is compound out of a wide variety of activities: bee-keeping, growing perennial and annual crops, fruit growing and other plantations, flower growing, foresting, pisciculture (including growing fish), etc.

2. Accounting regulations regarding concession

Concession represents the convention by which a party named „concedent” (lessor) yields to another party named „concesionat” (lessee), over a predetermined period of time, the right to use some assets/goods or to perform certain operating activities. (Mateş D., David D., 2010,p:137).

According to Order 3055/2009,concessions received are reflected as intangible assets when the concession contract includes an established duration and value. Amortization of the concession will be recorded for the entirety of the duration, established in the contract.

In case the contract assumes payment of royalty and not an amortization value, in the accounting of the entity receiving the concession, the expense representing royalty is reflected, without the acknowledgement of an intangible asset. (point 81(2)).

Example 1:

An entity working in the piscicultural field, and which has the purpose to capitalize upon growing carp, receives in concession a lake that belongs to the State public domain. The duration of the concession is 20 years starting with 01.01.N.In the contract the total concession value 1.000.000 lei is stipulated, with a monthly royalty of 4.167 lei, payable on the 15th of the following month. The concession’s amortization is calculated with the linear method, on the overall duration of the concession. On the contract’s expiry date, the lake is returned to the State’s public domain.

The received concession is reflected as intangible assets because the concession contract entails a period of (20 years) and an established concession value of (1.000.000 lei).

On 01.01.N, on signing the contract the intangible asset is acknowledged for the total value of the received concession:

1.000.000 lei	205	=	167	1.000.000 lei
	Concessions, patents, licenses, brands, rights and similar assets		Other loans and similar debts	

And simultaneously:

Debit 8038 Public goods received for managing, in concession and rent 1.000.000 lei

Monthly amortization of the concession:

Duration of the contract in months = 20 years x 12 months = 240 months

Monthly amortization = 1.000.000 lei/240 months = 4.167 lei

4.167 lei	6811	=	2805	4.167 lei
	Operating Expenses regarding assets’ amortization		Amortization of concessions, patents, licenses, brands, rights and similar	

A **particular case of concession** occurs in the **forest domain**, where the State owned public forest fund **cannot be leased**, with the exception of the **terrains afferent to assets sold by the Romsilva National Forests Administration**(The Forest Code in art. 11, paragraph 3).

These terrains are referred to in **Order nr. 367/2010 of the Environment and Forests Minister for the approval of the concession value, the method of computing and payment of royalties obtained from the concession of the terrains afferent to assets sold by the Romsilva - National Forests Administration, as well as the model concession contract.**

Example 3:

We assume that a private forest ward acquires from the Romsilva - National Forests Administration several buildings, respectively: a former forest range premises, a ward headquarter, two shelter sheds for workers, two reciprocating saws and 3 forest berries picking up points. The acquisition cost of the buildings was 300.000.000 lei.

Together with the buildings' sale contract, **the concession contract for the forest terrain** is signed, the duration of the concession, according to Order 367 from 2010, is of **49 years**. The contract was signed on 01.01.N.

Moreover, we assume that the forest plot of land on which the buildings are placed presents the following characteristics:

-The surface of the leased plot of land is: 4.520,4573 ha

-The plantation on the plots of land is made up of the Birch trees which allow for intensive treatments, for instance forest gardening, as well as plots of land intended for afforestation, pertaining to functional type TIII.

-The terrain is situated at a distance of over 10 km from the limit of the buildable perimeter of a mountain village.

-The situation of the terrain compared to transportation links is presented below:

♦Transportation by roads: the terrain is situated at a distance of maximum 2 km from a county road; a village road and a forest road.

♦Train Transport: the terrain is situated at a distance of maximum 5 km from a train station.

-Other utilities: there are electric energy distribution networks situated up to 500 m from the leased terrain.

The surface of the national forest fond in the county is somewhere between 16,1-20%.

The medium price of a cubic meter of wood for birch tree is 150 lei/m³.

We shall take into account an established BNR interest rate of 5,5 % per year.

Solving the case:

Annual royalty = VAC x Established BNR interest rate

$$VAC = S \times Cr \times PML \times (1 + N),$$

1. Computing VAC

$$VAC = 4.520,4573 \text{ ha} \times 3,4 \text{ m}^3/\text{ha} \times 165 \text{ lei/m}^3 \times (1+76) = 195.270.193 \text{ lei}$$

2. Computing the annual royalty:

Annual royalty = VAC x Established BNR interest rate

$$Annual \text{ royalty} = 195.270.193 \text{ lei} \times 5,5 \% \text{ peryear} = 10.739. 860 \text{ lei}$$

$$Monthly \text{ royalty} = 10.739. 860 \text{ lei}/12 \text{ months} = 894.988 \text{ lei}$$

3. Computing guarantee:

Guarantee = 5 % x Annual royalty

$$Guarantee = 5 \% \times 10.739. 860 \text{ lei} = 536.993 \text{ lei}$$

Order Nr. 367/2010 also presents in the annex a contract model in which only the value of the royalty is specified, thus excluding the capitalization option.

Given that the value of royalties is computed annually, based on the addendum to the contract, the problem of recording the resulting difference arises **from an accounting point of view**.

The accounting postings that we propose are shown below:

On 01.01.N, based on the sale / purchase contract, the acquisition of the buildings is registered:

300.000.000 lei	212	=	404	300.000.000 lei
	Buildings		Supplier of fixed assets	

On 01.01.N, the concession contract for the total value of royalties is registered outside the accounting books: 894.988 lei x 49 years x 12 months = 526.252.944 lei.

Debit 8038 Public goods received into administration, concession and rent 526.252.944 lei.

On 30.06.N (in 180 days) the deposit is registered:

536.993 lei	2678	=	5121	536.993 lei
	Other receivables		Bank accounts in lei	

On 30.06.N the biannual royalty is registered: 894.988 x 6 months = 5.369.928 lei

5.369.928 lei	612	=	401	5.369.928 lei
	Expenses with royalties, administrative locations and rents		Suppliers	

And simultaneously:

Credit 8038 Public goods received into administration, concession and rent 5.369.928 lei

Royalty payment:

5.369.928 lei	401	=	5121	5.369.928 lei
	Suppliers		Bank accounts in lei	

The last two entries are also made on 31.12.N.

For year N + 1, we suppose that the VAC value is the same, but the reference interest rate set by the National Bank of Romania (BNR) is 5,6%

Annual royalty = 195.270.193 x 5,6% per year = 10.935.131 lei

Monthly royalty = 10.935.131 / 12 months = 911.260 lei

The increase in the monthly royalty will have to be registered for the remaining 48 years:

Deposit = 5% x *Annual royalty*

Deposit = 5% x 10.935.131 lei = 546.756,5 lei

Difference = 546.756,5 lei – 536.993 lei = 9.763,5 lei

9.763,4 lei	2678	=	5121	9763,5 lei
	Other receivables		Bank accounts in lei	

On 30.06.N+1 the biannual royalty is registered: 911.260 lei x 6 months = 5.467.560 lei.

5.467.560 lei	612	=	401	5.467.560 lei
	expenses with royalties, administrative locations and rents		Bank accounts in lei	

And simultaneously:

Credit 8083 Public goods received into administration, concession and rent: 5.467.560 lei.

5.467.560 lei	401	=	5121	5.467.560 lei
	Suppliers		Bank accounts in lei	

The last two entries are also made on 31.12.N.

For the year N+2, we suppose that the VAC value is the same, but the BNR reference interest rate is 5,4%.

Annual royalty = 195.270.193 lei x 5.4% per year = 10.544.590 lei

Monthly royalty = 10.544.590 lei / 12 months = 878.715,8 lei.

The decrease of the monthly royalty will have to be registered for the remaining 47 years:

(878.715,8 lei – 911.260 lei) x 12 months x 47 years = 18.354.928.8 lei

Consequently, on 01.01.N+2:

Credit 8083 Public goods received into administration, concession and rent 18.354.928,8 lei

The last two entries are also made on 31.12.N.

3. Conclusions and Propositions

Traditional forms of agricultural units are still maintained, even though agriculture is less homogenous than industry when it comes to the socio-economic organization, and in spite of the considerable diversity of models all around the world. These traditional agricultural units harmonize with the modern ones, thus creating complex, coherent and economically viable national systems.

The entities which perform agricultural and food production activities are currently called: **unit**; **exploitation** or an **agricultural enterprise**.

The concept of **agricultural unit** has a wide significance, defining any entity in which agricultural products are obtained.

The agricultural unit represents the “place” where the agriculturalist combines factors of production in order to obtain agricultural products. The agriculturalist can exploit the land as an owner, a renter, an administrator or an entrepreneur.

The variety of agricultural units commences with the infield exploitation and they spread all the way to extremely complex, holding-type (and often fully integrated) units.

A typical feature of agriculture is the fact that a considerable part of the production means are obtained directly from the production process, such as: planting material, seeds, breeding animals. This is where some particularities in the recognition and evaluation of accounting structures which are typical of agricultural activities.

The legislative framework with a direct incidence on the agricultural entities can be structured as follows: Regulatory documents which govern the organizing and functioning mechanisms of the agricultural entity, regulatory documents which govern the way of organizing and keeping of accounting, regulatory documents which govern fiscal aspects, regulatory documents particular to the diverse agricultural activities.

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FINANCIAL BALANCE AND LOANS OF THE SHAREHOLDERS TO THE COMPANY

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Financial balance in the activity of companies is a necessary condition for improving performance and competitiveness. Interpreting indicators expressing financial stability must be nuanced depending on concrete conditions. This paper presents a case study of influence of companies' loans from shareholders on company's financial balance. The results of analysis show that the mode of treatment in the accounts of these borrowings affects the financial balance of indicators. The conclusions of the analysis have theoretical and practical value, being useful to the managers, members, business partners and all shareholders, in taking the economic decisions.

Keywords: financial balance, loans from shareholders, working capital, necessary of working capital, net treasury

JEL Codes: M41, L29

1. Introduction

The ultimate objective of companies is to maximize the profit and the patrimonial value, which ensure appropriate remuneration of shareholders and strengthen their competitiveness on the market. This objective can be achieved only under conditions of financial balance which ensure appropriate funding sources, a sufficient level of liquidity to meet payment obligations and a continue solvency, which maintain the trust of business partners. Financial balance is appropriate if the providers of capital, the shareholders and the financial creditors are remunerated proportional with the degree of risk taken (Charreaux).

Financial balance is a component of the economic balance in general and it is manifested by providing the necessary resources for financing the activity. The analysis of financial balance is founded on the principle that the long-term investment of companies should be financed from the resources that have a permanent character (Corhay and Mbangala, 2007). From this perspective the financial balance must be seen in dynamic under three aspects (Burja, 2009): long-term balance, which is the correlation between the permanent capital and fixed assets (working capital), current balance, by comparing current assets with short-term obligations (necessary of working capital), the short term balance, based on the correlation between the working capital and the necessary of working capital (treasury).

In the activity of companies often occur situations where they need immediate liquidity and economic practice shows that they are covered in most cases by the bank loans. In the case of limited liability companies (LLC), often the companies borrow from the own funds of shareholders. The advantage of this type of loan is linked to the reduction of time of getting the loan, to simplify operations and sometimes lower costs for company.

Methods of making loans from shareholders by the company it is governed by regulation in terms of legal interest (OG 13/2011), but some aspects on the terms of these loans remain the decision of members which are in most cases the administrators of the companies. Because there is no firm deadlines for repaying the loans this affect the indicators of financial balance by the possibility of processing short-term loans into long-term loans.

The present analyses, based on a case study show the influence on the financial balance of the loans from shareholders, taking into account the accounting treatment of loans. We do not know that the Romanian economic literature to be treated that aspect. That is why we consider the study as being useful to managers, members, shareholders, and all business partners to form the economic decisions.

2. Methodology

The purpose of this financial analysis is to examine critically the accounting and financial information offered by the companies to assess their performance and their financial position (Laurence Le Gallo). The financial position of firms is assessed based on the financial structure and financial balance. In a same time the financial balance is approached from a static perspective based on the: net situation, working capital, necessary of working capital, net treasury. The information obtained in this way is complemented by the analysis of rates expressing financial balance. In a dynamic perspective, financial balance is analyzed on the basis of financial flows (Cohen, 1994). The present analyses deals with financial balance in a static manner based on these four indicators listed.

Net Situation reflect the wealth of the shareholders and must be sufficient to ensure the operation and financial independence of the company. This is important for the owners, shareholders and the creditors of the company (Petrescu 2008), showing net assets remaining after deducting all debt (Trebuchet, 1995). Shall be calculated starting from the fundamental equation of the financial statement sheet:

$$\text{The Net Situation} = \text{Total assets} - \text{Debts} \quad (1)$$

The positive value of the indicator shown an efficient economic management in order to allow a proper financing of net assets. If a company has a negative value of this indicator there is a risk of bankruptcy because the real assets are exceeded by the debts contracted by, which generates the impossibility of paying debts.

Working Capital represents an excess of permanent capital over the value of assets, which may be used to finance the current activity (Peyrard, 1986). Viewed through the prism of the financial management, the working capital is a safety margin or security margin for the financing of current assets, the portion of the financial autonomy of the companies (Popa and Mester, 2006). This indicator shows the strengths and weaknesses of the investment policy of the companies because it can identify the risk of unredeemable short term liabilities and, indirectly, the risk of bankruptcy (Berheci 2010). Shall be calculated in two ways:

$$\text{Working Capital} = \text{Permanent capital} - \text{Fixed assets} \quad (2)$$

$$\text{Working capital} = \text{Current assets} - \text{Short term liabilities} \quad (3)$$

Existence of a positive working capital fund is an expression of the long-term financial balance, but the assessment of the situation must be done carefully because a huge working capital generates immediate possibilities for increasing production, but are neglected the investments which in the future may affect the competitiveness of the company. A negative working capital expresses a state of financial imbalance, which obliges the company to turn to short-term loans which can be expensive in the ratio of interest and can put the enterprise in difficulty due to the requirements for reimbursement in a very short time.

Having regard to the balance that must exist between the temporary needs and the sources for financing those needs there can be determined an indicator called the necessary of working capital. It shows money which must be run in the company in order to operate (Petrescu, 2008) and is calculated as follows:

$$\begin{aligned} \text{The necessary of working capital} &= (\text{Current assets} - \text{Disposable Funds}) - \\ &(\text{Short term Liabilities} - \text{Short Term Loans}) = (4) \\ &= (\text{Stocks} + \text{Receivables} + \text{Prepaid Expenses}) - \\ &(\text{Short term Liabilities} - \text{Short Term Loans} + \text{Income in Advance}) \end{aligned}$$

If the necessary of working capital has positive value there is a surplus of temporary needs (current assets) to the temporary sources that can be deployed. This situation can be considered normal if it is the result of investments in stocks due to enhance of production, the increase in duration of manufacturing cycle or sales growth and also of commercial debt. When there is a gap between current assets liquidity and the liabilities' due date, then the situation is unfavorable. The existence of a negative necessary of working capital reflects temporary needs, with lesser value than temporary funding sources. The situation may be bad, if it is a result of accidental interruptions in supply and renewal of stocks or in production or the receipts have been speeded up and the payment of debts have been relaxed.

The net treasury reflects faithfully the financial balance of companies by comparing the working capital with the necessary of working capital. This indicator shows the current evolution of receipts and payments and can be calculated as follows:

$$\text{Net Treasury} = \text{Working Capital} - \text{The Necessary of Working Capital} \quad (5)$$

$$\text{Net Treasury} = \text{Disposable Funds} - \text{Treasury Credits} \quad (6)$$

If the treasury is positive the situation is favorable to business, with some short-term financial autonomy. A negative treasury (cash-flow) appears if there is a need for excessive working capital or there is a structural crisis if the working capital is insufficient.

Fluctuations recorded by the net treasury at the end of two financial years may be determined by the net flow of money based on the indicator "cash-flow" (CF) of the interval of time mentioned (Burja, 2009).

The money that the companies borrowed from the business associates (shareholders) affects the value of the indicators that characterize the financial balance. They can be short-term or long-term liabilities, and even if the loan agreement specifies a term of repayment of the loan, if the company still has a financial difficulties then the loan is not repaid, or the shareholders granted a new loan immediately. As such short-term loans became long-term loans.

This document analyzed the indicators of financial balance in two hypotheses: the first treats the loans granted by the associates to the firms as short-term debt; the second hypothesis sees these loans as long-term debt.

3. Results and discussion

The sources of data for the analysis of financial balance are offered mainly in the financial statement. This document has been used data from a company that is engaged in the carriage of goods. Analysis was made over a period of five years on the basis of the data in the table 1.

Table No. 1 . Extract from the financial statement, lei

Nr. crt.	Indicators	2006	2007	2008	2009	2010
1	Fixed Assets	52.696	80.762	83.584	111.041	63.960
2	Current assets	286.463	258.108	296.379	269.493	316.798
3	Total assets	339.159	338.870	379.963	380.534	380.758
4	Prepaid expenses	0	0	0	0	0
5	Loans payable in less than one year	325.672	300.151	309.454	309.768	312.768
6	Loans payable in more than one year	0	0	0	0	0
7	Total debt	325.672	300.151	309.454	309.768	312.768
8	Revenue in advance	0	0	0	0	0
9	Provisions	0	0	0	0	0
10	Social capital	200	200	200	200	200

Nr. crt.	Indicators	2006	2007	2008	2009	2010
11	Reserve	40	40	40	40	40
12	The current profit or loss	43.023	45.057	70.214	285	449
13	Allocation of profits	-43.023	0	0	0	0
14	Profit or loss carried forward	13.247	-6.578	55	70.241	67.301
15	Equity	13.487	38.719	70.509	70.766	67.990

Source: company's financial statements

Using the formulas for the calculation of the indicators characterizing the financial balance of the company it had been obtained the results presented in table no. 2.

Table No. 2. Indicators of financial balance, lei

No.	Indicators	2006	2007	2008	2009	2010
1	Net situation	13.487	38.719	70.509	70.766	67.990
2	Working capital	- 39.209	- 42.043	-13.075	-40.275	4.030
3	Necessary of working capital	-59.068	-64.931	-90.601	-48.177	-50.855
4	Net treasury	19.859	22.888	77.526	7.902	54.885

Source: Calculated data

The analysis of financial balance based on the indicators in table 2 and the data of the financial statement reflects the following aspects.

At the company analyzed there is a trend of growth of the net situation during the first four years, very strong in 2007 and 2008 and a slight decrease in 2010. Flaunting the fact that the company has not registered in those five years nor any provisions nor revenue in advance, the net situation was equal to net equity throughout the whole analysis period. The evolution of net situation was due mainly to the profit realized because since 2007 the company has not distributed its profits and the social capital and the reserves are maintained at the minimum limit prescribed by law. The net situation of company reflects the overview of the evolution of the Romanian economy during that period.

The financial working capital of company analyzed during the first four years has negative value, and in fifth year recorded a positive value. These results reflect a state of financial imbalance, because current assets that can be converted to cash , are not sufficient to cover the obligations of the company in the short term.It is necessary in this case a detailed analysis of the current assets and the short-term liabilities which could bring a further understanding of the situation of society. Necessary additional data analysis can be found in table 3.

Table No. 3. Receivables and Payables, lei

Nr.Crt.	Indicators	2006	2007	2008	2009	2010
1	Receivables, showing separately:	265.307	234.228	217.743	260.599	259.787
2	Clients	213.088	186.126	160.945	192.454	205.887
3	The percentage of total clients in receivables,%	80,32	79,46	73,92	73,85	79,25
4	Short-term liabilities, showing	325.672	300.151	309.454	309.768	312.768

Nr.Crt.	Indicators	2006	2007	2008	2009	2010
	separately:					
5	Vendors	54.142	55.393	37.636	70.785	60.032
6	Associates - current accounts	221.490	229.894	229.709	204.030	218.109
7	Percentage of vendors in short term liabilities,%	16,62	18,46	12,16	22,85	19,19
8	The percentage of loans from shareholders in the short term liabilities%	68,01	76,59	74,23	65,87	69,74

Source: calculated data

If you analyze the working capital of permanent needs which must be covered from the permanent resources, the fact that working capital is negative, reflects the coverage of these needs from temporary resources, what obliges the company to turn to loans.

The necessary of working capital has recorded negative values throughout the five years analyzed what signifies a temporary surplus of sources. This situation may be favorable if there were a speed up of revenue and a relaxation of payment of debts, with an employment of debt with longer maturities. The situation is unfavorable if there are interruptions in the supply of inventory or reduction of receivables as a result of the reduction of activity and not as a result of the recovery of receivables.

During the period analyzed, the net treasury has been positive in all the years, a situation favorable to the company ensuring that short-term financial autonomy. What remains to be managed is the use of surplus of cash as efficiently as possible, because there is the possibility of making placements on the financial and monetary markets. However, on the long-term the maintenance of a positive treasury may be a sign of ineffective use of stable resources with any negative effects on the repayment of loans and the remuneration of the capital. The company has strong treasury variations, which can be determined by the net monetary flow of each fiscal year.

We observe in table 3 data, that the firm analyzed turned to loans from associates throughout the whole period analyzed. Their value is approximately constant, what show in fact that short-term loans were converted into long-term loans. Consideration of loans from associates as long-term loans alters the indicators of financial balance, which as a result of the new calculations are presented in table 4.

Table 4. The indicators of financial balance recalculated

Nr. Crt.	Indicators	2006	2007	2008	2009	2010
1	Net situation	13.487	38.719	70.509	70.766	67.990
2	Working capital	182.281	187.851	216.634	163.755	222.139
3	Necessary of working capital	162.422	164.963	139.108	155.853	167.254
4	Net treasury	19.859	22.888	77.526	7.902	54.885

Source: calculated data

We observe in table 4 that the working capital and the necessary of working capital were positive throughout the whole period of analysis. It is necessary reinterpretation of financial balance in this situation.

The existence of a supplementary working capital at the firm analyzed is an expression of the long-term financial balance that generates immediate possibilities for increasing production, but must be taken into consideration any future investments that can lead to increased competitiveness of the company.

The necessary of working capital being positive, the situation may be interpreted as normal, if it is the result of the growth of stocks in order to align with the needs of production; otherwise it is a situation unfavorable in terms of financial balance and is caused by the gap between the liquidity of assets and the retention of debts. Be reviewed contracts with customers and vendors for the renegotiation of the terms of payment.

The net situation and net treasury situation had not been influenced by the treatment of shareholders loans to the company.

4. Conclusions

The present analysis showed that financial balance is influenced by the way that the shareholders loans to the company are treated by including them in long-term debt or short-term. At the company analyzed the situation of the financial balance in the assumption of considering the loans from associates as long-term loans showed the existence of financial imbalance, illustrated by a negative working capital during the first four years of the analysis. Reprocessing of loans and their inclusion in long-term debt, changes the perspective on financial balance showing that on the long-term company has a stable balance.

These aspects require preparation of loan agreements with associates as loans work in reality. The contracts must to highlight the progress of the loan on the long term and not to be extended or remodeled the short-term contracts.

Of course, there are always solutions to improve the financial balance and in this way the financial position and the performance of the company. However, the proposed solutions must be based on a proper perspective on the financial balance offered by the suitable treatment of the raw data.

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THE RELEVANCE OF MANAGEMENT ACCOUNTING FOR THE HOSPITALITY INDUSTRY

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In the contemporary period the tourism and hospitality industry has experienced dynamic growth despite the challenges facing not only the global crisis, but also market changes, consumer behavior and technological trends. Accounting, the language of business is required to keep up with changes made to each particular area of activity so that they can provide timely relevant information to be managed by an efficient information system.

Our article focuses on presenting the importance of management accounting and cost information system in the hospitality industry, then consider identifying features of this sector and their impact on accounting. The methodology of our research falls within the economic research, being theoretical, aiming primarily to knowledge objectives and the relevance of management accounting for economic entities, and then we have the characteristics of hospitality industry and possible organizational management accounting in this sector. In our perspective cost calculation for services, packages or travel benefits must take into account the development of the accounts from Class 9, so we propose a possible method to customize them according to the Direct Costing and CVP analysis. Our research will also be explanatory descriptive, trying to answer the questions How? and Why?

*Keywords: Hospitality industry, management accounting, cost information system
JEL Code M 41*

Introduction

Tourism is an economic and social phenomenon of modern civilization, very anchored in society and therefore strongly influenced by its development, it is also a factor in individual and social equilibrium, a source of fulfillment of own pleasures, which must develop in harmony with the human, natural and cultural environment and to enroll in a context of sustainable development⁶⁴. From the importance of tourism, from the perspectives of evolution of this sector but taking into account the current situation for national economies hit by the global economic crisis, the maintenance and development of an entity from the hospitality industry involves the harmonization of the market opportunities with their own resources and skills, funding strategies based on cost information complementary tourism products and services based on financial and accounting information, but considering and balancing the company's capacity to environmental conditions.

Costing and management accounting in the hospitality industry is a challenge for managers in this sector entities, but it also is, in our opinion, a promoter of success and a market strength. Romanian literature is rather poor in the treatment of these issues, but more generous is the international literature on studies of this topic. Thus, in a context of economic difficulties and the loss in results it is very important for accounting researchers to address the issue of cost

⁶⁴Processing of The synthesis of congress works, Naples, 14-18 June 2000, taken from Theoretical and Applied Economics. Supplement. 29 to 31 May 2009, Bucharest, page 136

calculation and more responsibility in the hospitality industry, making a motivational approach in understanding the benefits that the implementation of an cost information system produces.

Therefore the question arises, which costing methods are best suited for the hospitality industry? If there are more options which is the best solution? Who provides the most important information? Then the great task of the specialists is to aware the management team of the hospitality industry of the importance of implementation an information system cost calculation. Our opinion is that only with businesses environment from the hospitality industry we can answer many questions that arise when exploring this arid area.

The current state of knowledge on management accounting and costing

It should start by answering the question what exactly is management accounting? Why should it be given much importance?

In the special literature this component of the accounting information system (management accounting) is also known as cost accounting, analytic or managerial accounting, definitions being different for each one.

Business Dictionary defines management accounting as "making information on the accounts and management reports to provide information, financial and statistical accurate and timely information required by managers to base decisions daily and on short term. Unlike financial accounting, which produces annual reports, mainly for outsiders, management accounting generates monthly or weekly reports to internal stakeholders."65

According to research cost accounting is largely nineteenth century production, this is actually the predecessor of management or managerial accounting. "The first book of cost accounting is considered to be Garcke and Fell's *Factory Accounts*, published in 1897"66..

Cost accounting history has been approached by Solomons in 1968, Johnson and Kaplan in 1987, and Cooper and Kaplan in 1991 which gives us a modern perspective. "The link between economics and cost accounting was emphasized by Clark in 1923 when his famous expression appeared " different costs for different purposes ". Demski and Feltman in 1976 continues this theme with emphasis on the idea of the cost allocation approach that was later exploited in a variety of contexts. Marginal cost and other aspects of accounting costs were examined by Demski and Feltham in 1976 by Zimmerman in 1979, by Kaplan in 1973, Baker and Taylor in 1979. Demski (1981) and Verrecchia (1982) analyze the cost allocation criteria, trying to develop new cost allocation procedures67

French authors A. Burlaud and C. Simon in " *Comptabilité de gestion* " define management accounting as a process of identifying the economic - financial operations for accounting for accurate registration, measurement and quantification of economic acts made or likely to be made, analysis and communication of significant and relevant information to managers or other persons to use internal or external.

Management accounting defined like that has following purposes: planning (improving the understanding of economic - financial operations and other economic acts that impact the entity), evaluation (analyzing and judging the consequences of various events past, present and future of the entity), control (ensuring departures from the activities and of expected resource consumption), accountability (holding an efficient information system to help measure performance effectively). Based on the above we conclude that these French authors give a definition of American inspiration overlapping management accounting to managerial accounting.

⁶⁵ <http://www.businessdictionary.com/definition/management-accounting.html>

⁶⁶ Paul M Collier, *Accounting for Managers: Interpreting accounting information for decision-making*, John Wiley & Sons Ltd, 2003, p 7

⁶⁷ Joel S Demski, *Managerial Uses Of Accounting Information*, Springer Science & Business Media LLC, 2008, p 104

According to the author Henri Bouquin⁶⁸ management accounting corresponds to a part of the management process that provides information essential in ensuring optimal use of resources in the organization, current activities of an entity controlling, planning strategies, tactics and future activities, measuring and evaluating performance, reduce part of subjectivity in decision making and improve internal and external communication, acquisition and maintenance of organizational capabilities needed for the strategy, negotiation strategy and transformation capabilities necessary for success and survival of the entity.

Other french authors define distinct the general accounting from the analytical accounting and from the management control. From their perspective the general accounting and analytical accounting are tools of the management control, along with budgets, budgetary control, dashboard, balance score card. So management control can be partly assimilated to managerial accounting, given th fact that it is under the service of hierarchical leaders and is defined as a set of measures taken to deliver the digital data which characterize the business. By comparison with previous data set, the management team can be induced to formulate and impose corrective measures.

Charles T. Horngren and his colleagues have actually three sides of the accounting distinction between management accounting and cost accounting. "Management Accounting (or managerial) quantifies and reports financial and non-financial information that helps managers take decisions that will allow an organization's goals. Managers use management accounting information to select, communicate and implement strategy.

They use this information also to coordinate decisions on product design, production and marketing. Cost accounting quantifies and reports financial and nonfinancial accounting information about the cost of purchasing or using resources in an organization. Cost accounting includes those components of the management accounting and financial accounting which are collected and analyzed information on costs ".⁶⁹

Leslie Chadwick⁷⁰ mentions that it is difficult to separate the cost accounting from the management accounting. Cost accounting aims to effectively measure the results of the different compartments of an economic entity, the measurement of results on products, works and services. Management accounting subject is much more extensive and involves: providing information needed to conduct business, advising managers, forecasting, planning and control of activities, communication and flexibility, the existence of cost control and reporting of results, training staff, taking porter and servant role to the economic entity. In fact L. Chadwick overlapps management accounting with managerial accounting, in which a major role has the cost accounting.

The authors that that have a different opinion are Leah R. Dobson, David K. Hayes, that the overall objectives of accounting are made by the five branches of its own objectives and goals, even if they overlap. The five branches (sub-branches) of accounting are: ⁷¹

Accounting branch	Goals and Objectives
Financial accounting	Registration of financial and economic operations
Cost accounting	Calculation and control costs
Tax accounting	Calculate taxes due
Audit	Checks the accounting datas and procedures for

⁶⁸ Henri Bouquin Management Accounting, Tipo Moldova Publishing, Iași, 2004, pp 19-25

⁶⁹ Charles T. Horngren, Srikant M. Datar, George Foster, Cost accounting a managerial approach, Arc Publishing, Chișinău, 2006, p 3

⁷⁰ Leslie Chadwick, Management Accounting, Humanitas Publishing, Bucharest, 1999, pag. 14-17

⁷¹ Lea R. Dobson, David K. Hayes, Managerial Accounting For The Hospitality Industry, John Wiley&Sons Inc, 2009, p 13

Accounting branch	Goals and Objectives
	their registration
Managerial accounting	Managerial decision taking based on accounting information

Table 1 Accounting sub-branches

Chartered Institute of Management Accounting specifies activities that involve management accounting as:

- "Participation in planning at a strategic and operational level, involving the establishment of policies and formulation of budgets;
- Analysis, presentation and interpretation of relevant information to guide management decisions;
- Contributes to control and performance analysis by providing reports and comparisons with the budget, analysis and interpretation of deviations. "72.

Other researchers (Boland and Schultze in 1996, Hoskin 1996) call into question the triad *accounting-responsibility - account*, which suggests that any definition of accounting components involves responsibility. They define accounting as a collection of systems and processes used to record, report and analyze business transactions and these objectives are implemented through an account, an explanation or a financial report.

The organization of management accounting can be based on a variety of existing paradigms that have been approached by various researchers. Concepts such as scientific management (Taylor), Maslow theory of human resources, Rickert and Argyris, school for taking decisions (Simon) school of political science (Sleznick) provide alternative paradigms for the management or financial management as it relates to the behavioral and as well to organizational problems. 73

A definition of management accounting (taken over as well by the Romanian accounting system) has as main purpose the entity's knowledge of costs of various functions, knowledge of product costs, works and services, explain the results by comparing the activity of selling costs, finding achievements and explain deviations.

But management accounting is more than "a simple statement of costs or a data handling", but must allow the management team the "keep under control" costs, the action on them, based on analysis of couples' responsibility-cost-performance ". The analysis of this couple is not possible without an approach to the market, without knowledge of customer needs. This approach is imperative especially in hospitality and tourism industry where sometimes services or packages offered are customized according to customer requirements.

In our opinion, management accounting is mainly focused on collecting expenditure cost on carriers, on destinations, places of cost, and finally, connecting them with income to assess the effectiveness of cost carriers, the overall activity, providing data to develop and substantiate strategic decisions, tactical decisions and operational decisions and the company's investment programs.

We favor the transformation accounting for Romania in a classical oriented management accounting, a managerial accounting in which each component has a considerable importance (financial accounting, management accounting, controlling or management control, management and economic analysis and financial, audit, human resources, marketing and strategy).

⁷² Paul M Collier, quote, p 8

⁷³ Susan F. Haka, Dan L. Heitger, International managerial accounting research: A contracting framework and opportunities, in The International Journal of Accounting 39 (2004) p 21– 69, disponibil on line prin baza de date Science Direct, accesat la 12.05.2011

A possible organization of management accounting in the hospitality industry No matter the definition of management accounting, a detailed view of the work done in any field of activity is impossible without the existence of an economic information system. "Good economic management information requires the development of an information system with multiple interfaces, oriented towards both inside and outside entity to management information that will help create information flows that have a high level of quality and whose purpose is to attract competitive advantages in the fight with ascendancy of needed informations manifested in contemporary society "⁷⁴and to be able to achieve the objectives it is vital and indispensable the existancy of a cost information system. The information system is a cost accounting information system through which are determined the costs of manufactured products, works and services provided and contribute as well to record these costs in the accounts.

The evolution to a new economy - the knowledge based economy - gives new dimensions and roles of information and information system. The information revolution taking place with a special intensity makes impact on the functionality and performance information system entity to increase.

In our vision the building of an cost information system in the hospitality industry starts with data collection of economic, social and cost accounting information which will then be subject of a manual processing or through a computer system, an important factor in this phase being the human one, then there will be taken into account also the external sources. This is how the database of cost information system in the hospitality industry will be made.

Given the objectives and purposes of cost information system we can say that the economic entity that is based on the following three subsystems: the informational subsystem of cost organisation , the informational subsystem of cost calculation, the informational subsystem of control information and cost analysis (controlling). The entire cost information system will provide information to the management team, which will implement one of these methods of management: management through costs and management through objectives, or a combination of the two.

⁷⁴ Iuliana Cenar, Sorin Constantin Deaconu, Viața contabilă a întreprinderii de la constituire la faliment, Editura CECCAR, București, 2006, p 7

Schematic cost information system of an entity in the hospitality industry can be presented as follows:

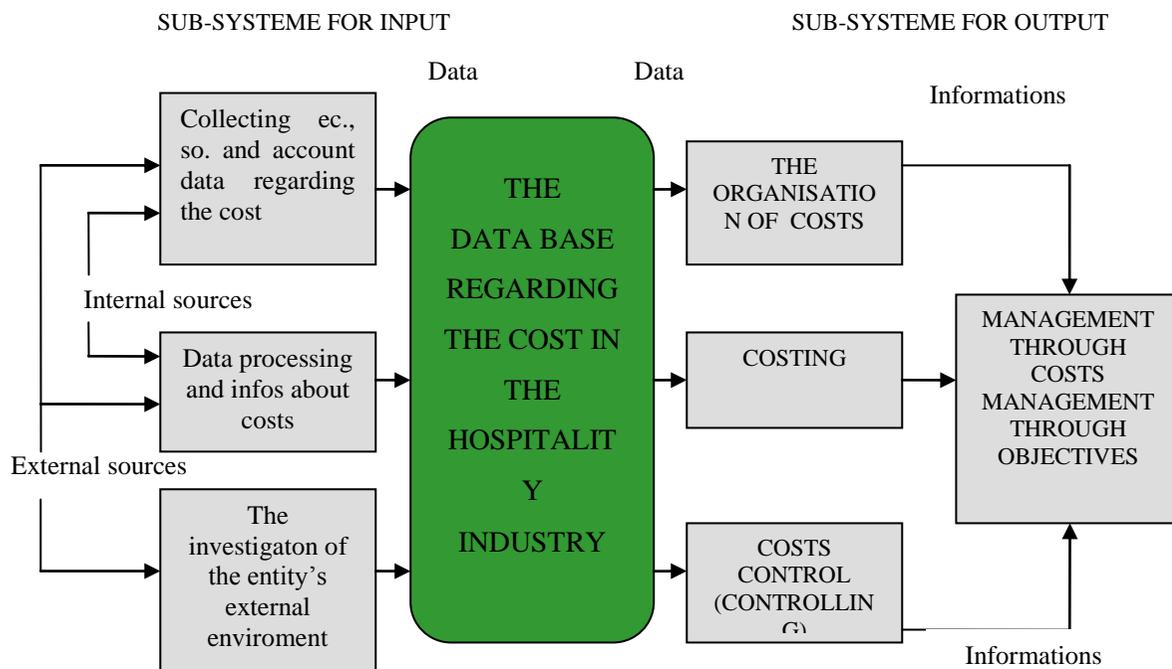


Fig. 1. Cost information system in the hospitality industry

The second subsystem of cost information can use the accounts from class 9 to provide information about the cost of services, packages and tourist services, but they must be tailored to the specific activity and the method adopted by the economic entity, or they may develop analytic accounts of expenditure and income. We believe that one of the methods appropriate for cost calculation in the hospitality industry is Direct Costing and Cost Volume Profit Analysis.

We propose the following customization of the accounts name from Class 9:

-Account 901 Domestic settlement of expenditure, account that will ensure the taking over of the incorporable costs expenditures from the financial accounting ;

-Account 902 Internal settlements regarding the effected tourism We consider beneficial the open of analytic accounts of this synthetic account for tourism packages on domestic and international tourism, treatment tickets, outpatient treatment, etc., action wich will facilitate the determination of any "differences" that can occur between the default cost and the actual cost of travel benefit;

-Account 903 Internal settlement regarding the price differences, the same detailed analytical accounts as the account 902. We consider appropriate to mention, that due to the features of the hospitality industry, existing amounts in account 903 shall have the meaning of income and not as differences;

-Account 921 Basic business travel expenses, with development of similar analytical accounts like 902 and 903. Given the fact that the proposed new method in order to determine costs in the hospitality industry is Direct Costing, we need to make some comments. Direct Costing method is based on the principle of separation costs incurred in an economic entity, depending on their behavior in relation to the physical volume of production, variable costs and fixed costs constant or conventional. We do support this separation, although we recognize that certain expenses are not completely variable or fixed altogether.

We might call them trimmers and semifixe expenses, but I opted for the name of mixed costs. Examples are many on these expenses, but we'll develop one that summarize the costs of postal services and telecommunications. Any economic entity in the hospitality industry records these type of expense as fixed costs, but given the potential tourists to call various national or international phone numbers from the phone in the room, these calls will generate additional costs. The same behavior "semi" have expenses of maintenance and cleaning materials, energy costs and examples could continue.

Mixed costs are determined by adding fixed costs to variable costs based on the formula:

$$C_M = C_V + CF$$

$$C_M = C_V/\text{Number of tourists (tourist packages)} + CF$$

We do not consider it appropriate to introduce an account to reflect mixed costs, since some of them are variable and will be recorded through account 921, and some are fixed and will be reflected through the account 924.

If we know that certain expenses have mixed character, but at the moment of their record we do not know wich part is variable and which part is fixed, we have a possibility, to use the account name 923 with mixed costs related to tourist activity for their full record followed by determining the variable and the fixe value and their settlement on the accounts 921 and 924.

For delimitation of expenditure incurred in the performance of service or benefit package tourist procedure uses maximum and minimum points using the following formula or method of least squares.

$$c_v = \frac{C_{\max} - C_{\min}}{Q_{\max} - Q_{\min}}$$

-Account 924 General administration expenses has the part where it takes from the financially accounting those expenses that do not change by changing the physical volume of production and are indirect from the types of benefits for tourism.

-Account 931 Cost of provided services is considering that it enters into correspondence with accounts 902 and 903 will be detailed on the same principle as those analytical accounts.

Conclusions

To cope with fierce competition existing on the market of this sector plus the strong influence of the global crisis is mainly important to be given a greater importance to internal and external information activities aimed at economic entity, and these data to be summarized and presented using one management team performance measurement tools namely dashboard. The dashboard is essential to the running of the economic entity, providing synthesis absolutely necessary to know and analyze activities more complete and also identifying activities such deviations' loss-achievements ".75

We believe that hospitality dashboard will not achieve its objectives if it's gonna present only this financial information, but be prepared as a dashboard that provides extra financial information to the management team in terms of customers, employees, suppliers and not least all of the before mentioned from the perspective of shareholders. An important role in performance measurement process in the hospitality industry have employees, therefore it id needed to forme primarily an organizational culture, which is considered "primary vehicle" for the successful implementation of performance measurement tools, whether it's dashboard or Balanced Scorecard.

⁷⁵ Neculai Tabără and Sorin Briciu coordinator, Actualități și perspective în contabilitate și control de gestiune, Tipo Moldova Publishing, Iasi, 2012, p 248

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THE RELATIONSHIP BETWEEN ACCOUNTING AND TAXATION – THE ROMANIAN ACCOUNTING ENVIRONMENT

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The paper analyses the relationship between accounting and taxation in the Romanian accounting environment. In this respect the paper illustrates the results of the main research conducted in the national and international literature in terms of the relationship between accounting and taxation in Romania and also the main research directions in terms of tax-accounting link. The paper concludes that the level of influence was decreased over time (de jure and de facto) as a result of changes made in the Romanian accounting and tax environment.

Keywords: accounting, taxation, tax-accounting link, accounting environment, Romania

JEL Classification: H29, M40, M41

1. Introduction

The relationship between accounting and taxation is a topic highly debated in the international accounting and tax literature. In the last two decades a lot of paper and analysis was conducted in order to capture the influence which exists between them.

In this respect, this paper overtakes, under the spectrum of a fundamental analysis, the main research which was conducted in the case of Romania regarding the relationship between accounting and taxation or vice-versa.

After a brief review of the literature (section 2) of the European countries in terms of tax-accounting link, section 3 illustrate the main aspects which was analyzed in the national and international literature in terms of the relationship between accounting and taxation in Romania. Section 4 concludes the study.

2. Literature review

The tax-accounting link is one of the most debated items to the European level, more analysis being conducted in this respect. Hoogendoorn (1996) analyses the tax-accounting link in 13 European countries, being identified 12 factors of influence. Lamb *et al.* (1998) conducted an empirical study regarding the tax-accounting link in four countries (Germany, France, UK and USA), in this respect 5 cases of the link between accounting and taxation being identified (disconnection, identity, accounting leads, tax leads and tax dominates). The conducted analysis was made based on 15 factors of influence of tax-accounting link. The study concludes that in terms of connection between accounting and taxation, in case of Germany and France (countries included in the EC accounting system) there is a strong link between them, in the opposite with the case of UK and USA, countries dominate by more flexible rules.

The last study mentioned above is one of the most representative studies in the area of tax-accounting link, several studies being conducted based on this study. In this respect, studies conducted by Nobes *et al.* (2004), Nobes and Schwencke (2006) and Gee *et al.* (2010) can be mentioned.

Gallegro (2004) analyzed the relationship between accounting and taxation in terms of Spanish listed firms, the author identified several items such as: income tax expense, welfare schemes, provision for pensions, monetary correction, accelerated depreciation, or exemption for reinvestment, as point of differences between accounting and tax profit. The studies conducted by Oliveras and Puig (2005) and Blake *et al.* (1998) are representative for the research regarding the Spanish tax-accounting link.

Also, several studies analyzed the case of Sweden as one of the main representative Nordic country, the evolution of the tax-accounting link being almost similar with the case of Norway (Nobes and Schwencke, 2006) or other European countries (from a strong link between accounting and taxation to an decrease of the intensity). In this respect, the study conducted by Blake *et al.* (1997, 1998, 1999) are representative.

The literature from the Eastern Europe is also representative, several studies being conducted in terms of tax-accounting link. In this respect, studies conducted by Sucher and Jindrichovska (2004), Krzywda and Schroeder (2007) and Bosnyák (2003) can be mentioned. The relationship between accounting and taxation was seen as a main obstacle in the process of accounting harmonization in the case of Czech Republic (Sucher and Jindrichovska, 2004) and Poland (Krzywda and Schroeder, 2007). The case study of Hungary was analyzed by Bosnyák (2003), the author mentioned that, the tax-accounting link has an important role in the case of SMEs.

3. The main directions of tax-accounting link in the Romanian accounting environment

Romania is member of the European Union from 1st of January 2007, in this respect the accounting regulation being conforming to the European Directive in the current period. Over the last two decades (after the fall of the communist regime), the accounting regulation pass from several stages from a strong influence of French accounting system to the influence of the AS accounting system (the adoption of IAS/IFRS), in this moment (as member of European Union), the accounting regulation being conforming to the European Directive but with strong influences of IAS/IFRS.

Based on description mentioned above, the following classification of the Romanian accounting period can be realized:

- *The first period (1991-2000)* of the Romanian accounting regulation (influenced by the French system) is known as a period dominated by a strong influence of taxation over accounting in terms of tax-accounting link.

- *The second period (2001-2005)* is influenced by the adoption of IAS/IFRS (OMFP 94/2001) in the case of listed companies, this period being aware a decrease of the link between accounting and taxation in terms of accounting regulation, but the Romanian accounting practice remaining influenced to the tax practice, in the case of individual financial statements, the accounting regulation being harmonized with the European Directives (OMFP 306/2002).

- *The third period (2006 – present)* is governed by regulation conforming to the European Directives (OMFP 1752/2005 amended with the OMFP 3055/2009), the Romanian accounting regulation being strong influenced by the AS accounting system as the effect of the period of implementation of IAS/IFRS (2001-2005) and as result of the mandatory for listed companies from European Union to implement the IAS/IFRS in their consolidated financial statements.

In this respect, the study conducted by Deaconu and Buiga (2009) is representative, the authors demonstrated empirical that the first period governed by the French influence is governed by the EC accounting system from the perspective of tax influence, the second and the third period being governed by the AS accounting system based on the tax influence over accounting (*de jure* analysis).

Around these three stages, several studies were conducted in the international and national literature in terms of tax-accounting link in the Romanian environment.

One of the first *international studies* regarding the Romanian accounting environment was conducted by King *et al.* (2001). In this study it is realized an extensive analysis of the evolution of accounting reform in Romania, the authors mentioned that the tax law and the accounting law was developed separately in Romania, but the *de facto* differences between tax and accounting profits are less clear. The authors gave as similar example the case of Poland, Hungary and Czech Republic.

Another illustrative analysis of the accounting environment and also the influence of tax-accounting link it is realized in the study conducted by Ionascu *et al.* (2007). Referring to the cost of IAS/IFRS implementation in Romania, the authors affirmed that it was taken the decision of a gradual reform that led to an approximate application of IAS/IFRS ('a tax application' in certain audit reports) which conducted to no assistance for those companies that needed or would need financial statements conforming to IAS/IFRS (p. 195). The study conducted by the Larson and Street (2004) are also representative from the perspective of adoption of IAS/IFRS in Romania.

The national literature regarding the relationship between accounting and taxation can be separated in two categories: fundamental and empirical research, the most studies being included in the first category, these being characterized by a normative and interpretative methodology.

Sucala (2002) affirmed that the relationship between accounting and taxation is defined by dynamicity and the meanings which relate to the cultural, economic and judicial environment.

Berinde (2004) analyzed the implication of the introduction of deferred tax accounting in the Romanian legislation, seen as an effort undertaken in the way of tax accounting disconnection, given the close relationship between accounting and taxation.

Several studies (Petre and Lazar, 2006; Cotlet and Megan, 2007) analyzed the relationship between accounting and taxation from the perspective of the accounting and tax regulation. The authors conclude that accounting rules are not connected to the fiscal rules in terms of legislation (*de jure*), but in practice (*de facto*) companies can use the tax rules in the favor of accounting rules (Bunget and Dumitrescu, 2008).

The analysis of the accounting versus tax principle is also discussed, the study conducted by Ciomag (2004) being representative in this respect. Also, Istrate (2011) mentioned that each of the nine principles explicitly listed in the Romanian Accounting Standards could be restricted by the tax rules. In this respect, the author identified several cases where the tax rules has priority, such as: tax implications of the lack of continuity, tax recognition of a change of the accounting method (inventories and revaluation), tax regime of the provisions, tax vs. accounting timing of revenues and charges (interests, subsequent costs), lease-back as a finance lease, recognition of some revenues from sales of goods. Also, the author mentioned that in the last period *de jure* influence of the tax-accounting link decreased.

In the last period a new field of interest was developed in the case of SMEs research, as the effect of a possible implementation of IFRS for SMEs which also has an impact over the relationship between accounting and taxation. In this respect, several studies were conducted in this field, based on the Romanian accounting environment.

Berinde and Răchișan (2005) in their fundamental analysis argued that in the case of SMEs, there is a strong link between accounting and taxation.

Deaconu *et al.* (2008) conducted an empirical analysis regarding the main elements in order to define the SMEs, the analysis being performed in the case of Romania. In this respect several items was identified in order to conduct the analysis, the authors mentioned that the inflexible legislation and the link between the accounting and taxation standards make the reporting mandatory at least for tax-related purposes. On the other hand, Deaconu *et al.* (2009) conducted an empirical analysis regarding the technical aspects in terms of the implementation of IFRS for SMEs in Europe, the analysis being conducted also in the case of Romania. The authors concluded that Romanian market presents other technical options as well as the proposal of IFRS

for SMEs standards, one of the main causes of these differences being represented by the tax-accounting link.

Albu *et al.* (2010) conducted an exploratory study regarding the possible implementation of IFRS for SMEs in Romania. The authors identified as one of the main obstacles in the way of implementation the extant emphasis on the conformity with tax regulations.

Cuzdriorean *et al.* (2011) conducted an empirical analysis regarding the evolution of profit tax in Romania. The authors concluded that the profit tax regulation are dominated by instability, a number of 217 amendments were made in 57 regulations over the period of 20 years of analysis.

The empirical analysis regarding the tax-accounting link in the Romanian accounting environment began to be conducted in the last few years.

Fekete *et al.* (2009) and Cuzdriorean *et al.* (2010) developed in their studies an attempt of measuring the fiscal influence over accounting. In this respect, the authors developed an empirical model in order to capture this influence. The analysis was conducted on a sample of 433 listed companies on Bucharest Stock Exchange and a period of 3 years. The results illustrated that the level of influence of taxation over accounting is about 4%, the model being statistical validated, and the value cannot be interpreted as high or low in the case of lack of other items of comparison.

Based on study conducted by Fekete *et al.* (2009) and Cuzdriorean *et al.* (2010), Fekete *et al.* (2012) conducted a similar analysis in the case of Romanian SMEs. The authors conducted a longitudinal analysis over a period of 11 years (1999-2010), The analysis included a total sample of 336 companies, the analysis being conducted over a sample between 117 and 176. The results illustrated that the SMEs accounting is strongly influenced by taxation, the level of fiscal influence seems to be connected with changes in accounting and/or fiscal regulations in the sense that changes in both accounting and fiscal regulations lead to smaller level of taxation impact on accounting (to disconnection), but the strength of this phenomenon is rather low (the level of influence varies over time from a level of 99.8% in 1999 to 2.6% in 2004 and again to 99.6% in 2009).

Deaconu and Cuzdriorean (2011) conducted an empirical study based on the factors of influence developed in the international research (e.g. Hoogendoorn, 1996; Lamb *et al.*, 1998) and adapted to the Romanian accounting environment. The interview was selected as statistical instrument, in this respect, the first 20 accounting firms from Cluj-Napoca being included in the sample. Based on 15 factors of influence of the relationship between accounting and taxation (closed questions), and also open questions in order to capture the tax-accounting link over the period, the study concludes that there is a link between accounting and taxation in the accounting practice (*de facto*), but the trend is to a decreasing of the influence.

In order to realize an extensive analysis of tax-accounting link from the perspective of factors of influence, Cuzdriorean (2012) conducted an analysis based on 11 factors of influence of tax-accounting link to the national level. In this respect, the survey was selected as statistic instrument; the sample included 1710 licensed accountants expert, the analysis being conducted to a sample of 179 questionnaires. The results illustrated that in the Romanian accounting environment, there is a strong link between accounting and taxation in terms of accounting practice based on the factors of influences identified in the literature in the case of small entities, this link decreasing along with the increasing of the size of entity. As an overall analysis, the study concludes what also concluded the study conducted by Deaconu and Cuzdriorean (2011), namely, a decrease of the influence of accounting over taxation or taxation over accounting.

4. Conclusion

In this study it is performed an exploratory analysis regarding the main research conducted in the international and national literature in terms of the relationship between accounting and taxation in Romania.

As a result of the analysis performed, few studies were identified in the international literature in terms of tax-accounting link. All studies conducted debated the Romanian accounting environment from the perspective of IAS/IFRS adoption, only exploratory studies being conducted.

The national literature includes also fundamental and empirical studies, the main studies being included in the first category. In this respect, the main research directions identified are: deferred tax, tax and accounting regulations, tax and accounting principles. The fundamental studies conducted concludes that in the Romanian accounting environment can be made a distinction between accounting and tax regulation, the main direction being conducted to a *de jure* disconnection.

The accounting of SMEs as particular research area was presented, the tax-accounting link having an important role in the way of a possible implementation of the IFRS for SMEs. Several exploratory and empirical studies were conducted, further research are welcome in order to fundament the decision of implementation.

From empirical perspective, several studies were conducted in order to measure the influence of taxation over accounting in the case of listed companies and SMEs. Also two studies were conducted in order to capture the accounting practice based on the factors of influences identified in the international literature. As main conclusion of the empirical investigation in terms of tax-accounting link, can be mentioned, a trend of *de facto* disconnection between accounting and taxation.

Acknowledgement

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FINANCIAL PERFORMANCE VERSUS NON FINANCIAL PERFORMANCE CASE STUDY AT ANTIBIOTICE TRADING COMPANY IASI

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The actual economical conditions, the effect of global crisis and the efforts to pass this turning point, does force trading companies toward an extremely balanced management of performance. Now, when financial indicators are neither so spectacular nor so relevant, and when the principles of a durable development are mentioned over and over, the exigencies of companies' external environment are higher and higher. This reality does force the companies to pay more attention to social responsibilities' assuming and investment into green innovation, as well as to the field of information's communication in a relevant way, which should gather financial, social and environment information. The absence of a normalized balance of financial and non-financial indicators used in measuring companies' global performance, does allow them selecting of “agreed” indicators which should reflect the company under the light of high performance. But, the same reason urges the searcher for some research studies of the most adequate diagnostic model of global performance, which should faithfully reflect company's current status. The purpose of this study is to measure the global performance of ANTIBIOTICE Trading Company, taking into account, both financial and non-financial indicators for a period of 5 years. For the financial years 2006 and 2008 company's global performance is an acceptable one, while for the financial years 2007, 2009 and 2010 the global performance is a medium one. It should be highlighted the lack of involvement or transparency regarding social and environment responsibility in 2006 and weak financial performance in 2008, indicators which positioned the company to an acceptable level.

Key words: performance, financial indicators, non-financial indicators, global diagnostic, ANTIBIOTICE Trading Company.

JEL Codes: M14

1. Introduction

A performing company is the one which creates values for its shareholders, satisfies the clients, takes in consideration its employees opinions and respects the environment. Thus, the shareholder is satisfied as the company remunerates his invested capital, the clients do trust into company's future and into the quality of its products and services, the employees are proud of the company they are work in, and the society does benefit by the company's policy regarding environment protection (Jianu 2007: 24). Accepting this statement, we notice the importance of measuring companies' performance, in order to classify them from economic point of view and of all implied actors. Even the international legislator, by the spirit of International Standards of Accountancy (IAS 1), does encourage the companies to publish, beside financial situations, also analyzes regarding their financial performance.

Moreover, within current developing level of global economy, the stress is moving from financial performance to the global performance. Nowadays, economic environment is severely punishing the companies which do not pay the same importance to social and environment aspects as to the economic-financial one. For the sake of steadfast development, we consider necessary that

company's performance should be given not only by financial indicator's results, but also by those which are measuring social and environment performance.

Hence these reasons, the purpose of this study is to treat and to analyze the performance of economic entities, both conceptual and practical point of view.

The main objective is measuring of global performance of ANTIBIOTICE Trading Company, taking into account both financial and non-financial indicators. The analyzed periods are last 5 years, respectively from 2006 until 2010. Financial results published for this period are available on company's official website.

The secondary objectives of this research are deriving from the main one and are focusing on the reevaluation of performance concept. The steadfast development is based on the concept of global performance, which we intend to treat it together with its all three valances: financial performance, social performance and environment performance. At the final of this study we are analyzing the procedure of performance measuring, presenting two empirical cases realized with the purpose to identify the most relevant financial and non-financial indicators in order to diagnose companies' health. The applicative part of the study, does present the global performance of analyzed company, putting into application the diagnostic model of global performance exposed within one of above mentioned cases.

2. Research methodology

Mainly, the research is treating the two sides of same issue: both establishing a connection at conceptual level between performance, global performance, financial, social and environment performance, and their reflection through a case study.

International literature is materializing through a theoretical contribution of some researchers like Bourguignon, Debiens, Lebas, Burlaud, Anthony etc. On national level, researchers like Niculescu, Mărgulescu, Jianu, Pinte, Mironiuc, Robu and others, do bring an important theoretical and empirical contribution into this field.

This study's purpose is to sustain the hypothesis that within an economy where steadfast development is the keyword, the performance of a company cannot be analyzed at economic-financial level only. When we are measuring a company's performance, we should take into account also the social responsibility it is developing and its quality.

The study is presenting a trading company quoted on Bucharest Stock Exchange, being chosen upon following criteria: to be a quoted trading company, to be a representative trading company from pharmaceutical field and to publish detailed annual reports. The analyzed period is last five consecutive years. Primary data are taken over from published financial reports and from Monthly Bulletins issued by Bucharest Stock Exchange during those five years, without sampling. The data are taken over electronically from the website of studied trading company, from official website of Bucharest Stock Exchange and of National Bank of Romania. As of the law, these data are mandatory to be published on these websites.

In this case data collection is a simple procedure, consisting in accessing these websites through an informatics program installed on a personal computer which allows files' downloading into an intelligible format. Data presented in these downloaded files are retained and are processed through simple arithmetical calculations.

Data's processing is made upon tabular calculation. For each five analyzed years, we'll take into account the size of those 10 financial indicators measured within the model of global diagnostic; then, we'll quantify the size of non-financial indicators based upon available data, using presented conceptual domain and financial information from annual reports.

After collecting and processing primary data, the obtained results are analyzed quantitatively both as absolute and relative sizes and as evolution in time, through their graphical presentation. Then, comparing the sizes and evolutions we'll conclude the results through a qualitative analyze.

3. The performance and its valences

We start this scientific intercession by investigating “performance” term from conceptual point of view and of evolution in time. According to Explanatory Dictionary of Romanian Language, the term of performance is originate from French word “performance” which means “The result (an extraordinary good one) obtained into a competition by somebody; extremely good achievement into a field of activity. The best result obtained by a technical system, by a machine, by a tool, etc.” As we can notice, “performance” concept could have almost an infinite number of definitions, many of them referring to specific contexts or functional perspectives.

For instance, from ’50 to ’80, when there weren’t known homogeneity in defining this concept, there were used several appreciation criteria of the performance, out of them we are mentioning: *productivity, flexibility, adaptability, capability, environment control, turnover, production costs, etc.*

Defining performance in terms of achieved level of objectives do characterize the period of years ’90. On inventory field, A. Bourguignon (1995) is defining the performance as being: *achievement of organizational objectives*. Same opinion is shared also by authors like Debiens, 1988; Lebas, 1995; Burlaud, 1999. This definition could be translated also into another way: the performance into a company represents everything which contributes to reach strategic objectives.

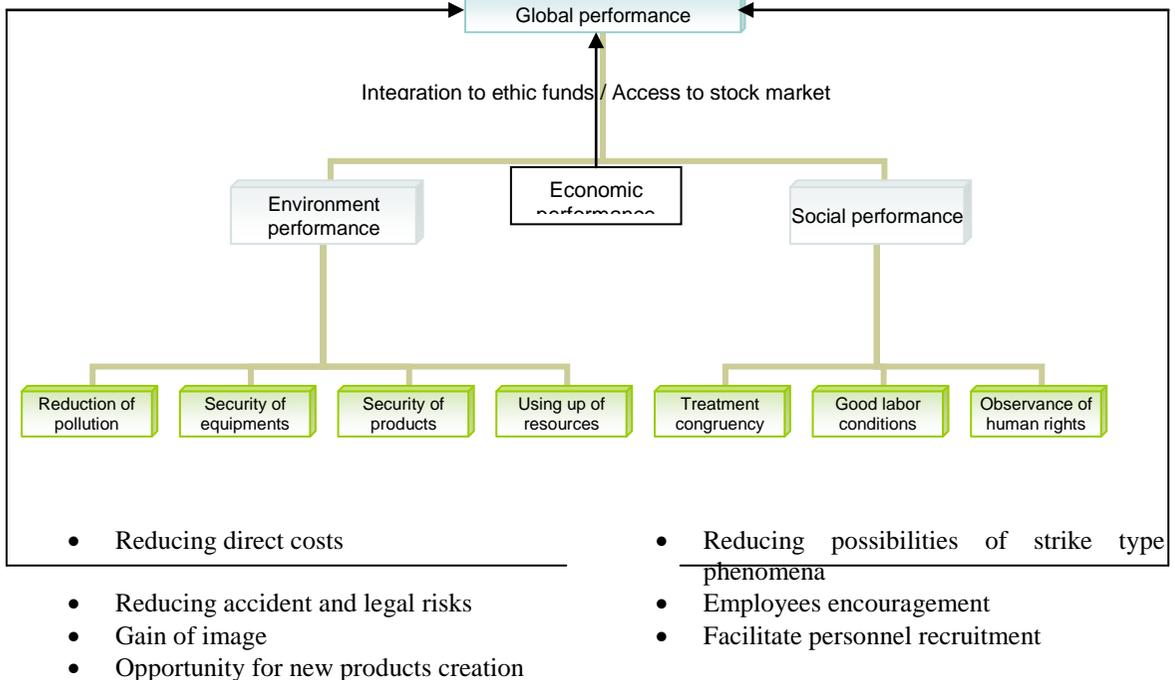
Defining performance in terms of company’s productivity and efficiency is supported by M. Niculescu (2003), who states that “*theoretically, a company is performing if in the meantime it is both productive and efficient*”; the idea is shared also by authors like Niculescu & Lavalette, 1999; Mărgulescu, 1994; Burlaud & Simion, 1999; Anthony et al., 2003.

As productivity represents the ratio between obtained results and the means engaged for their achieving and, as the efficiency represents the ration between the obtained results and expected results, into the view of these authors: performance = productivity + efficiency.

Defining performance in terms of value creation is supported by P. Lorino (1995) who states that “performance for company represents everything which contributes to ameliorate value-cost couple, and not only which contributes to cost decrease or value increase.

Nowadays, **performance is seen holistic**, getting a global vision. Authors like Alazard and Separi (quoted by Pintea, 2011), Reynaud (2003), Robu and Vasilescu (2004), Mironiuc (2009) think that *global performance represents aggregation of economic, social and environment performance* (fig. 1).

Fig. 1. Global performance of an entity



(Source: Pinteia after Reynauld, 2011)

As it was showed, performance concept has known a remarkable evolution. If within last century financial performance was on first place, nowadays, economic entities have realized that under the frame of a steadfast developing company, the global performance of an entity (economic, social and environment performance) gains more ground.

4. Measuring financial and non-financial performance

Measuring global performance of a trading company means elaboration of a set of relevant financial and non-financial indicators fated to offer a pertinent image over its performance. Non-financial indicators should contain social performance indicators, as well as environment performance indicators (see performance indicators issued by Global Reporting Initiative – GRI). A survey achieved in Romania between July 2010 and February 2011 which seemed very inventive, has taken into account realizing and testing the structure of an evaluation system of global performance of economic entities. By the distributed questionnaires, it were tested opinions of analysts from academic centers (Cluj-Napoca, Bucharest, Timișoara, Iași, Craiova, Sibiu, Pitești, Galați), and the opinions of financial analysts from analyze department of Companies of Financial Investment Services (Broker S.A, BT Securities, Target Capital, Tradeville, Estinvest, Intercapital, KBC Securities, etc.) regarding the structure of a system for global performance appreciation. Analyzing received answers, there were selected 20 indicators (10 financial, 10 non-financial ones), the two categories holding equal share in structure of the system for global performance appreciation, namely 50% each. Within non-financial indicators' structure, the ratio of social indicators is equal with the one of environment indicators, namely 25% each.

Regarding financial indicators, these have weights of different importance; three indicators considered as relevant ones by the information they are bearing (added economic value, net profit and indebtness grade) have a share of 7%. Remaining indicators (left 7) has a total share of 29%, and individually the weight of each indicator is about 4.14%.

Non-financial indicators have received weights of equal importance within model structure and, namely each non-financial indicator has received a share of 5%. Financial and non-financial indicators taken into account when constructing the system of appreciation indicators of global performance, as well as the weight of performance indicators within diagnostic model, are presented in table 1.

Table 1. Financial and non-financial indicators taken into account when constructing the system of appreciation indicators of global performance, as well as the share of performance indicators within diagnostic model

Financial indicators	Share	Non-financial indicators	Share
Added economic value	7.00%	Grade of clients' satisfaction	5.00%
Grade of indebtedness	7.00%	Labor satisfaction	5.00%
Net profit	7.00%	Labor encouragement	5.00%
Total profitability obtained by shareholders	4.14%	Number of claims	5.00%
Net profit per share	4.14%	Organizational climate	5.00%
Immediate liquidity	4.14%	Grade of pollution	5.00%
Operational cash-flow	4.14%	Observance of environment standards	5.00%
Investment profitability	4.14%	Emissions	5.00%
Financial profitability	4.14%	Recyclable materials	5.00%
Turnover	4.14%	Initiatives for emissions' reduction	5.00%
TOTAL	50.00%	TOTAL	50%

(Source: Pintea, 2011)

Evaluation of global performance of an economic entity through the help of diagnostic model does have on its basis a score granted to each analyzed aspect and which finally leads to obtain the total score upon following formula (Pintea, 2011:33):

Total score = 0.50* Quantitative aspects + 0.50* Qualitative aspects

Each indicator (criterion, aspect) gets a final score from 1 to 5, 1 being the lower grade and, 5 being the highest grade. The total score is calculating as above mentioned formula, by combining qualitative and quantitative criteria, and for determining final score it is used the balanced average in a way that economic entities under evaluation could get under the frame of following performance categories (Pintea, 2011:34).

Depending on the points obtained after application of this model, economic entities could be framed under the following performance categories:

- G1** – weak global performance, not observing either financial criteria, nor non-financial ones (final balanced score between **1.00-2.00**);
- G2** – acceptable global performance, with worsening tendency either of financial criteria, or of non-financial ones (final balanced score between **2.00-3.00**);
- G3** – medium global performance, with stagnation tendency of both categories of criteria (final balanced score between **3.00-4.00**);
- G4** – good global performance with improving tendency of most of financial and non-financial criteria (final balanced score between **4.01-4.50**);
- G5** – high global performance, by observing both financial and non-financial criteria (final balanced score between **4.51-5.00**);

5. Case study at ANTIBIOTICE Trading Company

The study is viewing performance estimation by putting into application the above presented diagnostic model of global performance. The analyzed company is ANTIBIOTICE Joint Venture Company, with a social capital of 56.800.710 lei, quoted on Bucharest Stock Exchange (BSE) in first category under ATB symbol. The company is quoted on Bucharest Stock Exchange since 16.04.1997 and in the present there are trading 568.007.100 shares. Stock exchange data are taken over from monthly Bulletins issued by BSE, and financial and non-financial data from annual financial reports available on company's official website, together with annual reports. After calculations, we got following financial indicators taken into diagnostic model:

Table 2. Financial indicators' size

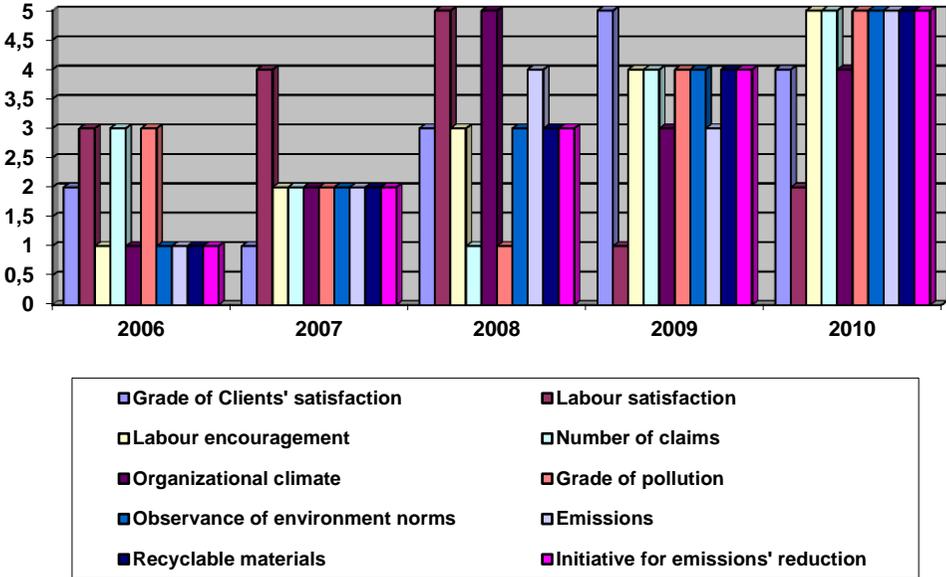
INDICATORS	FINANCIAL YEAR				
	2006	2007	2008	2009	2010
Added economic value	6.383.57 6	6.982.89 0	11.841.1 71	16.123.5 90	6.538.70 7
Grade of indebtness	40%	36%	46%	47%	42%
Net profit	23.839.1 46	32.456.0 07	10.572.7 56	11.916.8 07	12.539.1 00
Total profitability obtained by shareholders	17.996	11.809	0.1793	17.397	10.206
Net ptofit per share	0.0524	0.0713	0.0232	0.0262	0.0263
Immediate liquidity	0.4176	0.4353	0.3782	0.0313	0.0336
Operational cash-flow	- 1.693.78 4	12.642.0 99	13.719.1 89	5.260.65 7	25.024.1 15
Investment profitability	11,55%	10,70%	3,64%	4,16%	4,71%
Financial profitability	13,46%	13,18%	4,28%	4,92%	4,77%
Turnover	195.677. 945	229.415. 602	215.805. 947	219.754. 104	243.626. 062

According to used diagnostic model of global performance, we granted scores from 1 to 5 (1 being the lower grade and 5 being the highest grade) for each calculated financial indicator depending on its maximum or minimum value presented during those five analyzed years. The same procedure was used also with non-financial indicators, highlighting the regret that the company does not make a presentation in time of the evolution of non-financial indicators fated to quantify its social and environment responsibility. Thus, we had to qualify them depending on

the available information in this meaning. From this point of view, we qualified on the lower level the year when, the company hasn't published into the annual report its social and environment activity, considering either the company hasn't performing such activities, or these kind of activities haven't been publicly presented. The years when the company has intensely manifested his interest regarding social and environment responsibility and made them public, these years have been qualified with highest grade.

Accordingly, for 2006, the company received the worse qualification concerning non-financial indicators (see chart 1) due to lack of transparency or to slight implication into social and environment issues.

Chart 1. The evolution of scores granted to non-financial indicators



(Source: authors calculations & estimations)

Regarding criteria of financial estimation, the company obtained a minimum score in 2008, when global economic crisis has started and which has left his print on it, the recovering procedure being rather slow.

Applying formula presented within previous chapter, the total score was obtained and company has been framed to one of those 5 existing categories in each year (see table 3).

Table 3. Final score and afferent performance category

	2006	2007	2008	2009	2010
Total obtained score	2.60	3.00	2.55	3.05	3.80
Performance category	G2	G3	G2	G3	G3

(Source: authors calculations)

For financial years 2006 and 2008, company's global performance is an acceptable one, with worsening tendency either of most financial criteria, or of most non-financial criteria (final score 2.6, respectively 2.55). For financial years 2007, 2009 and 2010, the global performance is a medium one, with stagnation tendency of both criteria categories (final score 3, 3.05, respectively 3.8).

6. Conclusion and suggestions

An steadfast development does assess new performance standards to economic entities which are exceeding economic area; these entities should integrate into entities' developing strategy in order to assure sustainability to performing activities through harmonization of economic, social and ecological objectives, and thus, to achieve "sustainable" performances. The steadfast development concept presumes needs' balancing regarding economic development, social equity and efficiently use and conservation of environment.

In this meaning, the systems which are evaluating financial performance, are proved to have a reduced efficiency regarding performance management, as they are based on financial indicators calculated upon historical data, does not intercept the connection between respective entity' strategy and its performing activities and, does not offer information regarding quality, innovation, services offered to clients, pollution, labor satisfaction, etc. For a relevant estimation of global performance there is necessary using a system of indicators which should catch both financial and non-financial aspects of the activity.

The above mentioned aspects have been concluded following our scientific study, both theoretically and practically. A considerable part of the study has focused on presenting the concept of performance and those three dimensions of global performance, namely: economic (financial), social and ecological dimension; also, it has focused on the knowledge level regarding measuring instruments of performance, namely, performance indicators. In the final part has been achieved an applicative study for measuring the performance at ANTIBIOTICE trading company. We applied a diagnostic model of global performance, which result does frame the company among those with acceptable global performance level (2006 and 2008), and for 2007, 2009 and 20120 among those with medium performance level.

Regretfully found out that at the beginning of analyzed period, gathering information regarding non-financial indicators has been hard to achieve, because the company either wasn't involved in social and environment activities, or these activities haven't been presented into the annual reports. At the end of the period, namely in 2010, the company makes clear statements concerning social and environment responsibility it assumed, but without presenting an evolution in time of his preoccupation regarding these aspects, as it was presenting the evolution in time of economic and financial profitability.

In our view, the used diagnostic model does closely reflect the global performance of the company, with the notice that application of this model is based on information which depends on company's transparency, thus, could be influenced the global performance by the publishing or non-publishing some information regarding involvement into social and environment issues, unlike financial information which are mandatory to be published, as of the law.

In the future, we desire to develop our study by spreading analyze over more companies from different fields (energetic, chemical, financial), quoted also to other stock exchange, like the ones of Polish, Czech or Hungarian State.

Conclusively, the performance is a permanent preoccupation of all economic actors, its perception being different depending on each specific interest. Performance measuring is a necessary condition for assuring one's entity's progress, but not enough. It is saying that a progress that is not measured does not exist. But measuring cannot be a goal, but the impulse to react and to act for a steadfast developing.

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ROMANIA'S FACTS ABOUT INTERNAL CONTROL ENVIRONMENT OF EUROPEAN SOCIAL FUND FINANCED PROJECTS

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The malfunctioning of internal control system of European Social Fund (ESF) financed interventions may prejudice the sound financial management principle. Incorporating COSO principles in the beneficiary's internal control systems may provide some warranties about compliance to the above mentioned principle as described in the EC Regulation 1605-2002. This study aims to explore some facts in actual internal control environment, as a base for future improvements of Romanian ESF beneficiary's internal control systems

ESF financed interventions covers a large range of costs for implementing labor market related services. But supporting costs according to the sound financial management principle calls for best value for money in real and legal operations. Without some specifics from the donor or a mutual accepted best practice model, most of the ESF beneficiaries are reporting their efforts to actual researches and specialized literature regarding internal control system implementation in services.

This study was realized in April 2012 by applying an investigation instrument, an on-line questionnaire collecting both opinions and factual data as well to a number of 962 members of a practice community for ESF interventions implementation. This technique was used to test hypotheses regarding the premises existence for a future improvement of the existing internal control system model. 100 members of this community: managers, accountants, auditors financial responsible and other team members answered anonymously, revealing a real concern for internal control, providing as well a different side image for this. Analyzing all stakeholder answers, we may consider that our hypothesis is correct and there is a real need for internal control environment improvements.

This study is a part of a larger research “New models of the accounting and internal control systems of ESF financed interventions in Romania”, addressing a qualitative approach of ESF absorption through improved practices. The research is coordinated by Prof. Dr. Tatiana Dănescu and elaborated by PhD student Cristian Dogar.

JEL Code: M42 - Auditing

Keywords: COSO, internal control, sound financial management, European Social Fund, projects.

1. Introduction

Addressing ESF projects is claimed as difficult by most of Romanian beneficiaries. Even if they already implemented PHARE – Human Resources Development financed projects in the past, they are now facing something new, something bigger: larger project teams, target groups, implementation periods and budgets as well. Reported to last programming period problems, new risks may occur and project management has to deal with these according to ever adjusting rules, enforced by the Managing Authority and lasting principles such as: transparency and sound financial management.

With this respect, we consider that an adequate internal control environment may be extremely useful in meeting sound financial management principle.

Even if National legal framework exists and imposes for public institution a yearly evaluation of internal control, there is no such obligation for private companies. Considering the INTOSAI

GOV 9100 creation process and the latest developments of COSO and ESF origin we may appreciate COSO's framework as appropriate for internal control investigation and diagnose. Hereinafter some questions arise. Are COSO's principles recognized in practice by the stakeholders and in what extent? Do they have convergent opinions and if no, why? We processed here answers at these questions, as a part of a more comprehensive research dealing with new models for accounting and internal control systems for ESF projects.

2. Literature review

Our study aim is to collect opinions from stakeholders of the ESF financed projects and to provide a conclusion about the actual facts about internal control environment of ESF project implementation. We are not comparing now different models of internal control environment, so we do not rely on any internal control dedicated studies. Anyhow, the general context is described in the regulatory framework and in selected references as referred to in the study.

3. Methodology

For relevant conclusions, collecting opinions and factual data from ESF implementation teams has to cover a large area and an important number of opinions. In 2010 – 2011, an ESF financed project created a virtual community of financial responsible, accountants and auditors of ESF projects. That community, comprising more than 950 people from all over the country, working in some of the about 2000 projects in implementation at that time was relatively active at the end of 2011. The list of communities' members is available at: www.practicifse.ro An opinion and factual data on-line questionnaire was applied to all members of this community, asking for an anonymous reply by choosing the most suitable version of the answer at every questions. Questions followed the COSO's principles as they can be applied in ESF project beneficiary's organizations. We assume that no one answered the questionnaire more than once. Answers provided by managers, accountants, auditors, financial responsible and other members of the teams were collected in a table, using Google docs during April 2012.

4. Study results

There are 100 respondents: 18 managers, 15 accountants, 15 auditors, 33 financial responsible and 19 other members of implementation teams, so the response rate is more than 10%. Interaction between internal control and accounting systems is essential for sound financial management, so we asked information about respondent's knowledge on organized management accounting in their entities implementing ESF projects.

Table no. 1. Organizing management accounting

Opinions	Managers/ Assistant	Auditors	Accountants	Financial responsible	Other team's members
Yes	33,33%	20,00%	18,75%	21,21%	47,37%
No	66,67%	80,00%	81,25%	78,79%	52,63%

Accountants and auditors are single functions/positions in project teams, so we could receive more information from one single project from other members or managers and their assistants. We may consider so that projects organizing management accounting are less than 20%, even less than 15% according to one of our previous studies, applied only to accountants.

COSO's principles are to be investigated in our target entities through perceptions of respondents. Separate questions were prepared, at least one for a COSO principle, adapting the COSO's integrated framework to our target and to the sound financial management principle. Answers received for each category of respondents have their importance in creating a broader image of the internal control, as is it seen in implementation by various participants. The first principle: "The organization demonstrates a commitment to integrity and ethical values" relay basically on ethics and integrity of the managers, from the tone of the top perspective. This can be rephrased from sound financial management perspective in the above two questions:

Table no. 2. Perception of COSO's principle 1

Opinions	Managers/ Assistant	Auditors	Accountants	Financial responsible	Other team's members
How much you consider project manager as involved in implementing activities at lowest costs?					
Extremely involved	61.11%	33.33%	26.67%	24.24%	52.63%
Very involved	16.67%	46.67%	46.67%	39.39%	21.05%
Involved	11.11%	13.33%	26.67%	24.24%	21.05%
Sometimes or never	11.11%	6.67%	0.00%	12.12%	5.26%
How do you appreciate management supervision follow costs with activities?					
Always for all activities	77.78%	73.33%	60.00%	54.55%	73.68%
Always for important activities	0.00%	26.67%	20.00%	21.21%	21.05%
Frequently	16.67%	0.00%	13.33%	15.15%	5.26%
Sometimes or never	5.56%	0.00%	6.67%	9.09%	0.00%

As long as a good and very good opinion is expected from the managers, we may observe and not only at this question, the trustee relationship between the manager and the other team members, except financial responsible. The last category has an important opinion for our study, because of its position, dealing both with activities and money. Auditors and accountants are external independent experts, so they rely more on paper work than in day-by-day implementation realities. The second COSO's principle "Exercises oversight responsibility" rely on hieratically supervision of the management and on internal control related tasks assumed by the ones are supervising the management. This may be broadly investigated through the above question:

Table no. 3. Perception of COSO's principle 2

Opinions	Managers/ Assistant	Auditors	Accountants	Financial responsible	Other team's members
Has your organization a hieratically structure managers to report to?					
Existing structure, periodically reports	50.00%	46.67%	26.67%	57.58%	47.37%
Existing structure, often reports	11.11%	13.33%	6.67%	9.09%	10.53%
Existing structure, occasionally reports	5.56%	0.00%	6.67%	3.03%	5.26%
There is no structure or no report or NA	33.33%	40.00%	60.00%	30.30%	36.84%

We may observe that both managers and financial responsible claim that there is a supervision structure (in average 67-70%), but there are differences of perception referring to the frequency of reporting. We may assume that managers ask for reports to the financial responsible and they know exactly how much and when do they report. The fact that the accountants have a separate position, dealing mainly with financial accountancy is confirmed by the answer given here. 60% of them don't know if reports are made by the management to their superior structures.

The third COSO's principle "Establishes structure, authority and responsibility" was investigated through questions collecting respondent's perception on internal structure – segregation of duties, subordination lines and number of position. At first question, accountants assumed that everything goes right in 55,33% of the cases, far more than other respondent categories, as long as, managers and financial responsible have almost the same opinion about the accuracy of subordination lines; about 27% assumed that there is unclear subordination, independent of the positions in the organizational structure. The second question received relevant answer from the auditors, accountants and financial responsible. The auditor, as a contracted expert receives the product of the manager's concern and involvement, as long as the financial responsible, entities employee collaborates with the manager in practicing segregation of duties.

Table no. 4. Perception of COSO's principle 3

Opinions	Managers/ Assistant	Auditors	Accountants	Financial responsible	Other members
How do you consider internal structure, number of positions and subordinating relationships?					
Enough positions, clear subordination	38.89%	33.33%	53.33%	33.33%	57.89%
Enough positions, unclear subordination	22.22%	20.00%	26.67%	18.18%	10.53%
Enough positions, more people needed	5.56%	33.33%	13.33%	15.15%	15.79%
Too many positions, clear subordination	0.00%	0.00%	0.00%	0.00%	5.26%
Too many positions, unclear subordination	5.56%	0.00%	0.00%	9.09%	5.26%
Not enough positions, more people needed	22.22%	13.33%	0.00%	24.24%	0.00%

Others	5.56%	0.00%	6.67%	0.00%	5.26%
How do you perceive the project manager in the segregation of duties context?					
Extremely involved	38.89%	13.33%	20.00%	21.21%	31.58%
Very involved	27.78%	20.00%	26.67%	21.21%	21.05%
Involved	16.67%	33.33%	46.67%	33.33%	47.37%
Sometimes or never	16.67%	33.34%	6.67%	18.18%	0.00%

The fourth COSO's principle "Demonstrates commitment to competence" is investigated through the question: "How do you consider competence is taken into consideration by the management when members of the team are employed?" Manager's registered opinions are confirmed by the financial responsible and by the others members of the teams. All the answers are convergent for "Always" and "Often" in about 70 – 80% of the answers.

Table no. 5. Perception of COSO's principle 4

Opinions	Managers/ Assistant	Auditors	Accountants	Financial responsible	Other team's members
How do you consider competence is taken into consideration by the management when team members are employed?					
Always	50.00%	20.00%	46.67%	51.52%	47.37%
Often	27.78%	53.33%	20.00%	36.36%	36.84%
Sometimes	11.11%	20.00%	20.00%	3.03%	10.53%
Not a factor, I don't know	11.11%	6.67%	13.33%	9.09%	5.26%

The fifth COSO's principle: "Enforces accountability" was a subject of investigation through the following question: "How do you consider the accuracy of team's member responsibilities and the control done by the management?" Financial responsible has a slightly different opinion from the ones of managers and auditors, considering responsibilities and control.

Table no. 6. Perception of COSO's principle 5

Opinions	Managers/ Assistant	Auditors	Accountants	Financial responsible	Other team's members
How do you consider the accuracy of team's member responsibilities and the control done by the management?					
Clear responsibilities / appropriate control	38.89%	40.00%	33.33%	39.39%	63.16%
Clear responsibilities / some kind of control	50.00%	53.33%	26.67%	36.36%	0.00%
Responsibilities and control	11.11%	6.67%	40.00%	24.24%	36.84%

Stakeholder's perception on risk assessment was also investigated. In ESF implementation internal and external risk may occur and managers have to deal with these. The way organizations identifies risks and analyzes them is a very important issue in sound financial management. Even if risk management involves a dynamic process of identifying and assessing risks, the process must be a formal and iterative one. Using specific procedures and risk registers could bring a plus of rigor, and help also to keep track of past experiences. Nevertheless formal or informal meetings when risks may occur have their advantages, but formalizing the process by using a risk register and adequate procedure is undoubtedly the best way of managing risks.

Answers received indicate auditors are not aware in a significant measure about risk management in ESF beneficiary's organizations. Financial responsible consider that there is a procedure in a more substantial way than management declares it, accountants being just skeptical. They all seem to agree that risks are discussed in periodically meetings, probably during progress meetings, and also in instant meetings, when risks may occur. Management doesn't recognize but in small extent the importance of instant meetings, all the rest of the stakeholders seem to agree about it.

Table no. 6. Perception of project's risk management approach

Opinions	Managers/ Assistant	Auditors	Accountants	Financial responsible	Other team's members
How do you consider the risks are identified, analyzed, and managed risks?					
Specific procedure and/or risk register	16.67%	33.33%	6.67%	21.21%	5.26%
Periodically meetings when we discuss about risks	66.67%	13.33%	53.33%	48.48%	52.63%
Discussions about risks when they may	11.11%	33.33%	40.00%	27.27%	36.84%

occur					
Don't know	5.56%	20.00%	0.00%	3.03%	5.26%

Potential for fraud in assessing risk is another important issue from sound financial management perspective. Are the assets protected, are there potential conflicts of interest?

Table no. 7. Perception of project's potential for fraud

Opinions	Managers/ Assistant	Auditors	Accountants	Financial responsible	Other team's members
Do you consider fraud may occur in the project?					
Very possible with all taken measures	5.56%	0.00%	6.67%	6.06%	0.00%
Possible but there are control activities and procedures in force	11.11%	26.67%	6.67%	15.15%	5.26%
Slightly possibility, but there are control activities and procedures in force	33.33%	60.00%	60.00%	60.61%	47.37%
Impossible, management took all necessary measures to avoid fraud	44.44%	6.67%	20.00%	18.18%	47.37%
I do not know	5.56%	6.67%	6.67%	0.00%	0.00%

Received answers confirm over rating of management from other team members, but also the criticism of management done by financial responsible. They agree in less than half extent with managers declaring that fraud cannot occur because they done everything to avoid. We may conclude that financial responsible believe more in control activities and procedures in avoiding fraud than in management statements.

5. Conclusions

Considering ESF financed projects internal control environment from COSO's approach we may observe that relevant stakeholders: managers, accountants, auditors, financial responsible and other members of the teams have different opinions about the subject. As long as the other members of the team are relying on managers and trust them, as an average, their answers are the same or even better than the consideration of management. Auditors and accountants, as contractors may deliver an external opinion, more accurate for auditors. Financial responsible may deliver an internal, relatively objective opinion, as long as the questions are not directly subject of their work.

We may conclude than that ethics and integrity are declared by managers as implemented in a favorable and very favorable way in a total extent of 77% , opinion endorsed by the financial responsible in a substantial manner (64 to 76%) and perceived as declared by 81 to 100% of the auditors. Limitations of audit mission may be an explanation for the auditors super rating of managers ethics and integrity.

On over sighting responsibilities, managers and auditors have the same opinion, as long as, financial responsible is over rating this. We may assume that, as team members they don't know exactly when and what is reported by the management. As an average, more than 60% of ESF projects are seen to have a hieratic authority they are supervised from and sent reports to.

The entities structures meet some inconsistencies; with a general stakeholder's opinion of about 27 – 30 % of employed personnel unclear responsibilities, management declare itself as "involved" and "very involved" in enforcing segregation of duties in a substantial manner (76%), partially endorsed by financial responsible (42%) and recognized much less by the auditors (only 33%). We may observe that auditor's perception's level is half of the management's statement but consistent with financial responsible opinion.

We may also consider management's statement on commitment to competence, as long as both financial responsible and the auditors have a better opinion on this. We may assume that in no less than 70% of the projects competence has been taken into consideration always and often by management in employing team members.

Accountability is enforced in a substantial manner, even if managers are declaring 89%, this is more than 75% according to financial responsible perception.

Risk management is perceived by all stakeholders as dealt in meetings; periodically or instant. Managers declare this for 77% of the cases, financial responsible endorse it for 75%, team members agree in 89% and accountants in 93%.

Potential for fraud is considered as very possible or possible by less than a quarter, and auditors are the most prepared to face it. Financial responsible (19%) and managers (18%) are also considering the potential for fraud.

Based on this study, we may consider that COSO's principles are recognized by ESF projects practicing stakeholders in an appropriate extent and their perceptions are convergent in most of the cases. Stakeholder's perception is confirming the initial hypotheses and there is room for internal control environment improvements for ESF projects to comply with the sound financial management principle.

Are COSO's principles recognized in practice by the stakeholders and in what extent? Do they have convergent opinions and if no, why?

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THE IMPACT OF THE BUSINESS AND ORGANIZATIONAL SIZE OF A COMPANY ALONG WITH GRI AND CSR ADOPTION ON INTEGRATING SUSTAINABILITY REPORTING PRACTICES

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This paper intends to investigate the correlation between the business and organizational size of companies as well as GRI and CSR practices adoption, and the level of sustainability disclosure. The correlation is highlighted through SPSS statistic analysis and determination of an econometric model between a dependent variable - sustainability information disclosure - and five independent ones- sales, number of employees, GRI and CSR policies and ultimately reporting period/year -. We use the Deloitte Sustainability Scorecard for measuring the sustainability reporting practices. Our sample comprises companies that adopted integrated reporting for the period 2009-2010. Sample selection was made on the basis that sustainability reports are incorporated within the integrated reports. We assume to obtain a high correlation between the business and organizational size of companies, GRI and/or CSR policies and the level of sustainability information disclosed in our integrated reports.

Key-words: integrated report, reporting scorecard, sustainability, disclosure, correlation. M41, C58

I. Introduction

In a world dominated by global challenges, in the form of globalization, population growth, climate change, resource scarcity, recognition and response to sustainability issues is trivial for the corporate environment. Stakeholders influence on sustainability reporting is understated by organizations, which focus their disclosure on customers, employees, suppliers, activists, governments, community. The engagement with stakeholders is indeed increasing in importance as companies choose to disclose information on the matter. The level of sustainability information presented within the integrated reports issued by the firms that have adopted this system can be measured using the Sustainability Reporting Scorecard developed by Deloitte, and further on communicated to the users of the annual reports. The efforts made by companies to incorporate sustainability reporting practices would lead to enhancement of corporate performance, by increasing the business and organizational size of the firm. Ultimately, companies are expected to improve their relationship with stakeholders- investors, regulators, customers, business partners and employees- by adopting sustainability disclosure.

II. Review of Literature

Katelijne Van Wensen et al. (Katelijne Van Wensen et al. 2011:115) argue that integrated reporting means nothing but a sustainability report adapted to the various needs of the stakeholders. They add that innovation in sustainable reporting leads in fact to integrating the sustainability information into one single integrated report. The Global Reporting Initiative has established guidelines for sustainability reporting frameworks. However, the corporate environment is merging towards integrated reporting, a new trend that in fact promotes the presentation of information related to finance and sustainability issues (Benoit and Niederman 2010:9).

Research on corporate responsibility and sustainability reporting (Michael 2009:3-8) in the area of real estate reveal that corporate reports have changed over time, making improvements on sustainability and CSR disclosure. Michael (Michael 2009:11) studies eight corporations from UK and Australian, by creating a matrix with the purpose of evaluation and comparison of the corporate responsibility and sustainability reports. The methodology involved characterizing each criterion from the matrix as being or not being disclosed within the analyzed reports. These criteria were chosen by the author in accordance with the GRI Sustainability Reporting Guidelines and GRI Standard Disclosure and generally refer to: headquarter location, strategy and analysis, organizational profile, report parameters, governance, economic, environmental social and governance performance metrics. The findings of the study demonstrate the initial objective, that CSR and sustainability reporting has improved over time, the researcher underlining in the end of its paper certain limitations in the form of input data, subjectivity, human error or misinterpretation.

Empirical studies were elaborated concerning the benefits of implementing corporate social responsibility (Selvi, Wagner, and Türel 2010:281-290). Starting from a sample of the most profitable companies from a certain country and the ones that are socially responsible, the author uses Spearman coefficient to determine the relationship between company reputation and corporate social responsibility. The conclusions were that the relationship between the variables is a positive one.

Discussions on trends towards non-financial information show that sustainability reporting registers positive evolutions, more and more companies applying for it. According to data from Fortune Global 250 during the period 1998-2001, there is a considerable increase regarding sustainability reporting (Kolk 2003:279–291).

III. Research methodology

The methodology of research involves SPSS data processing, by establishment of the correlation level between the dependent variable- sustainability information measured by the DSRS (Deloitte Sustainability Reporting Scorecard) - and the independent ones- sales, number of employees, GRI and CSR policies and reporting year-. The econometric function can be described as follows:

$$DSRS_{SI} = \lambda_1 \times \text{Sales} + \lambda_2 \times \text{No. of employees} + \lambda_3 \times \text{GRI adoption} + \lambda_4 \times \text{CSR adoption} + \lambda_5 \times \text{Year}$$

The coefficients $\lambda_1, \lambda_2, \lambda_3, \lambda_4$ and λ_5 will be generated through SPSS regression analysis.

We intend to measure sustainability using the *Deloitte Sustainability Reporting Scorecard* which involves 30 criteria each scored between 0 and 4 points. These points are distributed according to the degree of fulfillment with the conditions of presenting the elements contained in a sustainability report. The four possible levels of sustainability correspond to four cases that can be met for a certain company, namely:

- it does not mention the requested information or the disclosed information is insufficient (0);
- some relevant aspects are presented (1);
- coverage of most important information (2);
- better sustainability practices (3);
- outstanding reporting (4).

According to this method, the maximum score that can be allocated to a certain company is 120 points. Therefore, the total score of 120 is considered to represent 100%. The final percentage level generated by each company can be analyzed by allocating the respective firm to one of the following groups or categories:

- no information or insufficient- 0%
- few information- 25%

- average information coverage- 50%
- better than average- 75%
- outstanding- 100%

Data description

This section provides empirical evidence on integrating sustainability reporting practices. The case study involves a sample of 35 integrated reports, from 24 companies that operate in 10 different countries. Therefore, our initial database comprises large corporations, namely: AEP, Altron, Amplin plc., Anglo Platinum, BASF, Capita Group, Eskom, Gold Fields, Great Portland Estate, Implats, Logica plc., Massmart, Metso Corporation, National Grid, Natura, Novo Nordisk, Philips, Potash Group, RB Platinum, Standard Bank, UTC, Vodacom, Wolesely, Xstrata plc.. The firms from ours sample have also been classified by industry type: aerospace and industrial, agriculture, banking and insurance, chemicals, communication, construction, cosmetics, electricity, electronics, information technology, medicine, mining, real estate, retail. Our database contains reports for financial years 2009 and 2010.

IV. Results

This section presents the output results obtained through SPSS regression analysis. Table 3 presents the descriptive statistics of our data, and therefore contains the minimum, maximum, mean and standard deviation indicators of our sample of 35 integrated reports. These indicators are determined for each of the variable included in the model. The mean level of GRI adoption registers 0.45429, while for CSR policies we obtain a value of 0.4571. Both variables are equal in standard deviation (0.5054). The maximum value for the business size represents in total sales 273,683.03 mil. Euro, and the minimum number of employees (organization size) represents 17. The scores generated by the Deloitte Sustainability Scorecard fluctuate between the interval of 77.92 and 109.97 (out of a total of 120 points), with mean value of 101.1754 and standard deviation of 7.0439.

Table 3. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Year	35	2009	2010	-	-
GRI	35	.00	1.00	.5429	.5054
CSR	35	.00	1.00	.4571	.5054
Sales	35	0.01	273683.03	31010.58	64306.8312
Employee	35	17.00	208200.00	35846.00	42518.1717
DI	35	77.92	109.97	101.1754	7.0439
Valid N	35				

(Source: SPSS data processing)

Table 4 shows the Pearson Correlation Coefficients determined for our sample of 35 integrated reports. We notice that the dependent variable of reporting period (year) has a negative influence upon the disclosed information on sustainability issues. In addition, the coefficient of -0.186 demonstrates that our analyzed period (2009-2010) is characterized by a decrease in the supply of sustainability information- this fact is also highlighted in the section dedicated to the Deloitte Sustainability Scorecard, where the analysis from time period perspective indicates the same results. The Pearson Coefficient for GRI adoption indicates a medium level, positive correlation with sustainability information disclosed within integrated reports (0.447). The significance test shows a value close to 0.01, that is the statistical threshold for significant values. The results for GRI factor are not surprising, as GRI guidelines cover most of sustainability reporting issues, and it would have been expected to be correlated to the high levels of disclosure on sustainability. CSR policies tend to have a negative influence on the score generated by Deloitte Sustainability Scorecard, which could be obvious as generally companies adopting GRI practices, do not follow CSR policies, and the other way around. However, CSR has a significance level of 0.001, which

means that these findings are very conclusive. The business and organization seem to have a small influence on sustainability reporting, with coefficients of 0.125 and 0.1.

Table 4. Pearson Correlation Coefficients

		Year	GRI	CSR	Sales	Employee	DI
Year	Pearson Correlation	1.000	.125	-.125	.074	.055	-.186
	Sig. (2-tailed)	.	.473	.473	.674	.754	.286
	N	35	35	35	35	35	35
GRI	Pearson Correlation	.125	1.000	-.885	.068	.175	.447**
	Sig. (2-tailed)	.473	.	.000	.700	.315	.007
	N	35	35	35	35	35	35
CSR	Pearson Correlation	-.125	-.885**	1.000	-.071	-.1.63	-.531**
	Sig. (2-tailed)	.473	.000	.	.683	.350	.001
	N	35	35	35	35	35	35
Sales	Pearson Correlation	.074	.068	-.071	1.000	.737**	.125
	Sig. (2-tailed)	.674	.700	.683	.	.000	.473
	N	35	35	35	35	35	35
Employee	Pearson Correlation	.055	.175	-.163	.737**	1.000	.100
	Sig. (2-tailed)	.754	.315	.350	.000	.	.567
	N	35	35	35	35	35	35
DI	Pearson Correlation	-.186	.447**	-.531**	.125	.100	1.000
	Sig. (2-tailed)	.286	.007	.001	.473	.567	.
	N	35	35	35	35	35	35

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

(Source: SPSS data processing)

The estimated econometric model can be described as follows (Table 5):

$$DSRS_{SI} = 2.081^{-5} \times \text{Sales} - 1.92^{-5} \times \text{No. of Employees} - 1.058 \times \text{GRI adoption} - 8.874 \times \text{CSR adoption} - 3.786 \times \text{Year} + 7,713.937$$

Table 5. Beta Un-standardized Coefficients

Model	Un-standardized Beta coefficient
Constant	7,713.937
Year	3.786
GRI	1.058
CSR	8.874
Sales	2.081E-05
Employee	1.058E-05

V. Final Remarks

The main purpose of this paper has been to investigate the correlation between the business and organizational size of companies as well as GRI and CSR practices adoption, and the level of sustainability disclosure. The methodology involves SPSS statistic analysis and model determination between a dependent variable - sustainability information disclosure - and five independent ones- sales, number of employees, GRI and CSR policies and ultimately reporting period/year -. The sustainability reporting practices are measured using Deloitte Sustainability Scorecard. Our sample comprises companies that adopted integrated reporting for the period 2009-2010. Sample selection was made on the basis that sustainability reports are incorporated within the integrated reports. We assume to obtain a high correlation between the business and organizational size of companies, GRI and/or CSR polities, reporting year and the level of sustainability information disclosed in our integrated reports.

The Deloitte Sustainability Scorecard is meant to provide guidelines on the content of reports regarding the sustainability information disclosure. Thus, in the absence of a general current framework, the scorecard can be used for developing best sustainability practices and to create sustainability reports that should integrate within annual reports.

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THE SOUND OF CORPORATE GOVERNANCE

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The paper explores the corporate governance and corporate social responsibility in music industry, by reviewing the literature and investigating the aspects in the context of a sample made by top companies in this domain. The paper spotlighting the mutual connections between corporate governance and corporate social responsibility. The research methodology used consists in investigate the corporate governance codes. It's about a qualitative interpretive research methodology that was adopted. The findings suggest the intercorelation of corporate governance with corporate social responsibility. The main contribution of the author consists in the fact that the added value of this paper and the original contribution leads in the intercorelation of these two aspects of corporate governance and corporate social responsibility, the findings beeing interesting, implying that recent preoccupation with corporate governance in music industry is starting to be equable by some attention to social responsibility aspects, with growing appreciation of their interdependencies. Previous literature has researched corporate governance and corporate social responsibility independently. Due to this fact, this paper is considering them jointly. The paper is important for both practical and theoretical aspects: for managers and also can serve as the basis for future research on this topic.

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Keywords: corporate governance, corporate social responsibility, music industry, stakeholders

JEL Classifications: G39, M14

1. INTRODUCTION

Music is something that everybody feel and understand in a big or small measure, depends on tastes, cultures, trends or other factors. Due to the international character of the music and the extensive investment required in technology, logistics, marketing, more and more stakeholders are participating in the music global production chain. According to this, the music companies are becoming more sensitive to consumers' opinions and concerns and more responsive to shareholders' demands. The companies must respond to calls for greater transparency, social responsibility corporate governance, fair trade initiatives, the protection of human rights and sustainable environmental practices.

Corporate governance is a set of rulls under which companies are directed and controlled, that branch of economics that studies how companies can become more efficient, promote fairness, transparency and responsibility in an organization.

The music industry's stakeholders are:

- the musicians, those who create and interpret the music;
- the companies who sell recorded music (music publishers, producers, studios, engineers, record labels, retail and online music stores, performance rights organizations);
- professionals who present live music performances (booking agents, promoters, music venues, road crew);

- professionals who assist musicians with their music careers (talent managers, business managers, entertainment lawyers);
- those who broadcast music (satellite and broadcast radio);
- those who listen and buy music;
- journalists;
- academies;
- professors;
- musical instrument manufacturers; and many others.

Corporate governance is based on a set of attributes, including ensuring accountability to shareholders or stakeholders (Keasy and Wright, 1997), ensuring that companies are run according to the laws and answerable to all stakeholders (Dunlop, 1998), ensuring that reporting systems are structured in such a way that good governance is facilitated (Kendall, 1999).

These aspects we also find in the OECD Principles (1999), first adopted by the 30 member countries of the OECD in 1999, which have become a reference tool for countries all over the world. Based on the investigation carried out on the selected companies from the music industry, this article ambitiously attempts to sketch out the corporate governance issues.

2. RESEARCH METHODOLOGY

Regarding the research methodology, was conducted a qualitative research based on observation of some aspects. Information was extracted on the basis of reports like: corporate governance codes, corporate social responsibility reports. To achieve homogeneity of the selected sample, we choosed top 6 companies from music industry.

3. A BRIEF REVIEW OF THE MUSIC INDUSTRY

The definition of music varies from culture to culture and from a social context to another. Music can be divided into genres and subgenres, although the dividing lines and relationships between them are subtle or controversial.

Since 2000, there were four major corporate labels which dominate recorded music — Universal Music Group, Sony Music Entertainment, Warner Music Group and EMI Group — each of which consists of many smaller companies and labels serving different regions and markets.

Many record labels died. Here we can mention the Columbia Records, Crystalate, Decca Records, Edison Bell, The Gramophone Company, Invicta, Kalliope, Pathé, Victor Talking Machine Company and many others. The "Big 6" consists of EMI, CBS, BMG, PolyGram, WEA and MCA — which dominated the industry.

Sony bought CBS Records in 1987 and changed its name to Sony Music in 1991. In mid-1998, PolyGram merged into Universal Music Group (formerly MCA), dropping the leaders down to a "Big 5". EMI, CBS, BMG, PolyGramMCAUniversal, WEA

The "Big 5" major record companies became the "Big 4" in 2004 when Sony acquired BMG, CBS: EMI, PolyGramMCAUniversal , WEA , and the "Big 3" when EMI was acquired by Universal in 2011: Sony, Universal, WEA.

4. CORPORATE GOVERNANCE IN MUSIC INDUSTRY SECTOR

By studing the corporate governance codes of the most important companies from the music industry sector was observed some differcences which was presented below. We can not say there is a best model of corporate governance, all systems presenting pluses and minuses, perfect model of corporate governance being only an illusion.

4.1. Board mission and Director Responsibilities

The board is elected by sharehoders to represent their interest and the overall success of the organization. The board will meet monthly or 6 times a year or monthly (the case of EMI).

Directors attend all meetings and are elected for one year by shareholders or board, without the number of terms. The management team consists of 10 (WEA), 7 (EMI) or 16 (SONY) members. Director Access to Officers, Employees and Information is full and free. There is an annual Chief Executive Officer Performance Evaluation. The Board and the committees will regularly review management succession planning. The Board of Directors will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. improve.

4.2. Committees of the Board

The Committees of the Board are: Finance Audit Remuneration Nominations Committes, Risk Management And Internal Controls (EMI), Nominating audit committee (Sony), Audit, Compensation, and Executive, Governance and Nominating (WEA).

The Board may establish additional committees as necessary or appropriate. The Chairman of each committee will determine the frequency of committee meetings,

4.3. Corporate Social Responsibility Aspects

As music companies, all of these, have a positive effect on people and make a significant contribution to communities all around the world.

Decisions about community investment and charitable giving are made locally by business units around the world.

Other responsible decisions that we can mention are: reducing paper use and promote recycling, the company successfully attains a goal toward which it has been steadily building.

Also were announced the development of a new company-wide program to reduce or offset greenhouse gas emissions associated with:

- convert CD/DVD products to environmentally-friendly packaging;
- practice ecologically superior paper procurement;
- reduce waste;
- enhance recycling.

5. CONSLUSION

Music represents the trendsetter in terms of products and services like mobile phones companies, cars, in a snobbish economy. There are plenty music campaigns involving corporate social responsibility. Anyway, we can't affirm there is "a bed of roses" seeing the cases of drugs, alcohol or indecent dressing, abuse, which are a common phenomenon nowadays. Even if is a giving back to society or just a way of having fun, brands will always sell and ride high on the wheels of music.

Our research could represent a support for organizations, suggesting that must be a convergence in the context of both corporate governance and social responsibility. The research conducted concludes that some corporate governance codes do not mention all the necessary information.

The main conclusion that can be drawn is that corporate governance and social corporate responsibility should not be considered and sustained independently. Only with an efficient long-term view of leadership, an organization can be sustainable.

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COURT OF AUDITORS – THE ASSESSMENT OF INTERNAL CONTROL SYSTEM IN THE PUBLIC SECTOR IN ROMANIA. CASE STUDY BIHOR COUNTY

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Since resources in the public sector generally represent public money and their use in the public interest generally requires special care, the significance of safeguarding resources in the public sector needs to be underlined. The public romanian sector is characterized by an descendant trend of public resources, limitation of expenses and new risks horizons, this is way the ability to anticipate threats or opportunities is the most important objective of internal control sistem. The internal control is a dynamic process which continuously adjusts to the changes faced by an entity, with the direct involvement of the management and staff at all levels of the organization, to identify and address risks and to resonably ensure that the entities' mission and the general objectives have been fulfilled. Regardless of the nature or the size of entities, the efforts given by the application of internal control are much related to the implementation of good practices, monitoring, evaluation, adaptation and updating of their implementation.

Which is the level and the current state of the system of internal control in the Romanian system? Do we understand and respect the notion of Public Internal Financial Control? To all these questions we try to answer in this paper, primarily through the presentation of general principles and objectives of the internal control and analysis of the report to the Bihor Board of Auditors for the year 2010. As a result of the study, a number of flaws and errors revealed, both of organization and coordination, in order to be able tooffer some measures of solving the developed.

Keywords: external public audit, internal control, public sector, risk.

JEL: M42, M48.

Internal control sistem

Making a brief introduction into the financial scandals we observe, during '90s, a series of financial scandals which have revealed a behavior without ethics and transparency of those who led large companies. Unfortunately, the history is repeated from certain points of view and even though, during the 2000s, enters into discussion the concept of corporate governance, which are the mechanisms by which a company must be led and controlled, we are dealing with one of the biggest financial and economic crisescaused by the global impact that some organizations' business had had.

These series of events have not bypassed the public sector which owns a significant portion of the economy and drew the attention upon managers and professionals and upon the professionalism with which it is run and regulated the economic activity.

The definition for internal control given by the INTOSAI GOV 9100: is an integral process that is effected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved:

- executing orderly, ethical, economical, efficient and effective operations;
- fulfilling accountability obligations;
- complying with applicable laws and regulations;
- safeguarding resources against loss, misuse and damage.

Internal controls in the public sector have a strong impact on the credibility of the Government and of the operations carried out. Internal control standards provides a mechanism by which you can obtain reasonable assurance that assets are safeguarded, financial reporting is reliable and financial transactions comply with the ethical aspect.

In the legislation of Romania, internal control is defined as all forms of control exercised at the level of the public entity, including internal audit, established by the managers in accordance with its objectives and legal regulations, to ensure the management of public funds economically, efficient and effective; it also includes the organizational structures, methods and procedures.

The internal control in public sector organizations must be understood in the light of their specific features, such as:

- achievement of social or political objectives;
- how to use the public funds;
- the importance of the budgetary process;
- public sector managers responsible for the implementation of the internal control system.

Internal control is a dynamic process that is continuously adapting to the changes an organisation is facing, is not one event or circumstance, but a series of actions that permeate an entity's activities. Management and personnel at all levels have to be involved in this process to address risks and to provide reasonable assurance of the achievement of the entity's mission and general objectives.

The internal control system is intertwined with an entity's activities and is most effective when it is built into the entity's infrastructure and is an integral part of the essence of the organisation.

According to the *Guidelines for Internal Control Standards for the Public Sector* (INTOSAI GOV 9100), internal control consists of five interrelated components, namely:

Control environment,
Risk assessment,
Control activities,
Information and Communication,
Monitoring.

The *control environment* is the foundation for the entire internal control system. It provides the discipline and structure as well as the climate which influences the overall quality of internal control. It has overall influences on how strategy and objectives are established, and control activities are structured.

Having set clear objectives and established an effective control environment, an *assessment of the risks* facing the entity as it seeks to achieve its mission and objectives provides the basis for developing an appropriate response to risk.

The major strategy for mitigating risk is through *internal control activities*. Control activities can be preventive and/or detective. Corrective actions are a necessary complement to internal control activities in order to achieve the objectives. Control activities and corrective actions should provide value for money. Their cost should not exceed the benefit resulting from them (cost effectiveness).

Effective *information and communication* is vital for an entity to run and control its operations. Entity management needs access to relevant, complete, reliable, correct and timely communication related to internal as achieve its objectives.

Finally, since internal control is a dynamic process that has to be adapted continuously to the risks and changes an organisation faces, *monitoring* of the internal control system is necessary to help ensure that internal control remains tuned to the changed objectives, environment, resources and risks.

These components define a recommended approach for internal control in government and provide a basis against which internal control can be evaluated. These components apply to all aspects of an organisation's operation

Internal control is designed to provide reasonable assurance regarding the achievement of the General objectives of the institution. That is why goals clearly set out by the heads of the appropriate entity of the budget and planning, is a *sine qua non* condition for an effective internal control.

Achievement requires the identification, knowledge and taking risks. As with INTOSAI GOV 9130, the risk management purpose entity is to allow the management of an entity to identify the element of uncertainty on achieving the established targets and the risk associated with it, i.e. in terms used in the public sector, to provide more efficient, economic and effective services, and to take account of the values, such as equity and justice. The risk may be regarded negatively, uncertainty, obstacle or threat, or in the positive sense of opportunity.

Research methodology

Our research has as objective to understand the internal control sistem in the public sector entities in Romania, in respect of the current economic situation and international directions on the field. The basis of the study consists in a synthesis of the ideas published on the topic, the regulations issued by the national and international accounting regulators. We have try to analyse the proces of internal control and we have used a fundamental research method identifying in the public sector from Bihor county the entities that have non-implemented internal control system or have not organised internal audit.

Chamber of Accounts in the Bihor County

In 2009, at a conference organized and hosted by the European Commission in Brussels, the main debated problem was about the Public Internal Financial Control (PIFC), stressing that after accession many of the 12 new EU member countries, namely the harmonization of their central units, did not continue to develop their PIFC, although they were compelled. Therefore, the European Commission has recommended that the supreme audit institutions should intervene promptly by assessing the progress of implementation in their own countries of PIFC and to leverage the ongoing development and with greater efficiency.

So in accordance with the schedule approved by the Plenum of the Court of Auditors of Romania for 2011, TheBihor Board of Auditors was carrying out the statutory audit competency to a total of 366 local subordination of entities managed to plan and to realize territorial administrative units at the local level, a number of 41 actions: 36 actions on financial audit of accounts run concluded in 2010 and 5 control shares, which represents a degree of coverage of 11,20% of total subordination to local entities.

Organizational, economic and administrative structures, subject to check are:

Verified entities at the level of administrative territorial units of territorial administrative	Territorial administrative Units audited in the Bihor County	Existing entities	Audited entities	%
1. Officers by level administrative-territorial units, of which:		347	40	11.53
1.1. Principal Officers, of which:		102	37	36.27
Conunty Councils	T.A.U.C. Bihor,	1	1	100

Municipalities	T.A.U.M. Marghita, T.A.U.M. Oradea	4	2	50.
Towns	T.A.U.T. Ştei, T.A.U.T. Vaşcău,	6	2	33.33
Common	T.A.U.C.Abrămuţ, Avram Iancu, Bunteşti, Cărpinet, Cociuba Mare, Copăcel, Drăgăneşti, Drăgeşti, Finiş, Hidişelu de Sus, Holod, Husasău de Tinca, Ineu, Lunca, Măgeşti, Nojorid, Olcea, Paleu, Pomezou, Rieni, Roşiori, Săcădat, Sălacea, Sânicolau Român,Sânmartin, Suplacu de Barcău, Şuncuiuş, Târcaia, Toboliu, Țețchea, Uileacu de Beiuş, Vadu Crişului.	91	32	40.66
1.2. Secondary Officers Credits		-	-	
1.3. Terțiar Officers Credit	Administration Directorate General of Oradea, social assistance and child protection, the State Theatre Bihor Oradea	245	3	1.22
2. Autonomous Local Kings		7	-	
3. Companies of local interest	Autonomous Oradea Local Transport	12	1	8.33
TOTAL		366	41	11.2

Source: Local public finance report for the year 2010, the Bihor county.

In the purpose of objective financial audit resulted in the general expression of opinion of the audit was to obtain assurance on the management of the assets of the entity and on the drawing up in accordance with the financial reporting framework practicable in Romania of the financial statements.

In the context of the verification activity, in order to achieve the general objective of the statutory audit, the external public auditors had in view the manner of organization, implementation and maintenance of management systems and internal control (including internal audit) to entities audited.

Within the framework of the activities of the Board of Auditors have rated Bihor control systems and internal audit, and the result of analysis performed, the irregularities noted deficiencies have been found to all the entities audited with a crash that caused, particularly, the existing of disfunctionalities in the organization and internal control.

So with regard to these deviations from the normative acts in force we noted:

-**non-implementation and failure in full forms of internal control system** in a number of 20 entities through the fact that policies and procedures for protecting against fraud losses of entities, irregularities and errors for administering public funds economic, efficient and effective. Also, lack of their own internal control rules caused the assessment by the auditors of a high risk control and granting of 14 qualifying satisfactory and unsatisfactory.

- **failure of preventive financial control** to a number of audited entities 15 on all operations that affect public funds and assets of public entities. what lead to the impossibility of identifying the projects of operations which do not meet the conditions for legality and regularity and its performance on the basis of administrative documents are incomplete without the speedy \"general framework of operations subject to proper preventive financial control\" and

\documentary Circuit controlled preventive financial\". There have been a number of cases in which even though it was organized preventive financial control, it has not achieved the goal that has not been ensured a systematic check of operations subject to preventive financial control from the point of view of compliance with all legal provisions that were applicable, in effect on the date of the operations.

There have been recorded situations in which preventive financial control has not identified the projects operations which do not meet the conditions for legality and regularity and/or, where appropriate, employment in the destination budget appropriations and commitment and whose conduct has harmed the public heritage and/or public funds.

- **non-organization of the internal audit** by most of the territorial administrative units checked (in particular the commune) in accordance with the provisions of art. 9 of 672/2002, although they ran an annual budget of over 100,000 euros, so not eligible to be classified in the category of small public institutions as defined in the Law 672/2002 and, therefore, internal audit cannot be ensured by the engine's internal public audit of the Ministry of Public Finances.

Following the checks carried out at four officers tertiary credits it was found that they do not have organized the work of internal audit, being carried out by the internal audit compartimentele organized at the level of senior officers to whom loans are subordinate to the U.A.T. and U.A.T. County Bihor Oradea. Due to the low number of these compartments are Auditors, but unable to carry out regular tasks, in order to identify significant risks and deficiencies may affect the objectives, the activities and resources of the establishment, to provide the security of a real images and legal heritage.

Conclusions

Not being organized internal audit, management institutions are not offered on the proper management of public revenue and expenditure, there is no possibility to improve their activities and are not supported in fulfilling their objectives through a systematic and methodical approach to evaluate and improve the efficiency and effectiveness of the management system based on risk management, control and governance processes.

Framework of analysis and the Reports on the internal audit programmes for 2010, drawn up by the authorising officers who had organized the internal audit, it was found that in general this activity was carried out in outsourced system, which proved to be largely ineffective.

Reports produced in these cases are of a purely formal audits being more oriented towards a fund manager controls than towards a genuine internal audit to serve both entities in order to achieve an efficient management and the Board of Auditors as a source of information on the audits carried out.

In conclusion, in order to reduce the risk of new errors in the work of the units it is necessary to implement the system of internal control, management and development of clear procedures for all activities carried out within the framework of the entities and the identification and management of risks.

In view of the small number of staff, entities could opt for similar cooperation with other entities, to organize and exercise-control activities, audit, inspection, on the principles of efficiency, effectiveness and lower in furtherance of the duties established by law and local public administration authorities.

One of the main causes of the Organization and the exercise of preventive financial control, lacking is the lack of specialized personnel and poor skill of the latter, in particular in the case of the municipal territorial administrative units, which resulted in non-compliance with the provisions of law No. 119/1999 concerning internal control and preventive financial control, in terms of separation of preventive control of those driving the bookkeeping or participate in the performance of economic and financial operations.

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ENVIRONMENTAL REPORTING AND SHAREHOLDER STRUCTURE IN THE CASE OF ROMANIAN COMPANIES

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Because environmental reporting remains voluntary on an international scale, there are major difference in terms of quality and quantity of environmental information, reported by entities from varied sectors and countries. The literature identifies factors like public exposure, entities legitimacy, laws and regulation, characteristics of the company (management, size, profitability etc), culture as the main factors that could determine environmental reporting (Lee and Hutchinso, 2005). Within this study, I have focused on environmental reporting and I have analyses factors related to corporate governance characteristics, such as shareholder structure, in order to identify the existence of certain associations between the shareholder structure and the level of environmental reporting. The paper represent an empirical analyzes on how shareholder structure might explain the level of environmental reporting in the case of Romanian companies listed at Bucharest Stock Exchange. The sample consist in 64 entities listed at Bucharest Stock Exchange in the first, second and third tier from 10 areas of activity that may impact the environment: agriculture, forestry and fishing; the extractive industry; the manufacture industry; production and supply of electricity, thermal energy, gas, water; water distribution, sanitation, managing waste, recyclable materials recovery activities; construction; transport and storage; food industry, hotels, restaurants; the repair, retail, maintenance and installation of machinery and equipment; printing and reproduction of recorded media. I suggest a model comprising shareholder structure: percentage owned by families, percentage owned by institutional investors, percentage owned by private investors, percentage owned by foreign investors, percentage owned by board members, percentage owned by management members as factors that could explain environmental reporting. As future research we will test this model on companies listed with the London Stock Exchange. I conclude that the presence of foreign shareholders help increasing transparency maybe because they are more expose to the public and maybe because foreign investors need more relevant information's regarding environmental performance. Companies where the percentage of the shares owned by the state is higher report more on environmental aspects maybe because the state wants to give examples of good transparency. The paper contributes to the development of the research in the field of environmental reporting and corporate governance in the case of Romanian companies and shows that foreign ownership and state ownership influence the level of environmental disclosure.

*Keywords: Shareholder Structure, Environmental Reporting, Empirical Analyses, Entity Level, Romania
Jel Classification: M49*

1. Introduction

Environmental reporting represents a tool for providing environmental information to the stakeholders and to reflect environmental performance and companies concerns on environmental issues (Shearer, 2002). Because environmental reporting remains voluntary on an international scale, there are major difference in terms of quality and quantity of environmental information, reported by entities from varied sectors and countries. The literature identifies factors like public exposure, entities legitimacy, laws and regulation, characteristics of the company (management, size, profitability etc), culture as the main factors that could determine environmental reporting (Lee and Hutchinso, 2005).

Regarding Romania, there is, so far, no legislation in this area, requiring companies, listed or not at the capital market to provide stakeholders separate reports or specific information relating to the environmental impact.

Ienciu et al. (2011) reflecting the quality of environmental information voluntarily reported by Romanian listed companies compared with Hungarian companies for the period 2006-2008, conclude that the majority of environmental information provided by the Romanian companies is incomplete and irrelevant, the level of environmental reporting in this case being very low. Also

a study made by Ienciu (2011) sustain that environmental information provided by the Romanian organizations is incomplete and irrelevant for stakeholders. The study demonstrated that environmental reporting in the case of Romanian companies is influenced by the size of the entity, by public exposure by the structure of the shareholders.

Starting from the agency theory, the company is accountable for the decision to report environmental information, decision which is made by the management to serve for the best interest of the shareholders (Buniamin et al., 2010: 56).

Within this study, we have focused on factors related to the shareholder structure and we analyzed the way in which shareholder structure could influence environmental reporting in the case of Romanian companies listed at Bucharest Stock Exchange.

The Analysis of the Literature

Within this section we will approach a retrospective analyze regarding the correlations between the shareholder structure and the level of voluntary reporting, where to environmental reporting also belong. This retrospective is created from the perspective of the specialized literature, more precisely the studies approaching this matter, published between 2000-2011 in journals listed with the following databases: EBSCO, Emerald, Scopus, SpringerLink, Science Direct.

Rao et al. (2012) investigate using a quantitative analysis the annual reports of 100 Australian firms listed on the Australian Stock Exchange. The study showed a positive relationship between Environmental Reporting, institutional investors and board size.

The study conducted by Ho and Wong in 2001 (Ho and Wong, 2001) analyzes the connection between the ratio of family members and the level of voluntary reporting within the Hong Kong stock listed entities. The study concludes that the number of family members influences in a negative manner the level of environmental reporting for the scrutinized entities.

In 2002, Haniffa and Cooke (2002) analyze the importance of various cultural characteristics or corporate governance specificities for voluntary reporting within Malaysian stock listed companies. Results have shown that the number of family members influence the level of voluntary reporting, including the environmental reporting.

The study conducted by Huafang and Jianguo (2007) intends to examine, by means of regression analysis, the impact of shareholder structure and board structure onto the voluntary reporting for a sample of 559 listed companies from China. The existence of foreign shareholders as well as the percentage of independent managers is associated with an increased level of voluntary reporting.

In a study conducted on the Malaysian stock market, Akhtaruddin et al. (2009) suggests that the level of voluntary reporting is negatively influenced by the control inside a family.

Klai and Omri (2011) analyze the effect of corporate governance mechanisms (characteristics of board and shareholder structure) over the financial reporting on a sample of companies listed with the Tunisian Stock Exchange for a period between 1997 and 2007. The percentages owned by foreigners and families, in particular, decrease the quality of information which are reported.

Research methodology

Assessing how environmental performance or environmental information is reported in 2010 by Romanian companies listed at Bucharest Stock Exchange in the first, second and third tier (EnvRep) is based on a Disclosure Index (DI) on the following groups of information:

- d1. Non-financial information regarding environmental objectives, management, policy and other aspects which can reflect environmental performance in non-financial information. This indicator can bring value "1" if company report this kind of information, or "0" if company doesn't report the information.
- d2. Key Performance Indicators regarding environmental impact (water, air, soil). The indicator is "0" if company does not report such indicators or can be "1" if company reports

such indicators although these indicators are not correlated with indicators stipulated in international guidelines.

- d3. Financial indicators (environmental investment, costs, provisions). Such indicators reflect in monetary terms companies' attitude regarding the environment. The values can be "0" if a company does not report this information or "1" if a company reports this kind of information.

This method for quantifying environmental information allows integration of different types of information into one single figure comparable between companies and is not very subjective because this is not a qualitative examination which depends on the researcher's point of view which is not always the same with the investor's point of view regarding the relevance of environmental reporting. So, our EnvRep Disclosure Index (DI) is calculated as:

$$EnvRep_DI = \frac{\sum_{i=1}^n di}{m}, \quad n - \text{number of elements disclosed, } m - \text{number of possible elements to disclose, } di - \text{group of elements disclosed.}$$

possible elements to disclose, di – group of elements disclosed.

The sample consists in 64 entities listed at Bucharest Stock Exchange in the first, second and third tier from 10 areas of activity that may impact the environment: agriculture, forestry and fishing; the extractive industry; the manufacture industry; production and supply of electricity, thermal energy, gas, water; water distribution, sanitation, managing waste, recyclable materials recovery activities; construction; transport and storage; food industry, hotels, restaurants; the repair, retail, maintenance and *installation* of machinery and equipment; printing and reproduction of recorded media.

Every market and every governance system has its own characteristics which depend especially on the ownership and investors' structure. In our study we look upon the structure of the shareholders for the Romanian listed companies in 2010. For this we analyze different types of shareholders:

- v1. Institutional shareholders (Instit_INV) – the percentage held by institutional investors
- v2. Family members in the structure of the ownership (Family_INV) - the percentage held by family members;
- v3. Foreign shareholders (Foreign_INV) - the percentage held by foreign shareholders;
- v4. Private shareholders (Privat_INV) - the percentage held by private shareholders;
- v5. Executives (CEO and other executives managers) (Manag_INV) – the percentage held by executives management;
- v6. Directors (chairman and other directors) (Board_INV) - the percentage held by directors.

Analyses and results

The analysis of previously introduced studies has helped us in fundamenting the following theoretical framework: *The level of environmental reporting is influenced by the shareholder structure.*

As far as the shareholder structure is concerned, a first element being analyzed is the percentage owned by the *members of the same family*, or type of shareholders. We believe that the level of environmental reporting is negatively influenced by the weight of family members in the leadership structures. By family members' weight, we mean that the company is owned, in a certain percentage, by the members of the same family. The specialized literature believes that, in the case of companies owned by the members of a family, there is no significant separation between the shareholders and the management, because the shareholders become involved in the company's management, with direct access to information, thus stopping voluntary information reporting to other shareholders.

Another element would be the type of investors: *Institutional investors* or individual investors and how they affect the level of voluntary reported information. Hidalgo et al (2011) seem to confirm there is an increase in institutional investors having a negative impact on voluntary reported information. Yuen et al. (2009) shows that individual shareholders is significantly correlated to the level of voluntary reporting.

Cormier and Gordon (2001) showed that the status of the capital (public or private) influences environmental reporting. Cormier and Magnan (2003) showed that the dispersion of the capital (national/foreign) positively affects environmental reporting in the annual report. So we analyse also the status of the capital (public or private) and its dispersion (Romanian or foreign).

We propose a regression model of environmental reporting depending on shareholder structure: $F(EnvRep) = a_0 + a_1 * Family_INV + a_2 * Instit_INV + a_3 * Privat_INV + a_4 * Foreign_INV + a_5 * Manag_INV + a_6 * Board_INV$, where: a_0 – constant, EnvRep – environmental reporting, $a_1, a_2, a_3, a_4, a_5, a_6$ – equation coefficients, FamilyInv, Instit_INV, PrivateInv, Foreign_INV, Manag_INV, Board_INV represent the independent variables.

The regression model was analyzed using SPSS, version 17.00 and we apply the Stepwise method for determining the variable that could explain the variation of the environmental reporting in the case of Romanian companies. The results are presented in tables above.

Table 1. Environmental Reporting Model Summary

M	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin Watson
					R Square Change	F Change	df1	df2	Sig. Change	
2	.553 ^b	.306	.283	.22009	.046	4.047	1	61	.049	1.848

b. Predictors: The percentage of privat investors, The percentage of foreign investor;

Table 2. ANOVA test

Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	1.302	2	.651	13.435	.000 ^b
	Residual	2.955	61	.048		
	Total	4.256	63			

b. Predictors: The percentage of privat investors, The percentage of foreign investor

Table 3. Model coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.	VIF
		B	Std. Error	Beta				
2	(Constant)	1.384	.199			6.941	.000	
	Privat_INV	-.531	.105	-.552		-5.077	.000	1.039
	Foreign_INV	.062	.031	.219		2.012	.049	1.039

Analysing the results we can notice that the percentage of privat investors and the percentage of foreign investor are the only two independent variables that explains environmental reporting

variation. The model explains 30,6% from the environmental reporting variation (Sig. Coefficient is lower than 0.01, Anova test reflects F Coefficient of 13.435 and Durbin-Watson Coefficient is 1.848).

We can also notice that there is a negative correlation between the percentage of private investors and environmental reporting (the model coefficient is negative) so companies in which the percentage of shares held by state is higher report more environmental informations that companies with are controlled by private shareholders.

Foreign investors are positively correlated with environmental reporting (the model coefficient is positiv) and so companies in which the shares are held by foreign shareholders are more transparent and disclose more environmental informations. The collinearity diagnostics and the residuals statistics reflect the fact that there is no collinearity between independent variables so the model can be validated.

Conclusions

Although the specialized literature believes that, in the case of companies owned by the members of a family, there is no significant separation between the shareholders and the management, thus stopping voluntary information reporting to other shareholders we cannot find any correlation maybe because Bucharest Stock Exchange. Institutional investors do not affect the level of voluntary reported information in a relatively new market like Bucharest Stock Exchange. Also the percentage held by the executives or the percentage held by the board of director's does not have any effect on environmental disclosure.

From the point of view of the Romanian companies the presence of foreign shareholders help increasing transparency maybe because they are more expose to the public and maybe because foreign investors need more relevant information's regarding environmental performance. Foreign shareholders face more uncertainty because of "geographical separation of owners and management" and so managers are inclined to increase the environmental reporting for reducing information asymmetry among these shareholders. (Barako et al., 2006).

We also demonstrate that companies where the percentage of the shares owned by the state is higher report more on environmental aspects maybe because the state wants to give examples of good transparency. Because there is no legislation requiring companies in Romania, listed at the capital market to provide stakeholders separate reports or specific information relating to the environmental impact the state offer good examples of good ethics to private investors.

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Appendix 1. Values of the variables.

Simbol	EnvRep	Instit_INV	Privat_INV	Foreign_INV	Board_INV	Manag_INV	Family_INV
ARS	0,33	0,00	2,00	0,00	0,00	0,00	0,00
ALR	0,33	0,00	2,00	2,00	0,00	0,00	0,00
ALT	0,00	0,00	2,00	0,00	0,00	0,00	0,00
ALU	0,00	0,00	2,00	2,00	1,00	1,00	0,00
AMO	0,33	0,00	2,00	2,00	0,00	0,00	0,00
ATB	1,00	1,00	1,00	0,00	0,00	0,00	0,00
ARM	0,33	0,00	2,00	1,00	0,00	0,00	0,00
AZO	1,00	0,00	2,00	2,00	0,00	0,00	0,00
BRM	0,33	0,00	2,00	0,00	0,00	0,00	0,00
BIO	0,33	2,00	2,00	0,00	0,00	0,00	0,00
SPCU	0,00	0,00	2,00	0,00	0,00	0,00	0,00
TEL	1,00	1,00	1,00	0,00	0,00	0,00	0,00
CBC	0,33	1,00	2,00	0,00	0,00	0,00	0,00
BCM	0,33	2,00	2,00	0,00	0,00	0,00	0,00
CEON	0,33	1,00	2,00	0,00	0,00	0,00	0,00
CMCM	0,00	2,00	2,00	0,00	0,00	0,00	1,00
CMF	0,33	0,00	2,00	0,00	0,00	0,00	0,00
CMP	0,67	0,00	2,00	0,00	1,00	1,00	0,00
ENP	0,33	0,00	2,00	0,00	1,00	1,00	0,00
COFI	0,33	0,00	2,00	0,00	1,00	2,00	2,00
COMI	0,67	0,00	2,00	1,00	0,00	0,00	0,00
CGC	0,33	0,00	2,00	2,00	2,00	2,00	0,00
DAFR	0,33	0,00	2,00	0,00	1,00	2,00	1,00
ELJ	0,33	2,00	2,00	2,00	0,00	0,00	0,00
ELGS	0,33	2,00	2,00	2,00	0,00	0,00	0,00
ELMA	0,33	1,00	2,00	0,00	0,00	0,00	0,00
EPT	0,33	0,00	2,00	2,00	0,00	0,00	0,00
RMAH	0,33	0,00	2,00	2,00	2,00	0,00	0,00
ECT	0,33	0,00	2,00	0,00	2,00	0,00	0,00
IMP	0,67	0,00	2,00	1,00	1,00	1,00	0,00
MECF	0,33	2,00	2,00	1,00	0,00	0,00	0,00

COS	0,33	0,00	2,00	2,00	0,00	0,00	0,00
MEF	0,33	0,00	2,00	2,00	0,00	0,00	0,00
MJM	0,33	0,00	2,00	2,00	0,00	0,00	0,00
OIL	0,33	1,00	1,00	0,00	0,00	0,00	0,00
OLT	1,00	0,00	1,00	1,00	0,00	0,00	0,00
SNP	1,00	1,00	2,00	2,00	0,00	0,00	0,00
PEI	0,00	0,00	2,00	2,00	0,00	0,00	0,00
PREH	0,33	1,00	2,00	0,00	0,00	0,00	0,00
PPL	0,33	1,00	2,00	1,00	0,00	0,00	0,00
RTRA	0,33	0,00	2,00	0,00	0,00	0,00	0,00
ROCE	1,00	1,00	2,00	1,00	0,00	0,00	0,00
RRC	1,00	0,00	2,00	2,00	0,00	0,00	0,00
PTR	0,33	0,00	2,00	2,00	0,00	0,00	0,00
RPH	0,33	1,00	2,00	2,00	0,00	0,00	0,00
TGN	1,00	1,00	1,00	0,00	0,00	0,00	0,00
SNO	0,33	2,00	2,00	0,00	0,00	0,00	0,00
COTR	0,33	1,00	2,00	0,00	2,00	0,00	2,00
STZ	0,33	0,00	2,00	0,00	0,00	0,00	0,00
SRT	0,33	2,00	2,00	0,00	0,00	0,00	0,00
SOCP	0,33	0,00	2,00	0,00	0,00	0,00	0,00
ART	0,67	0,00	2,00	2,00	0,00	0,00	0,00
TRP	0,33	1,00	2,00	0,00	1,00	0,00	0,00
MPN	0,33	0,00	2,00	2,00	0,00	0,00	0,00
TBM	0,33	0,00	2,00	0,00	1,00	1,00	0,00
TUFE	0,33	2,00	2,00	0,00	0,00	0,00	0,00
EFO	0,33	2,00	2,00	0,00	0,00	0,00	0,00
UAM	0,33	0,00	2,00	0,00	1,00	0,00	1,00
UCM	0,33	0,00	2,00	2,00	0,00	0,00	0,00
YESY	0,33	0,00	2,00	0,00	0,00	0,00	0,00
APC	0,33	0,00	2,00	2,00	0,00	0,00	0,00
VNC	0,33	2,00	2,00	0,00	0,00	0,00	0,00
SCD	0,67	0,00	2,00	2,00	0,00	0,00	0,00
ZIM	0,33	0,00	2,00	1,00	0,00	0,00	0,00

For the independent variables I used the following notes: 0.00 = "lower than 10%"; 1.00 = "between 10% and 50%"; 2.00 = "higher than 50%"

A LONGITUDINAL ANALYSIS OF INTELLECTUAL CAPITAL

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The term intellectual capital has been appeared recently in economy being debated in literature since 90s playing an important role in the economic activity of an entity of nowadays. The emerging of the "new economy", mainly driven by information and knowledge, has been identified by the Organisation for Economic Cooperation and Development as the explanation lying at the base of the development of intellectual capital, a fundamental topic in business (Hornery, 1999). One way or another, intellectual capital plays a significant role in the economic, administrative, technological and social development of contemporary times, being difficult to quantify. Many researchers avoid defining intellectual capital, but consider it the basic value of an entity, as it contains non-financial and related information (Amir and Lev, 1996; Edvinsson and Malone, 1997; Stewart, 1997; Bontis, 2001). The purpose of our paper is to highlights the contributions of researchers in the field of intellectual capital as far as the published articles in the high quality journals are concerned. Our paper presents a quantitative research by performing, on one side, a content analysis of the prestigious international journals which include papers related to intellectual capital and, on the other side, a content analysis of those articles. The originality of the present article is represented by the personal contribution to the stage of knowledge in the field of intellectual capital by means of analyzing already existent researches in the field. The results of our analysis, demonstrate that the studies conducted until now are very few by comparison to the number it should have existed until now in the literature, which demonstrates that this field of research is still at its early stage.

Keywords: Literature Review, Intellectual Capital, Analysis, Journals, Articles

JEL Classification: M49

I. Introduction

In this sense, in the nineteenth and twentieth century's, were particularly noted the writings of the philosopher Karl Marx, the writings that have scored more than any other intellectual works of the modern age. Although these writings were criticized throughout history, Marxist theory is found in nowadays globalization which means that we are witnessing at the concentration of capital, at the creation of wealth only by industry, even at the upheaval of traditional societies.

In the context of society's development, human factor is very important although there are situations when it seems that the necessary prerequisites are missing in order to develop this factor in society. In the development of the communities and the society, these situations must be approached intelligently, investment in human factor (intellectual capital) being essential to ensure the sustainability of society.

In the classical theory of economics, capital is one of the three factors of production, in addition to land and labor, and refers in particular to buildings, equipment, machinery etc., used for the production of other goods (the term physical capital is also used by the specialized literature). The use of the term „*capital*” alongside with „*intellectual*” evidences the presence of such a capital, different from the financial and physical capital (Jianu and Brătianu 2007: 16). This concept („*intellectual capital*”) has been initially and soundly defined and argued by Thomas A. Stewart, one of the editors from the famous American *Fortune magazine*. According to him, intellectual capital is that intangible capital representing the sum of everything each employee knows to do in a company and which can be used for developing its competitiveness (Stewart 1997).

Therefore, in order to define intellectual capital we should start first with the definition for intangible assets. Intangible assets are considered a company's most criticized resources however most entities cannot define them in a clear and accurate manner (Andreou et al. 2007: 52). The literature indicates that there is a large range of definitions and terms which can be attributed

either to intangible assets or intellectual assets. For instance, a series of researchers define intellectual capital as the difference between the company's market value and its book value (Stewart 1997; Mouritsen et al. 2001), while others feel that the difference between the company's market value and its identifiable book value is represented by the "goodwill" which, in essence, is an intangible asset (Beaver 1998:78; Holthausen and Watts 2001:50). Therefore, we hereby evidence that there is presently no generally accepted definition associated with the concept of intellectual capital, due to the large number of existing definitions, presented from various perspectives and depending upon the areas of activity this capital operates within. The main objective of this paper is to evidence the current status of researches in the field of intellectual capital, and, as far as the research problematic is concerned, we will consider studying the literature presented within prestigious journals, acknowledged internationally.

II. Research design

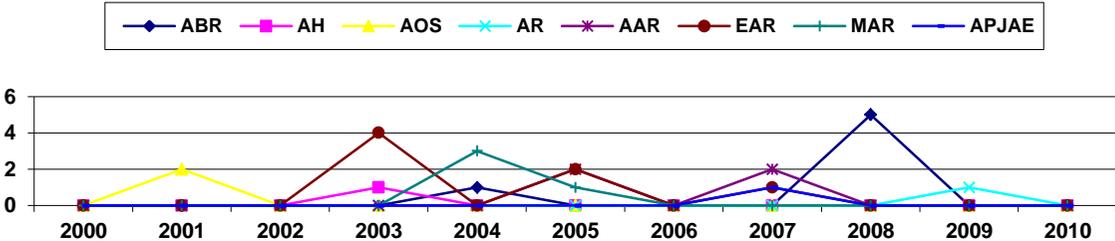
We have performed a quantitative study as part of this paper, thus analyzing the contents of the papers related to intellectual capital published in international journals included in Social Science Citation Index (ISI-rated journals): *Accounting and Business Research (ABR)*, *Accounting Horizons (AH)*, *Accounting, Organization & Society (AOS)*, *Accounting Review (AR)*, *Australian Accounting Review (AAR)*, *European Accounting Review (EAR)*, *Management Accounting Research (MAR)* and *Asia-Pacific Journal of Accounting and Economics (APJAE)*. Regarding this sample of ISI-rated journals, we have studied each journal separated and included in this study only those journals which include articles related to intellectual capital from 2000 to 2010. Thus, from a total of 18 ISI-rated accounting journals, only 8 (figure 2) of them have been containing articles on intellectual capital over the past 10 years.

The reason for choosing ISI-rated journals relates to the significance they have been given by the international academic community. Important research articles have been across time (especially during the past 10 years) in such journals by renowned researchers with a vast experience in the field of intellectual capital. These journals are considered important for the area of accounting research and for that matter we have as well deemed them to be relevant for our study.

III. Intellectual capital within literature

As far as our analysis in concerned, we state that the number of published articles in ISI-rated journals between the analyzed period is relatively low. The concerns of researchers in this field are not very many, maybe due to the fact that this subject is difficult to be developed and widely accepted in terms of definitions, structure, evaluation, recognition and reporting information related to it. Therefore, analyzing the published articles within high quality journals, we have obtained the following results:

Figure 1. The number of published articles in ISI-rated journals between 2000-2010



Source: accomplished by author

From the 8 ISI-rated journals taken into consideration, most articles have been published in the EAR (4 in 2003, 2 in 2005 and 1 in 2007) and the ABR (5 in 2008). There have been 3 articles published in the MAR during 2004 and 1 in 2005, and the remaining journals account for a single article throughout the entire analyzed period (2000 - 2010).

Furthermore, after we have established the articles related to our field of research, we have selected for analysis the following significant variables: the development of the conceptual framework (which is referring to definitions, classifications), theories, literature, type of research performed during the study and research trend.

Analyzing each article depending upon the chosen variables, we have reached the results as exposed in the below figure.

Table 1. The analysis of the articles existing in ISI-rated journals

Journals	Authors	Year	Conceptual framework		Theories	Literature	Type of research		Research trend	
			Definitions	Classifications			Quantitative	Qualitative	Positivist	Critic
ABR	Li	2008	x	x		x	x		x	
ABR	Singh & Van der Zahn	2008	x	x		x	x		x	
ABR	Ittner	2008				x		x	x	
ABR	Roslender	2008						x	x	x
ABR	Unerman <i>et al.</i>	2008						x	x	x
AH	Maines	2003	x	x				x	x	
AOS	Power	2001	x				x		x	
AOS	Mouritsen <i>et al.</i>	2001	x	x			x		x	
AR	Hógartaigh	2009						x	x	x
AAR	Ahmad & Abeysekera	2007	x	x		x	x		x	
AAR	Steenkamp & Northcott	2007				x	x			x
AAR	Petty & Cuganesan	2005	x	x		x	x		x	
AAR	Mouritsen <i>et al.</i>	2005	x	x			x		x	
EAR	Cerbioni & Parbonetti	2007	x	x		x	x		x	
EAR	Mora <i>et al.</i>	2005						x	x	x
EAR	García-Meca	2005	x	x	x	x	x		x	
EAR	Lev & Zambon	2003	x	x	x	x		x	x	
EAR	Chaminade & Roberts	2003	x	x	x			x	x	

Journals	Authors	Year	Conceptual framework		Theories	Literature	Type of research		Research trend	
			Definitions	Classifications			Quantitative	Qualitative	Positivistic	Critic
EAR	Habersam & Piber	2003	x	x	x		x	x		
EAR	Fincham & Roslender	2003	x	x	x	x	x			x
MAR	Mouritsen & Larsen	2005	x		x		x		x	
MAR	Chang & Birkett	2004	x				x		x	
MAR	Leitner & Warden	2004	x				x		x	
MAR	McNamara <i>et al.</i>	2004	x					x	x	
APJAE	Brander	2007	x		x		x		x	

Source: accomplished by author

From the performed analysis, we can see that the majority of articles develop the conceptual framework of intellectual capital providing definitions and classifications thereof. Thus, from the 26 analyzed articles, only 7 of them fail to mention definitions of intellectual capital, while 13 of them fail to make any classifications of the intellectual capital. This fact explains the increased interest of researchers towards theoretical approach to the detriment of the empirical approach. Also, theories connected to intellectual capital have been subject of debate only in 7 articles, accounting for 27% of the total analyzed studies. Quantitative approaches are predominant in the studies, but the qualitative ones also weigh consistently in the majority of studies and as far as the research trends are concerned, most articles are predominant of positivistic trend.

IV. Conclusions

The present analysis performed within the study provides us the opportunity to understand the existing international research level in relation with the intellectual capital, the significance given by researchers in this field and the degree of difficulty in developing this concept in the sphere of accounting. Simultaneously, this analysis help us in creating a landmark for these aspects which have not been discussed in depth across time, in determining the status of research on intellectual capital as of present times and in identifying possible aspects for future debate and thorough study.

As far as the intellectual capital research is concerned, we would like to state that it is poorly developed. Studies conducted until now are very few by comparison to the number it should have existed until now in the specialized literature, which demonstrates that this field of research is still at its early stage, as most studies approach general descriptive aspects.

V. References:

Articles:

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A STATISTICAL APPROACH OF PERCEPTIONS OF MASTER ACCOUNTANCY GRADUATES CONCERNING EARLY CAREER EXPERIENCES

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The article emphasizes aspects regarding the perceptions of master accountancy graduates concerning the chances to find an adequate job at graduation. These preoccupations are relatively recent in the academic studies. The student's expectations are often unrealistic, which causes problems to them and also to the private firms and organizations. From the empirical section results that the students' evaluations regarding their own opportunities to get a job modify as they advance in the programme. Even more, this evolution is influenced by employment during the studies and by the professional experience.

Keywords: higher education, master accountancy graduates, early career experiences

JEL classification: M40, M41

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I. Introduction

The present study is an empirical research intended to analyze the evolution of the perceptions students have regarding the educational programmes they are enrolled in. It is part of a much broader project whose main goal is to assess the quality of the educational process unfolded in the master programme of Audit and Management of Structural Funding at the Babes-Bolyai University. Previous results related to the subject have already been presented (Mare et al, 2011a; Mare et al, 2011b; Popa et al, 2011). These studies concerned a statically situation regarding the first year students. The partial unrolling of the second year of studies allows now for a comparison in the dynamic of some characteristics regarding the perception over the possibilities to find an employment after graduating the academic programme.

In order to achieve the goal of the present paper, the group of master students involved was monitored on their way through the educational programme. To do this, we have applied the same questionnaire in time, at the end of the first year of study and at the end of the first semester of the second year. We have based our research on the idea that if the master programme is efficient and the performance of the professors is good, the opinion of the students should

improve in time. This, because a high quality of an educational process should lead to high value added in the professional life of the students.

As the analysis has a high level of complexity, the paper presents partial results of the study.

II. Literature review

The academic preoccupations regarding the perception over the opportunities to find employment after graduating an academic programme are relatively recent. The application of some quantitative methods concerning the evaluation of this perception starts in the 1990s in the developed countries (Dykhoom and Sinning, 1996; Mangematin, 2000) and in the years 2000s in the emerging countries (Gao and Smyth, 2010, Pema and Mehay, 2010).

It is generally accepted that a student decides to follow a programme for superior qualification (master) in order to get a better job. But there is a gap between the students' expectations and the reality from the labor market. The expectations can often be unrealistic having as a consequence important problems at organizations' level (Phillips and Crain, 1996). The problems can be partially resolved by early employment, during the period of studies (Sellers and Fogarty, 2010).

In particular, in the accounting field, the professional environment imposes relatively strict forming requirements: "education for the accounting profession must produce graduates who have a broad array of skills and knowledge" (Big Eight Firms, 1989 p. 5). For the master graduates, the American Institute of Certified Public Accountants (AICPA) stipulates the main goal of the professional formation, respectively: "technically competent and who possesses the analytical abilities, communication and interpersonal skills, and cultural awareness that will enable them to serve the public in a complex and changing environment" (AICPA, 1992 p. 2).

By taking into account the binding aptitudes and the students' expectations, the organizations and private firms formulates particular aptitudes expected from the students (Mazni and Zamzulaila, 2006).

In this article, we demonstrate that the students' evaluations regarding the possibilities of employment are modified as they advance in the study programme. Furthermore, this evolution is influenced by employment during the period of the studies and by the professional practice.

III. Methodology

The questionnaire was applied on the 60 students enrolled now in the second year of the master programme, twice – once at the end of the first year of study and afterwards at the end of the first semester of the second year of study. Through the questions used, were assessed aspects that could draw a picture regarding the general opinion of the students in respect to the programme.

The present paper presents aspects related to:

- the most important consequence of the programme,
- the proportion in which the programme is considered to influence the finding of a job in the field,
- the status on the labour market.

Beside them, the original questionnaire contained questions regarding:

- the reason for enrolling in this master courses,
- the time considered as necessary to find a job in the field after graduating,
- the field of the bachelor degree,
- different average grades obtained at the end of the bachelor period, at the entrance exam, etc,
- demographic variables.

The data obtained was processed with the help of descriptive statistics, multidimensional data analysis and qualitative econometrics methods. Hereinafter are presented the descriptive results of the three aspects mentioned above.

IV. Results

Bearing in mind the purpose of the present paper, results will be presented further on comparatively, for each of the aspects assessed in the questionnaire.

The most important consequence of the programme was the first aspect evaluated in the questionnaire. As table 1 emphasizes, for the majority of the students, the most important consequence of being enrolled in this educational programme is improving the personal knowledge. However, one can see that opinions have slightly changed in time, the share of this group in the sample diminishing by more than 10%. Has increased the number of students considering that they will be able to obtain a job in accordance with their new qualification. Moreover, almost 4% of the student now estimate they will be able to get higher remuneration, while at the beginning of the analysis process, none of them had chosen this variant.

Table 1. Distribution of the students based on the most important consequence of master programme

	Percentages 1 st year	Percentages 2 nd year
Improving the personal knowledge	67.9	57.7
Getting a job in accordance with my new qualification	32.1	38.5
Obtaining higher remuneration	0.0	3.8
Total	100.0	100.0

Source: authors' calculus

Once with advancing in the study programme, the opinions also improved in what regards the degree in which the students will be able to find a job in the field. On a scale form 0% to 100%, we chose to group the answers into ten equal groups. After the first year (two semesters), the majority of the answers were situated in the range 50% - 60%. This group represented 25% of the answers. Moreover, 46.4% of the students gave values of maximum 50%. And only about 20% of the students considered the enrollment in this programme will help them find a job in the field in a higher degree. In comparison, after three semesters, at the middle of the second year of study, the mode group went up one range, being situated between 60% and 70%. The share of the modal group in the volume of the sample is 22.2%. The level of 50% is now the maximum value for less than 35% of the students. In the same time, this master programme will contribute to a higher extent to getting employed in the field for more than 25% of the students. Figures 1 and 2 present comparatively the results.

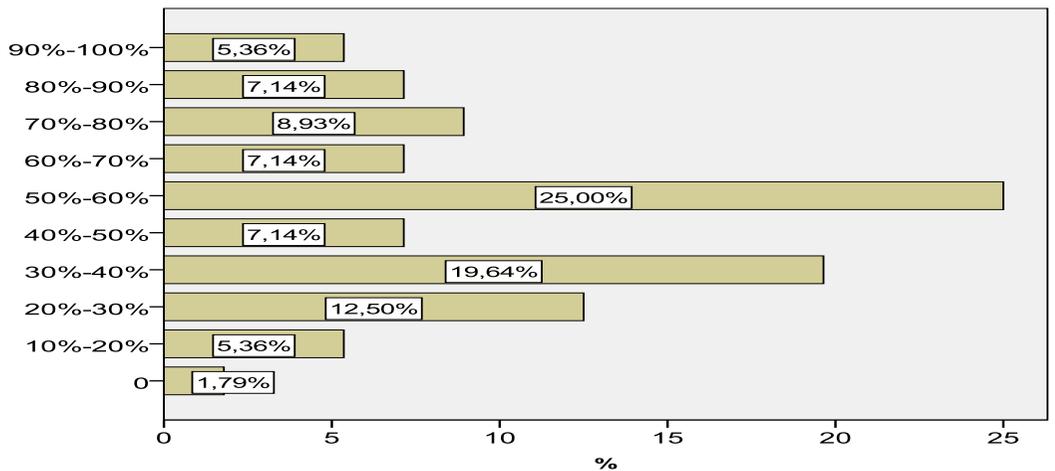


Figure 1. The degree in which the master programme will contribute to finding a job in the field – results after two semesters (1st year).

Source: authors' calculus.

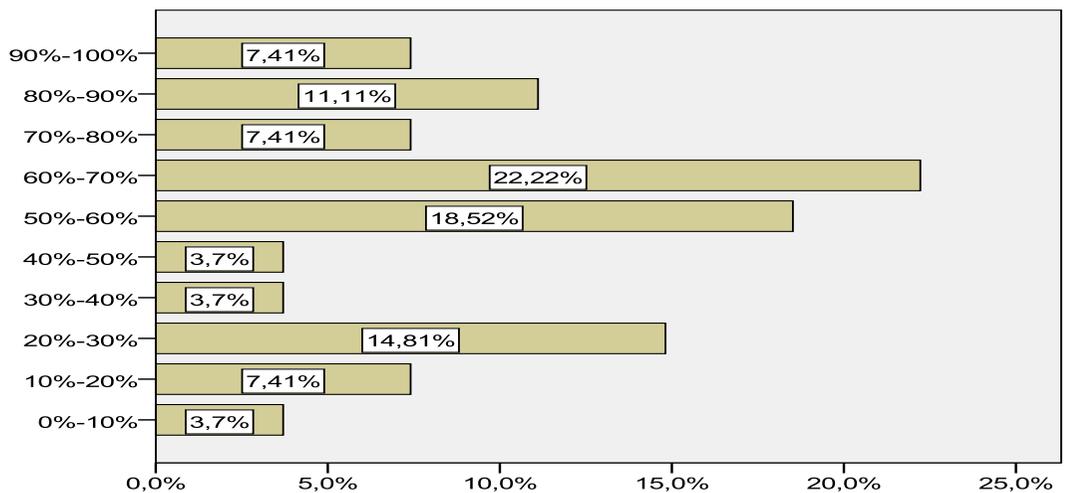


Figure 2. The degree in which the master programme will contribute to finding a job in the field – results after three semesters (2nd year).

Source: authors' calculus.

Table 2. Distribution of the students in accordance with their status on the labour market.

	% 1st year	% 2nd year
Not employed	33.33	25.93
Employed, but in other fields than accounting, audit, structural funds	22.81	11.11
Employed in accounting or audit, but not in the field of the master programme	28.07	29.63
Employed in the field of the master programme	15.79	33.33
Total	100.00	100.00

Source: authors' calculus

As the opinion about the contribution of the educational programme to finding a job in the field improved in time, we were also curious to see how the actual status of the students on the labour market evolved. The results show important changes that have occurred. For example, if at the beginning of the analysis one third of the students were not working anywhere, at the end of the studied period, the same share were now being employed in the specific field of the master programme. The percentage of the last group more than doubled, emphasizing a positive effect of the educational programme on the active life of the students on the labour market.

V. Conclusions

As the Results part shows, changes could be seen in the evolution of the perceptions students have related to the educational programme they are involved in. They are more aware about the importance of the new knowledge gained on the labour market. Moreover, the quality of the programme could be seen in the improvements in the students' employment status in relation with the field of interest.

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VALUE RELEVANCE OF GROUP FINANCIAL STATEMENTS BASED ON ENTITY VERSUS PARENT COMPANY THEORY: EVIDENCE FROM THE LARGEST THREE EUROPEAN CAPITAL MARKETS

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Financial statements' main objective is to give information on the financial position, performance and changes in financial position of the reporting entity, which is useful to investors and other users in making economic decisions. In order to be useful, financial information needs to be relevant to the decision-making process of users in general, and investors in particular. Regarding consolidated financial statements, the accounting theory knows four perspectives (theories) on which the preparation of those statements is based, namely, the proprietary theory, the parent company theory, the parent company extension theory and the entity theory (Baxter and Spinney, 1975). Of practical importance are especially the parent company extension perspective and the entity perspective. The IASB and FASB decided (within an ED regarding the Improvement of the Conceptual Framework) that consolidated financial statements should be presented from the perspective of the group entity, and not from the perspective of the parent-company. However, this support for the entity theory is to our knowledge not backed by empirical findings in the academic literature. Therefore, in our paper we set to contribute with empirical arguments to finding an actual answer to the question about the superior market value relevance of one of the two concurrent perspectives (theories). We set to carry out an empirical association study on the problem of market value relevance of consolidated financial statements based on the entity theory respectively on the parent company (extension) theory, searching for an answer to the above question. In this sense, we pursued an analysis of market value relevance of consolidated accounting information (based on the two perspectives) of listed entities between 2003-2008 on the largest three European Stock Exchanges (London, Paris and Frankfurt). The obtained results showed that a „restrained” entity perspective, which would combine elements of entity theory (by focusing on the whole group equity) and elements of parent company extension theory (by focusing on income corresponding to majority interest), would have a superior relevance compared to the classical versions of the two mentioned perspectives.

Keywords: Consolidated Financial Statements, Entity Theory, Parent Company Theory, European Capital Market, Market Value Relevance

JEL Classification: M40, M41

I. Introduction and Literature Review

Financial statements' main objective is to give information on the financial position, performance and changes in financial position of the reporting entity, which is useful to a wide range of users in making economic decisions. In order to be useful, financial information must be relevant to the decision-making process of users in general, and investors in particular, meaning that it must have the capacity to influence their economic decisions. In fact, relevance constitutes one of the main characteristics of financial information quality (Francis et al. 2004: 968). Moreover, in the revised Conceptual framework (2010), IASB named relevance and faithful representation as the two fundamental qualitative characteristics of financial information (QC5). Therefore, in order to make assessments on the quality of information of financial statements, it is absolutely necessary to quantify this relevance (capacity to influence) of financial information.

An appropriate environment to perform such a measurement is the capital market, where investors' decisions (as users of financial information) are reflected directly in the share price of the reporting entity. In this context, market value relevance is measured by the ability of financial

information to capture or summarize information that influences share prices (Francis and Schipper 1999: 325). According to the same authors market value relevance means the existence of a statistical correlation/association between financial information and prices or returns, and also the fact that this information explains market prices to an extensive measure, starting from the presumption of the efficient market in which prices reflect the available information (Francis & Schipper 1999: 326).

Regarding consolidated financial statements, the accounting theory knows four perspectives (theories) which the preparation of those statements is based upon, namely, the proprietary theory, the parent company theory, the parent company extension theory (which is an improved parent company theory) and the entity theory (Baxter and Spinney, 1975). Of practical importance are especially the parent company extension perspective and the entity perspective (theory). While the entity theory presents assets, liabilities and transactions from the perspective of the whole group as an economic entity, the parent company (extension) theory focuses on assets, liabilities and transactions (only) from the perspective of the parent company and its shareholders (Küting and Weber, 2006).

Within the exposure draft (for phase A) regarding the improvement of the Conceptual Framework – entitled „Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information”, the IASB and FASB decided that consolidated financial statements should be presented from the perspective of the group entity, and not from the perspective of the (owners) parent-company. However, this support for the entity theory is to our knowledge not backed by empirical findings in the academic literature. Topics regarding group financial statements have been approached by several authors within the last two decades (e.g. Harris et al., 1994, Niskanen et al. 1998, Abad et al. 2000, Goncharov et al., 2009, Müller, 2011 – which investigate the relevance of consolidated financial statements as compared to individual financial statements; Bartov et. al, 2005, Jermakowicz et al., 2007, Barth et al., 2007, Lin and Paananen, 2007 – which investigate the impact of IFRS adoption on consolidated financial statements). However, from what we know, the topic regarding the influence of accounting theories on the value relevance of consolidated financial statements was tackled empirically only by Abad et al. (2000). In that reference paper, however, statistical evidence based on a sample of Spanish firms listed on the Madrid Stock Exchange shows that (from the point of view of market value relevance) closeness to the entity theory is not justifiable. Therefore, in our study we set to contribute with empirical arguments to finding an actual answer to the question about the superior market value relevance of one of the two concurrent perspectives (theories).

Considering all these aspects, we set to carry out an empirical association study on the problem of market value relevance of consolidated financial statements based on the entity theory respectively on the parent company (extension) theory, searching for an answer to the above question. In this sense, we pursued an analysis of market value relevance of consolidated accounting information (based on the two perspectives) of listed entities between 2003-2008 on the largest three European Stock Exchanges (London, Paris and Frankfurt).

II. Research Methodology

In this empirical research we pursued the analysis of market value relevance of consolidated accounting information on companies listed on the largest three European stock markets (London Stock Exchange, Paris Stock Exchange and Frankfurt Stock Exchange) in 2003-2008. The main criteria for the selection of companies is the belonging to the main index which includes the first 100 of the largest and most traded companies on that particular stock exchange (FTSE 100, EURONEXT100, HDAX 110). We excluded financial and insurance companies from the sample because their structure and accounting practices differ significantly from those of non-financial companies (Hellström, 2006: 335). As well, to eliminate composition differences of the sample

from one year to the other (which would affect comparability of results in time), we excluded companies that have not been listed on the stock exchange for the whole analyzed period. At the same time, to increase the homogeneity of the sample and to use the same time span (31.03 – 30.04) to determine average share price, companies with closing dates different from 31.12 were excluded. Therefore, after going through these steps, the final sample is made up of 98 companies, respectively 588 firm-year observations. We computed average closing share prices for 31.03 – 30.04 of each year, thus neutralizing possible daily fluctuations of the prices, caused by factors that are not linked to the financial information published in the annual reports.

For the purpose of this study, we formulated the following hypothesis concerning the comparison of the value relevance between entity theory based and parent company extension theory based consolidated financial statements:

Information supplied by consolidated financial statements in the view of entity theory are more relevant (market value relevance) than information supplied by consolidated financial statements in the view of parent company extension theory.

In order to compare the value relevance of information supplied by consolidated financial statements based on the entity theory respectively on the parent company theory, the following empirical models were elaborated:

$$\text{Model 1: } Pit = \alpha_0 + \alpha_1 * BVit + \alpha_2 * Eit + \epsilon_{it} \quad (1)$$

$$\text{Model 1: } Pit = \alpha_0 + \alpha_1 * CiBVit + \alpha_2 * CiEit + \epsilon_{it} \quad (2)$$

Where

Pit	=	share price of company i in year t
BVit	=	book value of group equity/share of company i in year t
Eit	=	group earnings (net income)/share of company i in year t
CiBVit	=	book value of group equity related to the controlling interest/share of company i in year t
CiEit	=	group earnings related to the controlling interest /share of company i in year t

This models measure the degree of association between share price and accounting information supplied by financial statements (equity and net income). The basis for this models is the Ohlson (1995) valuation model, which expresses share price as a function of current accounting value of equity plus discounted value of future (abnormal) results.

We statistically measured the explanation power of these models quantified by adjusted R². Confirming the first hypothesis assumes that explanatory power of model 1 (based on the entity theory) is superior to the explanatory power of model 1 (based on the parent company theory).

III. Results

To test the hypothesis we compared the explanatory power of model 1, as exponent of entity theory and model 2, as exponent of parent company theory (Table no. 1). While the explanatory variables of model 1 refer to group financial information (based on the entity theory), the variables in model 2 present financial information referring only to the controlling interest in the group (i.e. based on the parent company theory).

Table no. 1: Empirical results for regression models 1 și 2

Period/ Sample	Characteristics MODEL 1					Characteristics MODEL 1					
		Const.	Bv	E	F	Adj. R ²	Const.	CiBV	CiE	F	Adj. R ²
2003-2008 n= 548	Alfa	12.634	0.578	3.802			11.542	0.679	4.269		
	t	11.504***	9.185***	10.252***	507.106	66.30 %	10.336***	10.073***	10.851***	517.882	66.90 %
	VIF	-	2.959	2.959			-	2.645	2.645		
2003 n= 88	Alfa	10.071	0.492	3.465			10.227	0.562	3.473		
	t	5.327***	3.996***	3.317***	69.862	64.70 %	4.990***	3.804***	2.957***	57.826	60.60 %
	VIF	-	2.887	2.887			-	2.803	2.803		
2004 n= 86	Alfa	11.815	0.443	3.237			11.379	0.442	4.063		
	t	6.022***	3.808***	4.517***	79.142	65.90 %	5.536***	3.296***	4.759***	75.284	65.30 %
	VIF	-	2.562	2.562			-	2.59	2.59		
2005 n= 88	Alfa	14.827	0.958	1.98			14.186	1.008	2.643		
	t	5.649***	5.984***	2.140**	95.703	69.00 %	5.096***	5.700***	2.568**	85.703	66.60 %
	VIF	-	3.113	3.113			-	2.746	2.746		
2006 n= 84	Alfa	16.339	0.856	4.418			13.877	0.835	6.526		
	t	6.252***	4.62***	3.638***	156.771	79.40 %	5.234***	4.335***	4.868***	165.147	80.20 %
	VIF	-	4.858	4.858			-	4.165	4.165		
2007 n= 87	Alfa	13.269	0.346	6.237			12.178	0.546	6.17		
	t	4.771***	1.953**	5.922***	121.515	74.20 %	4.659***	3.136***	6.155***	145.668	77.50 %
	VIF	-	4.118	4.118			-	3.617	3.617		
2008 n= 89	Alfa	10.508	0.198	3.877			9	0.301	4.409		
	t	6.258***	1.981**	7.269***	147.698	77.90 %	5.178***	2.806***	8.081***	151.391	78.40 %
	VIF	-	3.634	3.634			-	2.767	2.767		

*** significant at 0.001; ** significant at 0.01; * significant at 0.05; . significant at 0.1

Made by the author

The comparative analysis of the empirical results obtained for the two regression models (Table no. 1) reveals, for the whole sample, a minor difference (of 0,6%) in favour of model 2. By doing this comparison for each year, one can notice a fluctuation in the difference between the explanatory power of the two models, between 4,1% (in favour of model 1) and 3,3% (in favour of model 2). Obviously, these preliminary results (for the analysed complete sample and sub-samples) refute the hypothesis of superior relevance of information provided by consolidated financial statements from the point of view of entity theory.

Table no. 2: Empirical results regarding the difference of relevance between models 1 and 2

	2003	2004	2005	2006	2007	2008	2003-2008
Adj. R ² Model 1 Ent.T	64.70%	65.90%	69.00%	79.40%	74.20%	77.90%	66.30%
Adj. R ² Model 2 PaCo.T	60.60%	65.30%	66.60%	80.20%	77.50%	78.40%	66.90%
Δ Adj. R ² (M1-M2)	4.10%	0.60%	2.40%	-0.80%	-3.30%	-0.50%	-0.60%

Made by the author

Trying to obtain more conclusive results, we applied the two regressions to a smaller sample (n=85), composed only from those observations for which the weight of non-controlling interest in group equity is at least 10% (or in other words, the difference between group equity and the equity corresponding to controlling interest is more than 10%). The results of this analysis (Table no. 3) reveal a slight superiority of the power of explanation of model 2 as opposed to model 1. All these empirical evidence finally lead to refuting the fifth hypothesis regarding the superiority of consolidated information from the point of view of entity theory.

Table no. 3: Empirical results for models 1 și 2 applied on the reduced sample

Period/ Sample	Characteristics	MODEL 1 (reduced sample)					Adj. R ²	MODEL 2 (reduced sample)				
		Const.	Bv	E	F	Const.		CiBv	CiE	F	Adj. R ²	
2003-2008 n= 85	Alfa	14.572	0.377	3.843				15.26	0.496	5.047		
	t	4.881***	3.139**	5.693***	125.712	76.20		5.171***	3.353***	6.454***	130.034	76.80%
	VIF	-	3.472	3.472				-	2.952	2.952		

*** significant at 0.001; ** significant at 0.01

Made by the author

The very tight results obtained for the two empirical models, as well as the slightly higher correlation of share price to group equity and controlling interest earnings, determined us to investigate the market value relevance of a restricted entity theory, based on group equity – as synthetic measure of the economic power of the group (conferred by total assets and liabilities controlled directly or indirectly by the parent company) and respectively on earnings corresponding to the controlling interest – as measure of group performance corresponding to parent company shareholders. This restricted entity theory would combine, therefore, entity perspective (by focusing on the whole group equity) and parent company perspective (by focusing on earnings corresponding to majority interest). Therefore, this econometric model developed to measure market value relevance of restricted entity theory (equation 3) includes as independent variables group equity/share and group earnings corresponding to controlling interest/share, this last variable actually being the well-known earnings per share (EPS).

$$\text{Model 3: } Pit = a0 + a1 * BVit + a2 * CiEit + \varepsilon it \quad (3)$$

By comparing the obtained empirical results for this model (Table no. 4), applied for the whole sample, as well as for the restricted sample, with the results of models 1 and 2, one can notice the superiority of explanatory power of model 3. This is more marked when applying the model on the restricted sample, in which case the explanatory power of model 7 is with 2,4% higher than model 2, respectively with 3% more than model 1. Considering these results, we conclude that for the (analysed) capital market, consolidated financial statements perceived through the restricted entity theory (as it was defined above) present a superior relevance as opposed to the same statements perceived through entity theory, respectively through parent company theory.

Table no. 4: Empirical results for regression model 3

Period / Sample	Characteristics MODEL 3					
	Const.	Bv	CiE	F	Adj. R ²	
2003-2008 n= 548	Alfa	11.836	0.604	4.282		
	t	10.866***	10.584***	11.277***	532.828	67.50%
	VIF	-	2.511	2.511		
2003-2008 n= 85	Alfa	13.858	0.441	4.735		
	t	4.976***	4.625***	6.944***	149.588	79.20%
	VIF	-	2.506	2.506		

*** significant at 0.001

Made by the author

IV. Conclusions

In this study we statistically compared the entity theory and parent company (extension) theory through the point of view of the value relevance of consolidated financial statements. The developed hypothesis regarding the superiority of entity theory (inspired by the joint decision of IASB and FASB to prescribe presenting consolidated statements from the perspective of the group entity) was statistically refuted. This conclusion is, as a matter of fact, in accordance with the empirical results obtained by Abad et al. (2000), according to which there is no justification

(from the point of view of market value relevance) for a conceptual closeness to entity theory. In our study we showed, however, that a „restrained” entity perspective, which would combine elements of entity theory (by focusing on the whole group equity) and elements of parent company extension theory (by focusing on income corresponding to majority interest), would have a superior relevance compared to the classical versions of the two mentioned perspectives. In the end, some aspects regarding the limitations of this study should be mentioned, as well as the perspectives of future empirical research. First, it is possible to raise the problem of sample representativeness (and implicitly of the results obtained) for the German capital markets. In this respect, future research could extend the analysis (and the sample) to other capital markets in Europe, as well as to companies that are not included in the main index of the stock market they are listed on. Second, the obtained results are based only on testing linear price level regression models. Future research could employ nonlinear models, for example logarithmic models (see Hellström, 2006) respectively return regression models (see Bartov et al. 2005). And third, the present study investigates relevance and therefore usefulness for decision making of consolidated financial statements only from the point of view of the investors on capital market. So, a future research theme less approached until now (see Goncharov et al. 2009) would be to investigate the relevance of financial statements from the perspective of other categories of users (for example financial institutions in their role as creditors).

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ASPECTS OF COMPANY PERFORMANCE ANALYSIS BASED ON RELEVANT FINANCIAL INFORMATION AND NONFINANCIAL INFORMATION

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The main objective of our work is the conceptual description of the performance of an economic entity in financial and non-financial terms. During our approach we have shown that it is not sufficient to analyze the performance of a company only in financial terms as the performance reflected in financial reports sometimes do not coincide with the real situation of the company. In this case the cause of the differences has to be found among the influences of other nonfinancial information. Mainly following the great financial scandals the distrust in the reliability of financial-accounting information has eroded strongly and thus the business performance measurement cannot be the exclusive domain of the criteria of financial analysis, but must be done in a comprehensive way, based both on financial criteria and on non-financial ones (intangible assets, social responsibility of the company). Using non-financial criteria have led to the occurrence of new types of analysis, namely extra-financial analysis. Thus, enterprise performance is not subject to material and financial resources managed and controlled by the entities, but to the complex of intangible resources that companies created by thier previous work. The extra-financial analysis has to face difficulties arising mainly from the existence of non-financial indicators very little normalized, and from the lack of uniformity of the practice in the field. In determining the extra-financial performance indicators one has to observe the manifestation and the evolution of the company's relationships with its partners / environment. In order to analyze the performance measurement by financial and nonfinancial indicators we chose as a case study a company in Bihor county, listed on Bucharest Stock Exchange. The results of our study show that the Romanian entities are increasingly interested in measuring performance and after the extra-financial analysis we concluded that the company had set targets appropriate for adopting a responsible behavior, aimed at a sustainable development of the entity.

Keywords: accounting information, relevance, performance, financial information, non-financial information.

JEL codes: M41, M21.

Introduction

In the socio-economic space in which it operates, an economic entity must constantly prove its economic and financial performance. The results of the enterprise's performance analysis process depend on quality, quantity, timeliness and accuracy of information used in the analytical work. Thus, in order to be useful the accounting information must comply with all requirements relating to content and type of presentation in the annual financial statements. Sometimes the performance reflected in financial statements does not coincide with the real situation of the company. In this case the cause of the differences must be found in the influences of other "nonfinancial" information.

Research methodology

This paper aims to support *the hypothesis* that accounting information that is relevant, reliable, and available in real time, completed with non-financial information, is an appropriate source for assessing the company's performance.

In the process of drafting this paper, we have followed the next steps:

- -*Choosing the subject of the research and establishing the significance of the problem;*
- -*Documentation, by resorting to the international and domestic accounting literature regarding our research topic;*
- -*Defining the research questions: the purpose of this research is to answer a series of timely questions of great economic interest and related to the main hypothesis:*

Q1: Is the accounting information an appropriate source in assessing performance of an enterprise?

Q2: What are the quality features that accounting information must meet in order to be a relevant source for the performance analysis?

Q3: How does the nonfinancial information influence the assessment of the enterprise's performance?

- *Choosing the data collecting methods and techniques;*
- *Data analysis and data interpretation.*

Relevance of accounting information in assessing company performance

According to the local accounting regulations (OMFP 3055/2009), *qualitative characteristics* are "attributes that determine the usefulness of information provided by financial statements". The four principal qualitative characteristics are *understandability, relevance, reliability and comparability* (OMFP 3055/2009: Section 2.2.).

In the IASB's view the fundamental qualitative characteristics of accounting information are: *relevance, materiality and credibility*, and the characteristics relating to the presentation manner of accounting information are: *comparability, verifiability, timeliness, understandability* (IASB 2010).

According to the definition in the national legislation, the information is **relevant** when it influences the economic decisions of users, helping them to evaluate the past, present or future events, to confirm or correct their previous evaluations (OMFP 3055/2009: section 2.2.). The relevance of information is influenced by its nature and its significance level. According to the 2010 conceptual framework developed by the IASB to meet the requirement of relevancy, the information should have predictive value and confirmatory value, i.e. to provide an adequate basis of forecasts and to confirm previous forecasts, which of course are interrelated aspects (IASB 2010, QC6-QC10).

Another essential characteristic of the accounting information is **reliability**. In the view of OMFP no. 3055/2009, but also in the IASB's view, the information is reliable when it does not contain significant errors, it is not biased and users can be confident that it accurately represents what it is bound to represent or what they expect, reasonably, to represent. Credibility supposes: accurate representation, consistency with economic reality, neutrality, i.e. independence from influences and completeness. Comparability, verifiability, timeliness and understandability are quality features of form that improve the utility of the information which is represented in a relevant and credible way (IASB 2010, QC19).

The influence of the accounting information disclosure on the stock market price

The conceptual framework for financial reporting developed by the IASB in 2010 states that the **overall objective** of financial reporting is to provide useful financial information about the entity to current and potential investors and also to creditors in making decisions on the distribution of the financial resources (IASB 2010, QB2). The current and the potential investors are those users

of accounting information contained in financial reports that are interested in the entity's future ability to make profit. These investors want to foresee the future dividends and the further changes in the market price of the company's stock (Moscviciov, 2011: 48). Dividends and prices are largely influenced by the profit, therefore the investors may seek to anticipate these results. Negative news on the performance has a negative impact on share price quoted at the stock exchange and on human resources, thus the managers try to avoid publishing negative results on performance. Therefore a regular publication of financial results and especially of financial performance has a positive impact on the public and especially on the investors (Brown, Pinello, 2007: 23).

In this sense accounting communication is defined as a means of expression, which is characterized by a message and a code, in which the recipient must have the ability to decode the message (Durand, 1981:58-59). The information provided by financial statements must be adapted and processed in the financial and economic analysis in accordance with the objectives targeted, so that it can be easily understood by the users of information.

For the companies quoted at the stock exchange it is recommended to calculate and analyse specific indicators, such as: (Niculescu, 2003: 226-227).

- **EPS (Earnings Per Share)** – represents the earnings per each share owned, the part of the result that comes from each share owned, calculated as a ratio between net income and the average number of shares. This indicator is particularly useful for the individual shareholder interested in the part of the result that is due to him.
- **SMV (Stock market value)** – indicator that reveals latent capital gains or losses compared to the book value, determining it as the product between the number of shares and the price of a share.
- **MVA (Market Value Added)** – is the added value that the entity created as function of the amount of the initial capital invested, quantifying the impact of a managerial decision on both current and future performance. It is determined as the difference between the market value of equity and the book value of the equity or as the difference between the stock market value and the shareholders' contribution to the capital.
- **PER (Price Earning Ratio)** – the market capitalization ratio, shows the number of years needed to recover the invested capital in the case of full distribution of net profit as dividends, determining it as the ratio of the stock price and the earnings per share of the action or the ratio between stock market value and the result of the exercise (Vâlceanu, Robu, Georgescu, 2005: 58-59).
- **P/BV (price to book value)** – is the ratio of the market price of shares and their book value. We can say that if P/BV is higher than 1, the entity created value for shareholder, while if P/BV is less than 1 the entity destroyed a part of the value that shareholders have brought.
- **DPS (Dividend per Share)** – expresses the short term profitability of the shares, determining it as the ratio of the distributed dividend and the number of shares (Bușe, 2005: 300).

The non-financial information and the performance analysis

The suite of financial scandals (bankruptcy of Enron, WorldCom, Parmalat) led to the distrust in the reliability of financial - accounting information, which doesn't cover all the aspects of performance. Therefore the measurement of the enterprise's performance cannot be the exclusive domain of financial analysis criteria, but must be done in a comprehensive way, based both on **financial criteria** and **nonfinancial** ones (**intangible assets, social responsibility of the company**).

The use of non-financial criteria has led to the appearance of new types of analysis, known as **extra-financial analysis**. Thus, enterprise performance is no longer conditioned by material and financial resources managed and controlled by the entities, but by a complex of **intangible resources** created by the previous activity of the companies (Mironiuc, 2009: 154-155). The

setting up of the extra-financial analysis confronts with difficulties arising mainly from the existence of *non-financial indicators very little normalized*, and from the lack of uniformity of practice in the field.

The phrase *responsible behaviour of multinational companies* lies in their involvement in the development of policies of environmental protection and employees' rights within the developing countries. The most advanced initiative towards a credible reporting system of sustainable development - based on non-financial criteria - is the *Global Reporting Initiative (GRI)* launched in 1997 by an American NGO. This has the merit of developing the following performance indicators: *Indicators of economic, environmental, social performance*. In determining the extra-financial performance indicators it is observed the expression, the evolution of the enterprise's relations with its business partners / "surrounding" environment (internal and external) (Mironiuc, 2009: 153-160).

Through these types of analysis (financial and non-financial) numerous aspects and causes can be found that generate deviations between market value and economic value of a company (Mironiuc, 2009: 151.)

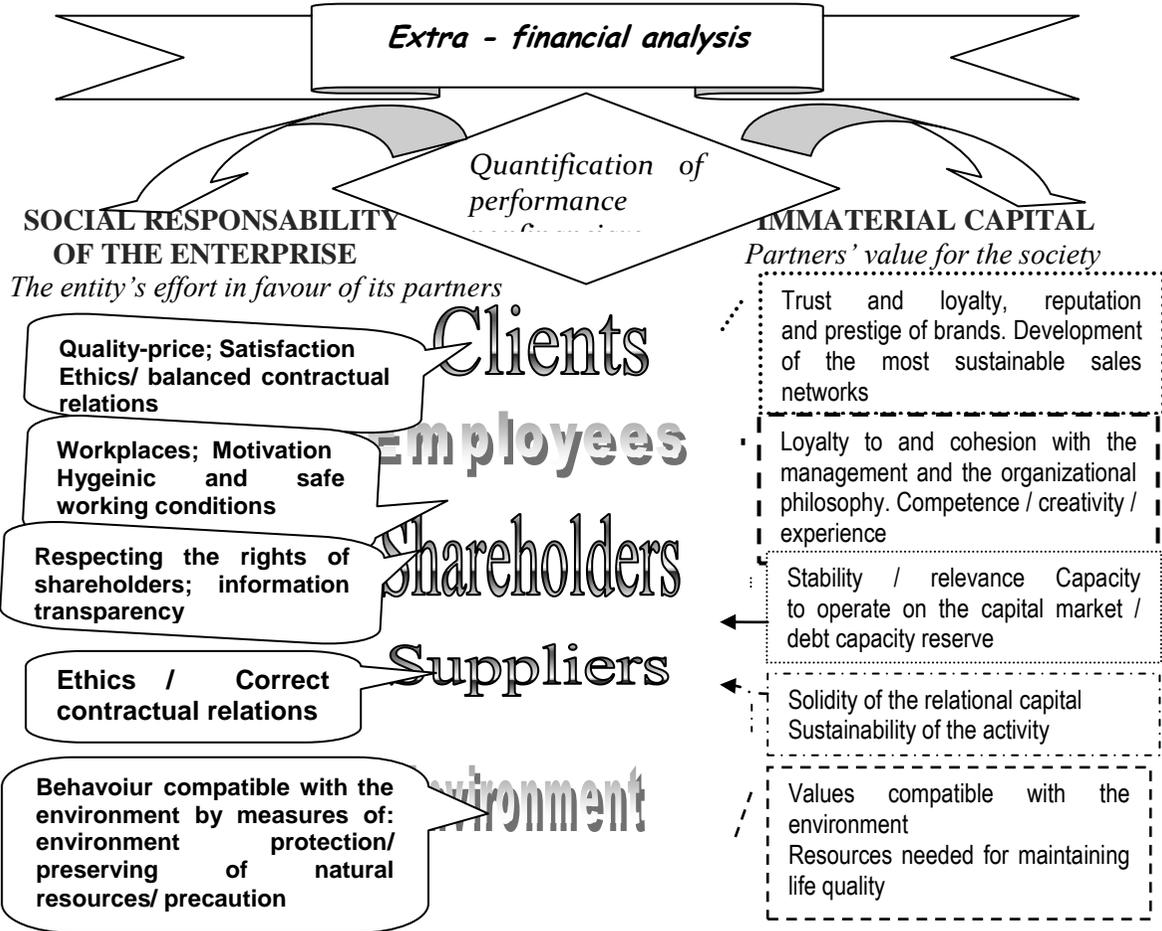


Figure 1 Performance from the point of view of the relation with stakeholders
(Authors' adaptation after Mironiuc M., 2009, p. 157)

To demonstrate those presented theoretically above, we chose to analyze these indicators based on information from the financial situations of SC Sinteza SA, a company in Bihor county, listed on Bucharest Stock Exchange.

Assessment of the performance of the company Sinteza SA reflected by stock market indicators

Table 1. Main stock market indicators of Sinteza SA.

Indicator	Calculating formula	Value in 2011-2012
Dividend paid		0
Number of shares (N)		66 112 590
Social capital		9 916 888.50
Nominal value (VN)	Social capital /N	0.15 Ron
Book value (BV)	Equity/N	2.54 Ron
Current share price (P)	Demand-Supply	0.487 Ron
SMV - Stock market value (Capitalization)	P x N	32 196 831.33
MVA - market value added	Stock market value - Initial invested capital	15 470 346.5
P/BV Price to book value	P/BV	0.19
DPS Dividend per share	Dividend paid /N	0
EPS – Earnings per share	Result/N	-0.02

(source of values: <http://www.bvb.ro/ListedCompanies/SecurityDetail.aspx?s=STZ>)

In 2011 the company Sinteza SA did not distribute dividends, because the 2011 result is loss. This negative aspect is reflected also by the *market price of shares* (0.384 Ron), that exceeds their nominal value (0.15 Ron), but is well below their *book value* (2.54 Ron).

The *market value added (MVA)* indicator characterizes the wealth the company released to its shareholders, totaling over 15 million RON.

Price to book value ratio P/BV is less than 1, so we can say that the company destroyed a part of the value that shareholders had brought, so the amount that investors would be willing to pay in the market for shares is less than the amount that shareholders would receive from the liquidation of assets. The indicator records the value of 0.15, i.e. the market price of the shares represented only 15% of the book value, a low percentage in comparison to the average indicator in the manufacturing sector, which is 0.99, i.e. 99% (source www.bvb.ro).

The negative value of the *earnings per share (EPS)* is due to the loss recorded in 2011, which is also a signal of a poor performance.

Therefore we can say that the stock market indicators reflect a low performance of the company.

Performance analysis using non-financial information

In the extrafinancial analysis of the performance of the company Sinteza SA we have established as a basis for assessment its responsible behaviour. The information posted on the www.sinteza.ro website shows the importance of performance considering economic, environmental and social aspects.

In terms of **economic and environmental policy's performance** the company Sinteza SA seeks the following objectives:

- obtaining profit as long as it does not produce a major impact on the environment;
- minimization of losses of raw materials and resources;
- pollution prevention in the company;
- compliance with environmental laws and regulations;

- the company has obtained all permits and authorizations required by legislation.

As for the **social aspect** the performance of the activity appears in:

- assurance of products' quality in accordance with customers' requirements;
- emphasis on health and safety of staff based on training and learning.

In order to achieve a high level of performance of the activity the company has in view the implementation and preservation of a Quality Management System according to SR EN ISO 9001:2001 which is an appropriate organizational framework to achieve the quality policy and objectives.

Conclusions

Following the theoretical and empirical research we can support the validity of the main hypothesis, that the relevant accounting information presented in the profit and loss account and cash flow statement is an adequate source for assessing company performance and may be influenced by non-financial information.

The conclusions of the performance analysis for the company Sinteza SA are as follows:

- The values recorded for the *stock market indicators* confirm the situation presented in the financial statements and reflect a poor performance and the non-financial information has little and occasional influence on their evolution.
- From the *extra-financial analysis* we concluded that the company has set appropriate targets corresponding to a responsible behaviour, aimed at a sustainable development of the entity.

In our opinion the assessment of the performance of an enterprise is the result of a process of complex analysis, in which we must take into account the most relevant information sources.

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IS GRATUITOUSNESS A REASON FOR JOINING AN EDUCATIONAL MASTER PROGRAMME IN AUDIT? SURVEY EVIDENCE USING STATISTICAL METHODS

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The study shows the reasons taken into account by the students in choosing an academic preparation. Free courses and employment opportunities during or after graduation are the most important advantages students expect to receive from an educational program that aims to follow. The empirical section results emphasize the efficiency and performance of the master program financed by the European Social Fund.

Keywords: student employment, free courses, European Social Fund

JEL classification: I21, I23

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I. Introduction

Preparing students requires a specific attention as they are closest to the time of their entry on the labour market. Practice has demonstrated there is a serious discrepancy between the students' preparation and the requirements in practice that students must meet (Nistor et al, 2011). The masters program we propose aims to achieve an effective collaboration between the academic and practical fields in order to increase graduates' chances of finding a job. The program study is organized and financed from the European Social Funds and the courses are free.

The empirical study conducted by us intended to analyze the evolution of the perceptions students have regarding the employment opportunities offered by this program and the benefits of its gratuitousness. Our research involved applying the same questionnaire in two consecutive years in order to observe how the students' opinion regarding the two advantages of the master program has changed. The results of the study are intended to emphasize the efficiency and performance of the master program.

As the analysis has a high level of complexity, the paper presents partial results of the study meant to put into light the above mentioned ideas.

II. Overview

The university education system is responsible with the preparation of the future practitioners who will occupy the vacancies on the labor market. Although requirements are constantly changing due to the increasing complexity of the economic, financial and social context, the academic preparation of the students do not fully meet the professional needs in practice. The master program “Audit and financial management of the European funds” financed by the European Social Funds, aims to form specialists in writing, implementing and monitoring the European projects. The benefits of the program include free courses and specialized theoretical and practical training in the European funds leading to increased employment opportunities.

The role of academic preparation in finding a job is a recent subject of the educational studies. Many researches demonstrated that there is a correlation between students’ or graduates’ employment and their academic preparation (Watts and Pickering, 2000; Riggert et al. 2006; etc). Moreover, there are studies that reveal the fact that during their education many students choose to work because following an academic preparation involves many expenses (Bozick, 2007; Roksa and Velez, 2012).

Our study shows the importance of free courses or employment opportunities in choosing a master program.

III. Methodology

The aspects presented in this paper deal with:

- the reason for enrolling in this master courses,
- the time considered as necessary to find a job in the field after graduating,
- the field of the bachelor degree,

In the original questionnaire where also assessed aspects related to:

- different average grades obtained at the end of the bachelor period, at the entrance exam, etc,
- demographic variables.
- the most important consequence of the programme,
- the proportion in which the programme is considered to influence the finding of a job in the field,
- the status on the labour market.

The questionnaire was applied on the group of 60 master students from the second year of the programme, in Cluj-Napoca. The sample is made up of approximately 20% men and 80% women, with ages ranging from 21 to 50. Their perceptions were analyzed in time by applying the same set of questions at different moments in the evolution of the study programme.

The methodology employed belongs to the group of statistical and data analysis methods.

IV. Results

Starting from the idea that the programme is sponsored through structural funds, we were first curious to see if this was the main reason for the students to choose the programme. Comparative results are presented in table 1.

Table 1. Distribution of the students based on the main reason for enrolling in the master programme (%)

Answers	1st year	2nd year
It is free	8.8	14.8
I was working in the field	10.5	11.1
To obtain a supplementary qualification	50.9	40.7
I considered it offered me more employment possibilities than the field in which I have the bachelor degree	29.8	33.3
Total	100.00	100.00

Source: authors' calculus

Having in mind that it is the same group of students analyzed, we were not expecting any changes in the share of each group in volume of the sample. However, results show slight differences from the answers given at the end of the 1st year of study and the ones from the 2nd year. For example, while at the beginning of the period analyzed not even 10% of the master students declared they have enrolled because it was a free programme, their percentage slightly increased at the end, towards 15%. More complex questions and analyses will be needed in order to see why these changes appeared. However, the modal group remained the same – the ones that wanted a supplementary qualification. They are followed by the students that were looking for a field to offer them more employment possibilities than the one they were specialized in after graduating university. Only around 11% of the students were actually working in the field of structural financing.

Taking this information into account, the next step was to assess the distribution of the students based on the field of their bachelor degree. The results have shown in both cases that:

- approximately 35% of the students have graduated Accounting or Audit,
- around 53% have graduated an economic field, but other than Accounting or Audit,
- about 12% of the students have their bachelor degree in other fields than Economics or Business.

In both rounds of the survey, we have tested the relationship between the bachelor field and the reason for joining this educational programme. With critical values of Sig. = 0.015, < 0.05, we can conclude that there is a connection between the reason for joining the master courses and the specialization graduated by each individual at university level.

Also in relation with the first set of results presented above, we analyzed the period of time considered as necessary to get a job in the field of the master programme. We expect changes to occur once with advancing in the programme. If the quality of it is good and the professors are able to put into light the practical part of the courses, there should be an improvement. If the quality of the education process is poor, the students should become more pessimistic in what regards finding a job in the field and the expected output of the programme. Results are presented once again comparatively, in table 2.

Table 2. How much time do you think you will need to get employed in the field after graduating the master courses? (%)

Answers	1st year	2nd year
I do not intend to work in the field	3.8	4.5
0 – 3 months	17.3	27.3
3 – 6 months	32.7	36.4
6 – 12 months	28.8	9.1
1– 3 years	17.3	13.6
More than 3 years	-	9.1
Total	100.00	100.00

Source: authors' calculus

The share of the students not willing to work in the field has remained approximately the same. A new group has appeared, made up of students considering they will be needing more than 3 years in order to find a job in the field of the master programme. These are students that graduated Economics or Business (other than Accounting or Audit) that enrolled in the programme to obtain a supplementary qualification or gain more development possibilities. All of these students are employed, aspect that could have prevented them from a better understanding of the field or, simply, could have prevented them from being present at the courses scheduled for the programme. The multidimensional data analysis has emphasized that the ones that do not want to

work in this field are already working in Accounting or Audit. The most optimistic students belong to all of the groups studied at their employment status. What is interesting is that the majority of the students that consider they will find a job in the field of structural funds in maximum 6 months after graduating are students that are not employed anywhere.

All in all, improvements can be seen in the perception of the students regarding the efficiency of the master courses, as almost 65% of them consider in the second year of study they will need no more than 6 months to get employed in the field of the programme, in comparison with approximately 50% after the 1st year.

V. Conclusions

The results of our study show there are some changes in the evolution of the perceptions students have related to the educational program they are involved in. In nowadays crisis the gratuity of education is a reason to follow a master`s courses. The possibilities of employment increase the efficiency and performance of the program.

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GLOBAL FINANCIAL CRISIS – AN ACCOUNTING LITERATURE REVIEW AND OVERVIEW

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Reflecting the magnitude of “financial crisis” in 2008, some academics started examining causal relationships between accounting and the crisis. The purpose of this article is to review the current state of academic research articles related to the global financial crisis that are published in ScienceDirect, Springerlink, Emerald and SSRN databases, in order to identify the trends and researchers’ contributions and to analyze the interplay between the global financial crisis and the accounting. Although there are lots of articles about the current financial crisis, the number of academic articles that examine the relationship between accounting and the crisis are still few, but the research questions are increasing, more and more researchers becoming interested in this topic.

Keywords: Accounting, Accounting regulations, global financial crisis, literature review, databases

JEL Classification: M41 – Accounting

1. INTRODUCTION

The magnitude of this financial and economic crisis calls for a fundamental reassessment of all areas of business and economic scholarship, including accounting research (Arnold P., 2009). The current economic and financial crisis has significant implications for accounting, both for practice and for the research community. In the academic and research community it certainly has illuminated issues that are in need of serious research attention. More than that, however, the crisis also points to the rather limited focus of much current accounting research. (Hopwood A., 2009).

Consequently, the fundamental objective of this paper is to analyze the relationship between accounting and the current financial crisis by analyzing and discussing changes encountered in research literature’s way of dealing with this topic.

2. AIM OF THE STUDY AND RESEARCH METHODOLOGY

The objective of our paper is to provide a comprehensive literature review and overview of the relationship between the global financial crisis and accounting. It was proven that the literature review plays an important role in delimiting the existing research problem in the field of social sciences.

Also, the literature review is considered to be the primordial method in distinguishing what has been done from what needs to be done, identifying relationships between ideas and practices, establishing the context of the topic or problem, understanding the structure of the subject, relating ideas and theory to applications, identifying the main methodologies and research techniques that have been used, and placing the research in a historical context to show familiarity with state-of-the-art developments. (Ray B., 2002)

The discussion focuses on four scientific Journal databases: ScienceDirect, Springerlink, Emerald and SSRN, identifying the trends and researchers actively contributions to the development of our topic of research. For performing the analysis of literature we selected all the international journals on accounting and economics area, from the aforementioned databases, followed by the selection of papers dealing with the interplay between accounting and crisis. Also, we defined three sets of variables representing various features of journals, papers published and their authors. Finally, basing on empirical results revealing these features influences over international

literature, we concluded our study by discussing the changes in general trend of research caused by the financial crisis.

3. LITERATURE REVIEW

The crisis, thus, challenges us to re-evaluate our research agendas – and perhaps also the institutional incentives and unexamined assumptions that drive them – so that accounting research can contribute to a broader social and political analysis of the financial crisis (Arnold P., 2009). Although the implications for research in accounting may not be so great as that within the finance research community where the serious lack of critical research is much more visible, a more detailed consideration of the implications of the crisis for accounting research nevertheless points to the need for a more rigorous investment in diverse research perspectives rather than an unquestioned following of a singular mainstream view. (Hopwood A., 2009).

“A classical period of thought and practice, as delineated by the events surrounding the great depression of the late 1920s and early 1930s, marks a maturity point in American accounting thought and practice” (Previts & Merino, 1979: 215). Also, corporate governance became a subject of various debates and controversies since the '29 -'33 financial crises period (Berle and Means, 1932), being often considered as “the scapegoat” of the present financial crisis that spread all over the world in the latest years, too. Thus, the wide range of governance failures and corporate scandals encountered over time brought this concept to the attention of media and academic environment, transforming it into an increasingly challenging topic of worldwide research. (Stefanescu C., 2011: 749)

“Developments in accounting came about in the first place in response to economic social and political pressures, but, thereafter, acted as an enabling device to assist further developments” (Tomkins, 1978:9). Transformations in accounting knowledge and practice have been influenced by many factors, such as economic, social and political pressures, (Tomkins, 1798) ad hoc influences like wars, periods of economic decline and labour disputes (Miller et al., 1991).

Also, Hans Hoogervorst, the Chairman of the International Accounting Standard Board, claims that “it is a sad truth that most initiatives to strengthen the international financial architecture to reap the fruits from the on-going liberalization of capital movements have been taken under the pressure of some kind of crisis” (Hoogervorst, 2002: 16). International accounting regulations (International Accounting Standards and International Financial Reporting Standards) can be regarded as part of this international financial architecture, defined as a “set of measures that can help prevent crises and manage them better in the more integrated international financial environment” (World Bank webpage).

Accounting rules have come under a lot of criticism during the credit crisis. Some people, especially bankers, even consider them to be an independent cause, or at least a strongly reinforcing factor in the credit crunch. Critics of fair value regularly point to the ridiculously low market prices, in their opinion, of financial products. These prices would allegedly not be in line with the fundamental value that still appears to be clear from the cash flows of these products.

The truth is that ‘Fair market value’ can indeed be very unfair. But indignation does not help you one bit in selling our assets at what you think is a fair price...fair value and International Financial Reporting Standards had very little to do with the causes of the crisis. The real cause of the crisis was the massive overleveraging of the economy as a whole and the undercapitalization of the banking sector in particular. And if there were problems with transparency, these were to be found principally in the capital requirements imposed by banking regulators (Laux C. and Leuz C., 2009)

4. RESEARCH QUESTIONS AND DESIGN

The review was conducted using a search command for the words “accounting” and “crisis” on a number of four databases available online: ScienceDirect, SpringerLink, Emerald and SSRN.

Also we limited our research, by including in this paper only the articles that were published after 2008 (the year when the global financial crisis has arisen). The search engine performed a quick overlook in the title, abstract or the whole paper, including references of all journals included in these databases.

After collecting the articles, the first step was to establish the information associated with the articles that were extracted from the databases: Title; Journal Name; Year of publication; Author(s) Name; Number of Authors; Author(s) provenience (EU, USA, Canada, Asia, Australia); Author(s) type; Research type (qualitative/quantitative); Research topic.

This information was stored in SPSS in order to facilitate a further detailed analysis. Also, we stored in Word a brief description of the most important points of the paper, in order to facilitate the comparisons between different articles. This type of information included: the subject, the procedure, the motivation, the target group, the results and our subjective point of view regarding the paper.

The third step was to analyze the articles keeping in mind some questions that we considered to be important for our research: What research topics emerge and what conclusions can be drawn? What are the major similarities and differences between the various writers? Are there any significant questions which emerge and which could form a basis for further investigation? The answer to all this questions and the link between the articles were included in the discussion and results section.

5. DISCUSSION AND RESULTS

During the past 5 years of crisis, there have been 63 articles, related to this subject, published in ScienceDirect, Springerlink, Emerald and SSRN databases. We would like to point out that we included in our research only the published articles, form the aforementioned journals, and we excluded all other types of research papers, such as working papers. As we can see in Figure 1 and Table 1 the majority of articles that analyzed the relationship between accounting and the current financial crisis, were published in 2011 (25 articles). Also the database with the highest number of articles related to this subject is SSRN (31 articles).

Figure 1. Publications with “accounting” and “crisis” included in the title, abstract or in the body of the paper by year

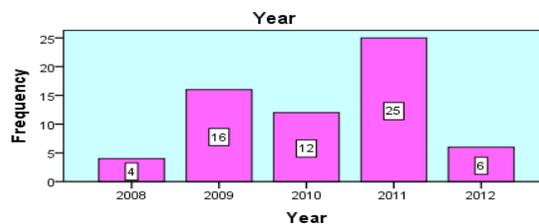


Table 1. Publications with “accounting” and “crisis” included in the title, abstract or in the body of the paper by database

Database	No. of articles
Emerald	9
ScienceDirect	18
Springerlink	5
SSRN	31
Total	63

Table 2. Paper analysis according to the research topic

Research topic	No. of articles
Accounting convergence	1
Accounting information	3
Accounting models	4
Accounting practices	3
Accounting regulations	17
Accounting research	1
Conservative Accounting	1
Creative Accounting	2
Financial reporting	5
Managerial Accounting	1
Mark-to-market Accounting	25
Total	63

6. CONCLUSIONS

As this crisis has shown, accounting standards can have huge implications for the outside world, so the outside world should have the opportunity to have a say. This is especially the case now that public authorities have become so important in the worldwide acceptance of standards. We can conclude that the accounting community has spread in two: the ones that blame FVA and consider it for been a factor that causes the financial crisis and the ones that praise FVA.

This literature review was conducted by searching in four online databases, during 2008- 2012. The summary and information regarding the relationship between accounting and crisis, related articles were kept in both SPSS and Word, in order to facilitate detailed analysis. The aim was identifying the trends and researchers actively contributions to the development of accounting and accounting regulations during the global financial crisis.

This review of the literature will be further developed, intending to include at least other four online databases: Wiley Interscience, JSTOR, Highwire and EBSCO and to perform a broader analyze on “accounting” and “crisis” related articles, including the authors’ origin, research methodology and so on.

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IMPORTANCE AND VULNERABILITY OF TRUE AND FAIR VIEW IN THE ROMANIAN ACCOUNTING ENVIRONMENT – CASE STUDY

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This empirical study comprises items related to the operationalization of the concept True and Fair View in day to day accounting issues in Romanian accounting environment, demarche based on which we were interested in assessing the vulnerability of the concept and also the importance attributed by Romanian practitioners. If the vulnerability is high and the importance attributed low, the concept True and Fair View`s importance as an overall basis of accounting is limited, fact that will affect the quality of accounting information. The categories approached were chosen based on their implication related to the operationalization of the concept. The company`s financial directors are responsible for ensuring that the financial statements give True and Fair View and in the same manner the expert accountants must consider it important in order to prepare the financial statements in accordance to its requirements and finally the financial auditors must assess its existence, otherwise if this principle is neglected the companies would consequently present spurious results of their activity. All the categories above asserted that the concept doesn`t have only a symbolic role at the national level and their implication in achieving its requirements can be characterized by a proactive attitude. When it comes to assessing the potential vulnerability of TFV, our respondents agreed that items like legislative ambiguity and accounting estimates have the potential to affect TFV construct in the practical side of accounting.

Key words: True and Fair View, Legislative ambiguity, Accounting estimates, Operationalization, Quality of accounting information

JEL Classification: M41

1. Introduction

This part of the research is motivated by the fact that the literature has revealed little research regarding TFV operationalization. The results are important for both theoretical and empirical research as well as for regulators, lawmakers, firms and investors. TFV role in the current issues of accounting is considered to be very important taking into account the opinion of authors like Alexander (1993, 1996) or Amat et al., (1999). On the other hand authors like Forker and Greenwood (1995) consider the concept as having only a symbolic significance in current issues of accounting. When it comes to assess its meaning in a theoretical field this demarche is not considered to be a difficult one, but when its meaning must be assessed and interpreted in day to day accounting issues, the demarche can become a very complex one, having the fact that accounting legislation comprises estimations and sometimes ambiguity. The remainder is divided in 8 sections. The first section contains the motivation and scope of the empirical study conducted; the second section refers to the state of the art. The third section comprises the research design that explains the research hypothesis and the methodology employed, the research directions (research instrument and analysis and interpretation). The latter sections were designed as following: findings and discussions based on the results found, conclusions, where we discussed the implications of the findings, limitation of the study and scope for future research.

2. Motivation and scope of the study

A financial reporting system, independent from the economic context, encapsulates the concept of TFV, that without any discrepancies. The difference between one financial reporting system and other is given by the wording that is used for this principle of accounting that require that financial statements to be prepared and presented fairly and correctly, unbiased by particular interests. No matter if the terminology is “TFV” or “present fairly in conformity with GAAP” or “Faithful representation” the idea is the same, but the perception can be different since the relationship between accounting theory and accounting practice varies, since the history of concepts varies to time and place, since the importance of the concept can be higher or lower depending on the enforcement demarches conducted by the accounting regulators, since the alternative interpretation of the concept developed in its history are various⁷⁶. All the above can act like conclusive items for the importance and the potential vulnerability of TFV, and further the latter can affect the quality of accounting information. Since the studies conducted so far regarding TFV were related mainly to perceptions gap (Parker and Nobes, 1991; Kirk, 2006; Albu et al., 2009; Bota-Avram, 2009) we are interested to assess the concept under a different spectrum, based on the fact that the practical side of accounting is primordially interested by its operationalization. Despite the fact that the concept is regarded as a changing one in time and space⁷⁷, we expect that the actors in the accounting field to regard it as having operational meaning not only a symbolic. Further we assumed that similar to Parker and Nobes (1994) opinion to be vulnerable to certain items found at national level. When it comes to the Romanian accounting environment the concept can be vulnerable to pressure as: accounting estimations and ambiguity of accounting regulations (Albu et al., 2009 and Bota-Avram, 2009).

3. State of the Art

Previous studies that have examined the concept TFV have assessed its meaning under different spectra approaching it in the context of: literal versus technical application (Kirk, 2006); through its constitutive components (Cowan, 1965); a concept that exist mainly for the benefit of auditors (Williams, 1985:30); as a legal residual clause (Walton, 1993); as an exercise of deharmonization (Parker, 1994); as an excuse for creative accounting (McGregor, 1992); as a root for debate on form versus substance (Flint, 1980) or as a nebulous concept that shouldn't be used to base trial on it (Cowan, 1965). Even if many empirical studies were conducted so far, little evidence exist regarding the importance attached to the concept by the actors from the different economic environments and even fewer were concerned to test the vulnerability of the concept under the influence of certain factors. At theoretical level we can found concerned regarding its importance and vulnerability in the work of: Rutherford, 1985; Houghton, 1987; Alexander, 1993; Karan, 2002; Ordelheide, 1993; Dunk and Kilgore, 2000; Aisbitt and Nobes, 2001, but when it comes to the empirical level the above authors haven't approached this path of research only tangential.

4. Research design

This empirical study conducted in the Romanian accounting environment in 2011 reports the main results of a survey that used as a tool a questionnaire that focused on the perceptions of financial directors, financial auditors and expert accountants regarding TFV importance and vulnerability. In this respect the questionnaire submitted comprised a number of 9 questions used in order to assess the importance given by the three categories to the concept of TFV in accounting practice. All 9 closed questions are compressed in the results presented in Table 2.

⁷⁶ For a detailed discussion regarding the history of the concept of TFV see Chastney (1975).

⁷⁷ For a complete taxonomy of TFV perceptions in different economic environments by various categories of respondents the studies conducted by: Cowan, 1965; Nobes and Parker, 1991 can be consulted.

5. Research hypothesis

Albu et al. (2009) documented that most of the respondents tip the balance to operational meaning not only symbolic one. Based on this, the importance attached to the concept it could be higher in the practical side of accounting, fact that can be proved by assessing the opinion of some actors from the national accounting environment. Accounting estimations and ambiguity of accounting regulations are known as possible factors that have the potential to affect the quality of accounting information and further to affect TFV. Based on the empirical study conducted by Cuzdiorean et al. (2011), Romanian accounting legislation is characterized by frequent changes conducting to ambiguity. Also the estimations have the potential to distort the accounting output. In this respect based on the above examined scientific background we develop the following research hypothesis:

H1: Romanian financial auditors, financial directors and expert accountants are characterized by an active implication in developing financial statements under the spectrum of TFV since they are seeing the concept as having operational meaning not only a symbolic significance;

H2: The TFV is vulnerable under the pressure of factors as accounting estimations and ambiguity of accounting regulations.

6. Methodology

The empirical findings have then been analyzed in relation to the literature review.

6.1 Questionnaire design

The design chosen for testing the above research hypothesis comprised the Web-Assisted Self Interviewing (WASI) that used a public platform that doesn't allow the interaction between the subject and interviewer, which is somewhat characterized by a limited view of the assertions tested. All our respondents used the Romanian version of the questionnaire that comprised a series of 9 closed questions. In this respect we were interested in its practical application mostly and in this regard we tested the importance attributed to the concept in the practical side of accounting. A question addressed the respondent's perception regarding the operational meaning of the concept, while others were concerned in assessing the regulation features that have the potential to distort TFV. Some of the questions assessed the importance attributed by the different categories of the respondents to the concept.

6.2 Sample

Our final sample included financial directors, financial auditors and expert accountants as following: the entire population of financial directors of all listed companies on the Bucharest Stock Exchange in 31.10.2010, in a number of 69 financial directors based on the addresses of the companies listed on Bucharest Stock Exchange (www.bvb.ro), tier I, II and III at 31.10.2010; the entire population of financial auditors that had available the email address on The Chamber of Financial Auditors of Romania in 31.10.2010, in a number of 1280 financial auditors (firms and individual) (www.cafrr.ro); the entire population of expert accountants that had available the email address on The Body of Expert and Licensed Accountants of Romania in 31.10.2010, comprising a number of 4295 of expert accountants (www.ceccar.ro).

The questionnaire was submitted to those three categories of respondents using a database that comprised the contacts of 5644 specialists. From the whole sample, 3888 addresses contain errors. In this respect 1756 contacts remain valid. From those we received back 342 responses, obtaining a preliminary rate of response of 25, 61 % globally as a mean for the three categories surveyed. After revising the questionnaire received we eliminated 129 questionnaires as it is

presented below, for incomplete answering. The final global rate of response was 12, 99 %. In Table 1 we summarized the rate of response after assessing the content of the questionnaires.

Table 1. Questionnaire respondents assessed by the professional groups after examining the questionnaires

Professional groups	Valid contacts	Total Responses received	No. of incomplete questionnaires	Total questionnaires remained for final analysis	Final rate of response (%)
Financial directors	69	11	0	11	15,94
Financial auditors	295	139	107	32	10,84
Expert accountants	1392	192	22	170	12,21

Source: Authors projection

At the end of the session of data collection were included 213 completed questionnaires (completed by 170 expert accountants, 32 financial auditors and 11 by financial managers) which implies a response rate of 12, 99 %, higher than it is usually obtained in Romania (e.g. 5% -7% rate of response). The period for data collection was 6 of January to 18 of February 2011. The completing duration of one questionnaire was approximately 5-10 minutes.

7. Data analyses, Findings and Interpretation

In our empirical study we approached partially the concept of operationalization of the TFV when we were interested in assessing if the concept is perceived as being important in the Romanian accounting practice, verifying in the same time if the attitude of the practitioners is a proactive one when it comes to apply the requirements of the concept. Also, the potential vulnerability of the concept was assessed when the legislative ambiguity and accounting estimations were discussed to have the potential to affect TFV. In order to test the set of assertions below, the subjects were asked to express their agreement or disagreement. The results obtained are presented as following:

Table 2. Results assessing the importance and potential vulnerability of TFV in Romania

	Disagreement	Agreement
	Row N %	Row N %
Based on your opinion, The LEGISLATIVE AMBIGUITY has the potential to affect the TFV?	3,3%	96,7%
Based on your opinion, ACCOUNTING ESTIMATIONS has the potential to affect the TFV?	37,6%	62,4%
TFV can be assessed only by its symbolic role, without a clear conceptual trust:	69,0%	31,0%
We cannot assert that the accounting information is characterized by TFV in Romanian accounting practice:	55,4%	44,6%
Accounting practitioners grant an increase importance to TFV, and based on that they are not concerned only with the mechanical application of the law but also in fair reflecting of economic reality:	28,2%	71,8%
The financial auditor play an important role in generating TFV in accounting:	23,5%	76,5%
The financial manager play an important role in generating TFV in accounting:	12,7%	87,3%
The expert accountant play an important role in generating TFV in accounting:	5,2%	94,8%
The accounting information cannot be characterized under the spectrum of TFV:	70,4%	29,6%

Source: Author's projection

The first question was design to test if an important factor correlated with the quality of accounting information (e.g. legislative ambiguity) can be considered an item that has the potential to affect TFV construction. In this respect 96, 70% of the respondents agreed that this factor has the potential to affect TFV and further the quality of accounting information. In a lesser extent, the accounting estimations also have the potential to affect TFV since the respondents agreed in a proportion of 62, 40%. When it comes to the role played by TFV in accounting profession, 69, 00% of the respondents answered that the role of the concept is not a symbolic one. The implication of accounting practitioners in reflecting the economic reality based on the principle of TFV is important since an increased importance is granted to the concept in the practice of accounting (71, 80% of the respondents agreed that they grant an increase importance to TFV in the practical side of accounting). The role played by the financial auditor, financial manager and expert accountant is an important role. Judging by the answers of the respondents (affirmatively: 76, 50 % for the first category; 87, 30% for the second category and 94, 80 % for the third category) the role of the practitioner is an important one and can be a factor that has the potential to influence TFV in a higher proportion. The last assertion “The accounting information cannot be characterized by TFV” comprised a rate of disagreement of 70, 40 %.

8. Conclusions

The results obtained documented that the financial directors, financial auditors and expert accountants regard the concept not from a symbolic spectrum but as having operational meaning. As we stated above, all the categories questioned asserted that the concept is important in the Romanian accounting practice and that the accounting professional’s involvement when it comes to operationalize the concept is an active one. Not regarded as having only symbolic significance, the first research hypothesis was validated. Since the results obtained documented the categories questioned asserted that both accounting estimations and the ambiguity of accounting regulations have the potential to affect TFV in the practice of accounting, the second research hypothesis was also validated. Almost all respondents concluded that legislative ambiguity affect in a higher proportion TFV, while the accounting estimates in a small proportion, both items being responsible for its vulnerability at the national level. The great majority of the respondents concluded that role played by the accounting practitioners is important in assessing the magnitude of TFV.

9. Limitations of the study and scope for future research

The major problem identified was a matter of logistics having the fact no existing database that can entirely match our scope of the study existed and in this respect we had to develop such database for each category included in the sample. In this regard we manually selected all the available email addresses of the potential respondents from the internet web sites described above. Having the fact that we have chosen this particular approach a large eligible population remain outside the population of interest. Other limitations are those represented by the methodology adopted. The use of the questionnaire as a research tool may lead to non-response error and self-selection bias. A future study will enlarge the sample that will be surveyed and will change the research instrument, trying a more non-biased instrument like interview. Also other issues of transferability of TFV across languages and cultures that require their local realization in the locality of CEE region in the context of globalization process is considered to be appropriate since few studies were conducted in this respect. For a thorough understand of the New Europe the process of harmonization is important to be studied and assessed and from that process, TFV is an important part to assess. We are also interested in assessing in a future study the influence of overriding criterion on creative accounting practices in Romanian accounting environment.

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CREATIVE DISCLOSURE: AN EXPERIMENTAL STUDY

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This empirical study extends the study conducted by Vladu, Grosanu and Cuzdriorean (2012) and reached similar conclusions. This particular research was conducted with the scope of assessing the impact of: positive bias, persuasive language, creative visual manipulation and performance comparisons over the unsophisticated users of accounting opinion. We have chosen this particular category since retail investors have been identified as relying on the information provided in corporate annual reports for decision making (Wills, 2008). Based on their relative inexperience and limited knowledge of these investors it is plausible that they can be misled easily comparing to more sophisticated users of accounting information, as financial analysts.

The main argument for conducting such a research is the fact that little research was conducted so far and the effects of creative disclosure on investment decision cannot be assessed so far. Based on this, we conducted a laboratory experiment where participants were provided with an informational set of financial data and required to make an investment decision. Our results document that the users perceptions is strongly affected by creative disclosure, contradictory with previous results documented in the literature, that their opinion cannot be influenced since they rely mostly on numerical information and less on the narrative segments of the financial statements. Even if our sample compressed few participants, we consider the results conclusive. A further research can extend the sample and test if our research hypothesis can be validated. Another possible spring of research can deal with the assessing of the opinion of the users of accounting information that are not considered unsophisticated, as financial analysts.

Keywords: Creative disclosure, Positive bias, Persuasive language, Creative visual manipulation, Performance comparisons

JEL Classification: M41

1. Introduction

Creative disclosure can be regarded as a complex mechanism that comprises: motives for engaging in manipulation of accounts, types of information disclosed and types of manipulations strictly connected to presentation of information. Further, both verbal and numerical information can be comprised in the area of creative disclosure. Each of these strategies are not part of an objective disclosure choice moreover are based on subjectivity and bias. The scope of creative presentation is to present the financial information in the best light possible (or sometimes in a very negative light, depending on the management objectives) by comprising only certain items that flatter the final results. The items that don't portray the desired image are omitted from presentation and if there is mandatory to disclose them, will be presented in a very subtle way. In this respect the so-called in the literature "Pollyanna principle" (Hildebrandt and Snyder, 1988) can be the ultimate foundation for this demarche.

Courtis (2004) referring to a creative manner used to make the text of financial presentation difficult to read and interpret, asserted that this particular manner is designed to obscure the intended message, to distract or confuse the readers and further empirical studies proved that its arguments were correct (Wills, 2008). On the other hand, there were studies that rejected any connection between creative disclosure and user's perceptions. Since we found contradictory

views in the literature, our study was design to bring new insights regarding this spring of research. In this respect, our study documents the results of an laboratory experiment designed to isolate the effects of positive bias manipulation, persuasive language, creative visual manipulation and performance comparisons and assess their effect upon the user's perceptions that further are transformed in investment decisions. By determining the effects of creative disclosure features and its power regarding the users perceptions we can conclude regarding the decision making process and further about the risk of making unwise investment by unsophisticated users of accounting information (Smith, 2004).

2. State of the art

Courtis (1995) approaching the difficulty to read some corporate reports concluded that only two possibilities can be invoked in such cases by the following: "whether writing which is difficult to read is executed deliberately to mask some unfavorable aspect of corporate behavior, or is performed unwittingly out of ignorance". On the other hand Clatworthy and Jones (2001) attribute exclusively the reading difficulty to managerial manipulation since they consider that the lack of skill cannot be invoked in this context since corporate reports are written by professionals. Rutherford (2003) asserted that preparers that are willing to manipulate the user's opinion have the possibility to manage the transparency of financial information by minimizing the clarity of certain items that are disclosed. Another root for creative disclosure appearance is identified by Llewellyn and Milne (2007), as the codification of the accounting language, that "turns out to be a less than perfect solution". "Positive bias" (Lang and Lundholm, 2000) is not only related to the manner in which disclosures are presented but also in the frequency of the positive or optimistic segments comprised in the annual reports. The study conducted by Lang and Lundholm (2000) found that the frequency of positive disclosure increased substantially before equity public offerings in order to increase the firm's share prices. One study that was focused on the language used by firms to transmit positive and negative earnings was the study conducted by Yuthas et al. (2002). The authors suggested that firms with earnings surprises use preponderantly items like "sincerity" and "clarity" to emphasize their honesty and trustworthiness, their tone being persuasive in respect of the financial strong performance of the firms. Enron engaged in this kind of manipulation and used persuasive language based on our understanding. In the Enron's Letter to Shareholders, Annual Report 2000 the language can be easily categorized as persuasive language as we can notice from the following:

-“Enron's performance in 2000 was a success by any measure, as we continued to outdistance the competition and solidify our leadership in each of our major businesses. In our largest business, wholesale services, we experienced an enormous increase of 59 percent in physical energy deliveries. Our retail energy business achieved its highest level ever of total contract value” (2000:4);

-“During our 15-year history, we have stretched ourselves beyond our own expectations. We have metamorphosed from an asset-based pipeline and power generating company to a marketing and logistics company whose biggest assets are its well-established business approach and its innovative people” (2000: 6-7);

-“Our results put us in the top tier of the world's corporations” (2000:7);

-“We plan to leverage all of these competitive advantages to create significant value for our shareholders” (2000:7).

The way information is disclosed visually speaking has the potential to influence the decisions. Creative visual effects can be used to underlie a part of the corporate report or an item in order to make it more obvious to users (e.g. figures, font style, size of the letters or numbers, color, etc.) (Courtis, 2004). Where there is willingness to present an item as being very important the first parts of the corporate reports can be chosen for such a demarche. When the item is considered to minimize the favorable direction that must be created and interpreted under the best light

possible, the last parts the corporate reports can be chosen or inserted in the most narrative part of the reports. By choosing to explain or underlie the importance only for some earnings numbers and intentionally omitting the ones that are not flattering the final results involve subjectivity and further manipulation of corporate reports. This particular creative presentation is related to manipulation of numerical disclosures. The main idea is that firms can manipulate the information disclosed using performance comparisons that flatter their performance. This type of manipulation is developed using either inside numerical information or external numerical information. As regarding of inside numerical information the lowest prior-period comparative benchmark earnings number can be chosen to report in this respect the highest year-on-year increase in earnings (Schrand and Walther, 2000).

The main goal of this research is to refocus the previously research questions found in the literature, that comprises the identification of the mainly forms of creative disclosure assessing the effects not of a certain form of impression management, but almost all features of creative disclosure. Also, based on the fact that the positive bias is a persuasive construction, the figures conveyed in the annual reports might be overlooked or insufficient examined by the unsophisticated users of accounting information (Henderson et al., 2004). In order to overcome this shortcoming, we introduced in our laboratory experiment also numerical manipulations, in order to test all features of creative disclosure not only certain features previously tested like positive bias or persuasive language.

3. Hypothesis development

Since the goal of this particular study is to document the cumulative effect of creative disclosure, on corporate annual report users` perception regarding the company performance, below we have developed our research question to match such demarche. Based on the fact that creative disclosure is documented as occurring in the corporate annual reports (Jameson, 2000), the hypothesis tested is concerned with the effect that this particular manipulation over the unsophisticated users of accounting information. In this respect the research hypothesis developed is:

H: Investment decisions taken by unsophisticated users of accounting information can be influenced by creative disclosure features like: positive bias, persuasive language, creative visual manipulation and performance comparisons.

4. Research design

Based on the fact that our research is investigating a causal relationship, the laboratory experiment was chosen as proper research design to test our above hypothesis. In this respect our experiment was conducted using 26 last year university students, whom we provided a set of information commonly found in annual reports, comprising information of two fictional companies and the third one, developed partially on the financial statements provided by Enron, and request them to make an investment decision. All the participants received an information pack containing either no creative disclosure features (control group), and respectively no creative disclosure and creative disclosure features (treatment group). In this respect two groups were formed and further their investment choice analyzed in order to observe the effect of manipulation on the participants investment choice.

Like previously conducted studies in the literature (Schulz, 1999; Courtis, 2004) in order to increase the internal validity of the study and to assess the causal effect of the positive bias manipulation, we chosen a randomized two group design comprising one control group and one treatment group, with 13 students each, like in the following table:

Table 1. Experimental design – randomized two group design

(1) Control group – 13 last year students	(2) Treatment group – 13 last year students
2 set of financial information containing neutral language for company 1 and company 2. No positive bias language in order to manipulate their perception regarding the performance of the company. No performance comparisons, no creative visual manipulation and no persuasive language.	2 set of financial information as following: - first set contains neutral language, no positive bias or persuasive language comprised in company 1 from the control group, also no creative visual manipulation and no performance comparisons. - <i>second set of financial information contains positive bias and persuasive language (taken from Enron 2000 annual report, examples above) to whom we attached creative visual manipulation and performance comparisons. All those features of creative disclosure was selected in order to see if we can affect their investment choice.</i>
<i>Students were asked to make an investment choice and to choose the company that they consider the most suitable one. Observation: We included in this respect also numerical manipulation not only narrative one, in order to test for all features of creative disclosure not only some of them.</i>	

Source: Authors projection

We have chosen this particular research design in order to allow all participants to be tested in the same time and location, reducing potential threats to internal validity of the experiment. The students were asked to choose between the informational sets provided, where each of them were developed in the Romanian language with the exception of the 2000 Enron annual report that was translated in the Romanian language and used as an example of persuasive language. The participants were last year students from accounting and finance unit and their were told that they have a limited amount of money (unspecified) and that they have the possibility to invest in one of the companies presented or to split the money and invest in both, case in which they will have to specify the proportion of the investment (e.g. 30% investment in company 1 and 70% investment in company 2). We provided two sets of data for each group, comprising Chairman’s statement, four year summary of corporate annual reports. Both companies 1 and 2 from the control group and respectively company 1 from the treatment group have strong performance indicators, but to make the scenario more realistic we designed those companies as being proportionally 1.5 larger than company 2 from the treatment group in order to examine if only the creative disclosure has the potential to influence mainly their investment decision. Company 1 is similar in both groups, company 2 from the second group (e.g. the treatment group) is developed based on Enron, but the participants haven’t been informed about it.

5. Results and discussions

As we asserted above, the goal of the study was to assess if creative disclosure features has the power to influence investment choices. The results obtained are presented below in table 2 as following:

Table 2. Results of the investment choices taken by the participants

Companies / Results obtained per each group	Control group (%) – single investment choice	Control group (%) – split investment choice	Treatment group (%) – single investment choice	Treatment group (%) – split investment choice
Company 1 – No creative disclosure features	42	12 (50%/50% investment in each company)	7	22 (30% in company 1 and 70% in company 3)
Company 2 – No creative disclosure features	46		Not tested in the treatment group	Not tested in the treatment group
Company 3 – Positive bias, persuasive language (Enron), creative visual manipulation and performance comparisons	Not tested in the control group	Not tested in the control group	71	22 (30% in company 1 and 70% in company 3)

Source: Authors projection

As can be observed based on the above results presented in Table 2, 42% of our participants from the control group decided to invest in company 1 while 46% of them decided to invest in company 2. The proportions are not significantly different. Only 12% of the participants from the control group decided to invest both companies, but equally as proportion. When it comes to the investment choices made by the participants from the treatment group, significant differences can be observed compared with the results obtained by the control group. Only 7% of our participants decided to invest in company 1 (where there is no influence of creative disclosure) based on the fact that company 1 is 1.5 larger compared with company 3 (e.g. based on Enron financial statements). A significant proportion (71%) decided to invest in company 3 (e.g. Enron), where creative disclosure features were comprised. More than that, a larger proportion compared with the participants from the control group decided to split their investment in both companies, but the proportions are significantly in favor of company 3. Based on the fact that company 1 and 2 present a neutral and non-persuasive utterance, and similar financial figures, the investment choices between them are equally split. In the treatment group, in order to make a distinction between the two companies and to offer a fair chance to each of them, we decided that since company 3 could have a competitive advantage based on the creative disclosure features, we designed company 1 to be larger as size (1.5 larger based on the financial information provided to participants). The significant proportion of the participants from the treatment group chosen company 3 as an investment choice. The only feature that could conduct to this choice in this respect is the presence of creative disclosure introduced under the manifestation of: positive bias, persuasive language, creative visual manipulation and performance comparisons that convinced them that the company is worth investing in.

6. Conclusions

The results of the experimental design conducted documented that significant difference between the investments choices of the participants occurred. Based on the results presented above, the participants exposed to creative disclosure features appear to be affected in their investment decisions in a significant manner, contradictory to Stanton et al. (2004) opinion. Personal traits of the participants did not differ across the groups and based on that should not be responsible for the results obtained. Since neutral and persuasive language, positive bias and creative visual

manipulation was presented equally, and the participants chosen the informational set that comprised the latter, it can be concluded that they can be misled by individual segments of the package, by the language used and by the creative visual manipulation. However since we haven't tested the same research path on other more sophisticated users of the accounting information the results must be treated with caution.

7. Limitations and scope for future research

One important limitation of the study can be related to the use of students as proxy for the unsophisticated or ordinary investors. Taking into accounting the opinion of Hoyle et al. (2002), this can threaten our internal validity experimental design since our participants could have been more vulnerable to effects of creative disclosure. On the other hand, previous studies conducted in the literature documented that students can be used as proxy since ordinary investors are young to middle age adults with limited knowledge of investment and business practices (Wills, 2008). This research can open a new path by focusing on the cumulative effects of creative disclosure used in the annual reports and their power to distort the decision making process. A future spring of research can test our research hypothesis on sophisticated users of accounting information as financial analysts.

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MANAGEMENT AND MARKETING

MANAGEMENT

INTERNSHIP ROLES IN TRAINING AND PROFESSIONAL DEVELOPEMENT OF STUDENTS

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Romanian specialist's studies show a harsh reality: Romanian universities programs have only theoretical value, creating specialists but not for real life, but for a more abstract environment. Our university graduates are doing very well in a stable economic and institutional environment that offers relatively easy material and financial resources, with a set of skills and professional skills which fail to meet harsh reality of the labor market.

An effective solution for professional skills development is the accumulation of work experience during college in the environment and on the job we have in view by following an internship program. As a form of practical education through work, internship meets young people, particularly students keen to gain experience through practical work in a job within a company or institution chosen, giving them the opportunity to translate theoretical knowledge into practice and to develop skills and experience of labor market activities that waits for them.

This paper is an original applied research conducted in the West University of Timisoara, Faculty of Economics and Business Administration.

It aims to identify whether there is a need for specialization Management students to acquire work experience before graduating, to what extent they are able to assess their skills and work in a company and especially the role of internship programs in professional and personal development of students.

The results show that participation in an internship program is beneficial not only for students but also for employers.

Leading to increased competences and to training and professional skills and personal development, internship becomes a more attractive alternative for young people because it gives them the opportunity to be "a ringer" of an employee on the position you have in view. Without being employed, students can gain practical experience in a certain position they sought in a company or institution on the labor market, practical experience they need so much and they can also learn what responsibilities and tasks the job entails and whether or not they are suitable for that position.

Keywords: internship, professional development, practical experience, gained confidence, applying faculty knowledge.

JEL Codes: I23,A20, J23, J24

1. New demanding on labor market

The labor market suffered intense changes in the last decade. All the changes indicate that the culture of a job for a lifetime had ended. As a consequence, the security of the position held by employee is based on performance and skills set and not on the parental dependence.

Nowadays, employers from all the sectors require high standards; from their employees that are continue adapted to environmental changes, talent, competences, new and superior abilities and

skills that will offer them higher opportunities of performance and promotion within and outside the organization.

We are talking about a new attitude regarding work: an attitude of responsibility towards the actions taken, and to the obtained results. Practically, every employee will have to assume new responsibilities for personal and professional development.

In this new context, the partnership between the academic and the entrepreneurial environments acquires a fundamental role in providing quality human resources that are competitive on the labor market.

Unfortunately, studies reveal that the programs in Romanian universities have only a theoretical value, creating specialists that are not well prepared for the real life, but for an abstract environment. Our university graduates manage a stable economic and institutional environment very well, an environment that offers pretty easy material and financial resources, because they are having a set of skills and professional abilities which fail to meet harsh reality of the labor market.

For a long time, Romanian universities haven't taught students to think critically, to understand, to act and react rationally and constructively in a changing society as the Romanian society is, and preferred to offer a theoretical specialized view, but almost always without pragmatic links, without applicability. (Korka M., 2003).

Values of education had changed in Romania, these having to adapt to a turbulent and dynamic environment.

In this way, freedom of thought and expression, professional responsibility, moral and social development, creativity and innovation, adaptability, critical and reflexive thinking represent only a few parameters that build the new educational paradigm.

2. Internship role in training and development of competences and personal and professional skills

The resume of a fresh graduate can be a real challenge for an employer. The lack of experience is one of the sensible points that every young person faces. This is the reason specialists advice fresh graduates to mention in their resume besides the school good results, relevant curses, awards and obtained distinction, scholarships, summer jobs or part-time jobs, voluntary activities, practical stage, training and professional development programs, trainings, internships.

Internship- definition

Internship is a form of practical education through work. This represents the possibility to acquire experience on a certain position in a company, without being their employee. Considered by the specialist as the first step in the professional career, internship does not necessary mean advancing in your career, but gaining new skills and necessary experience to complete your education, and helps you to access the domain you are interested in working.

Internship participants can learn from inside how a company works, what does the position they have in view imply, they can find out the latest news in the field and can acquire knowledge and practical experience useful in the future.

Internship program helps the youth, especially students eager to gain experience through practical work in a job within a company or institution chosen, giving the opportunity to translate theoretical knowledge into practice and to develop skills and experience activities on labor market that awaits.

In choosing an internship program, people may consider several criteria. They can start from a position that they would like to occupy in the future, in this case seeking internships on similar positions in companies or they can choose an internship that takes place in the country or abroad, or based on the offer of the companies or institutions that offer this kind of practical programs.

Reasons for which internship is the best choice in gaining work experience during college in the environment and on the job you desire are: to put into practice the knowledge acquired in theory,

to see what the job in the studied field involves, to gain experience, to know how to approach problems in that area, to learn from professionals, to assess the level of their professional training, to see if their choice is according to their career plan, to learn new things, for self-assessment, for new career opportunities, to have an inside perspective of the field, to be made aware of future trends field, to be familiar with company policies, for professional skills development.

Examples of internship programs:

- The "Work and Travel" - intercultural exchange program covered by the U.S. government, administered by the Department of Educational and Cultural Affairs U.S. State Department that allows students and graduate students to work on a specific period in the United States of America;
- European Organization for Nuclear Research offers students the opportunity to access further training and start a career in science. For the technical program can complete future engineers, IT specialists or applied physics specialists. The administrative program they are looking for human resources specialist, communications, administration and librarians. What is important to note is that they provide a monthly allowance, enough to cover expenses for one person in the Geneva area, health insurance and related expenses. The program can take between 8 weeks and 36 months, depending on specialization (www.startub.unibuc.ro).
- LLL- Lifelong learning program includes four sectors: for undergraduate education, Comenius, Erasmus for higher education-for-training Leonardo da Vinci, Grundtvig for adult education, a program focused on language and IT in education and last but not least, the Jean Monnet support program for European institutions and associations.

3. Case study on the role of internship in training and professional development of FEAA-UVT management students

Internship is that program that allows you be the "ringer" of an employee on the position you have in view. Without being employed, students can gain practical experience in a certain position they sought in a company or institution on the labor market, practical experience they need so much and they can also learn what responsibilities and tasks the job entails and whether or not they are suitable for that position.

Beginning with the idea that people are the greatest resource for any organization and that the values a company promotes are focusing on education and development and supporting the concept of internships, this study aims to identify to what extent students need to gain work experience before graduating, to what extent they are able to assess their skills by working in a company and, especially, the role of internship programs in professional and personal development of students.

To achieve this objective, research method used is questionnaire-based. Arguments that justify the choice of questionnaire-based survey as a research method are: the possibility of explaining the research objectives and how the questionnaire was completed, subject's availability to answers the questionnaire when they find the time, we ensure anonymity, and low cost.

As for research instrument used to collect information the questionnaire was chosen. It contains 12 questions and the information obtained was processed using Excel program.

The questionnaire was distributed to a number of 255 students from specialization Management, of Faculty of Economics and Business Administration from the West University of Timisoara (200 bachelor degree and 55 master degrees). Of the 255 surveyed, 40 respondents were younger than 20 years, 200 respondents between 20-25 years, and 15 respondents have age over 30 years. Also 65.22% are students at bachelor studies, 21.74% master studies and 13.04% are employed.

Sampling was random and it was based on criteria related to: education level, specialization, age, interest for personal and professional development by participating in events such as conferences,

workshops, trainings and seminars. We mention that the results obtained from this sample should be understood as having a role that not generalized the internship role and importance to students of economics, but there are highlighting aspects that have to be known by students.

The two assumptions that start from this research are:

Hypothesis 1: internship programs generate a new attitude towards work: increase awareness and involvement;

Hypothesis 2: internship programs lead to increased competence and professional skills and personal development.

The study results show some interesting aspects as the following: first, we noticed two categories of respondents: those who have participated in training and professional development programs and those who did not participated to any program. So, among participants in professional development program (Lifelong learning program, with 4 branches: Comenius, Erasmus, Leonardo da Vinci and Grundtvig, practice programs offered for students or masters by the university, traineeship exchange program; summer school and internships) the most familiar program was practical program offered by the university (30.61%), opposite the exchange program of traineeship (4.08%), and among students who did not participate in any of these programs, results have shown the same information, differing only percentage (33.73%) for practical programs of university and (8.43%) for the exchange program professional internships.

-Being asked: " Which program from the mentioned would they choose to acquire new knowledge", both categories of respondents chose the internship as a program for professional development with a percentage of 38.24% and 27.66%.

- Being asked: "What business objectives can be achieved by following an internship", the answer of poll was: to gain practical experience (23.94%, 26.53%), learn new things from professionals (22.54%, 27.55%). There was also a percentage of 21.13% who considered an internship important for contacts in the field they want to work in the future.

- Being asked if they attended any professional development program offered by the university, 57.14% of them were involved in faculty practice programs, "the factory of entrepreneurs" being another practical experience for 23.81% of them.

Please note that the Faculty of Economics and Business Administration, University of West Timisoara, practical programs offered are: "Simulated enterprises" that aims to simulate the activity of a company and management decisions to be taken in various situations arising the scenarios presented, "Practeam" entails a period of one month of practice in companies in Timisoara in the economic department. "Entrepreneurs Factory" aims to help students who have a business idea and want to implement it by having a chance to present it to members of Timisoara business environment. This program included trainings programs as: personal development, career planning, leadership, time management, creating a business plan and opportunity to visit three successful companies in Timisoara.

- Regarding the time and place of an internship program: 57.14% of those surveyed have benefited from such programs for a period between 1-4 weeks, 38.10% for a period of 1-3 months and 4.76% for a period between 3 to 12 months while 95.24% of respondents chose subjects performed an internship in the country, not abroad.

-Because the students practice programs can be paid either symbolic or by the companies where they have participated at internships and also by the university through awards for those who were the best: 47.62% of respondents were not paid in any way for participation in such programs, while 14.29% of them received various awards for performance and outstanding achievements in the program and 38.10% were materially paid.

- Regarding the difficulty of tasks and responsibilities that participants faced during the programs, the answers reveal that 76.19% of those polled considered the tasks facile, and 23.81% have considered the tasks very easy.

For the question about which are the necessary ingredients for a successful career in Romania, respondents had a variety of answers. The most common were: confidence, courage, ambition, perseverance, experience, adaptability, responsibility, passion, luck, involvement, reliability, creativity, knowledge, intelligence, respect, learning all the time. Responding to these responses confirm a hypothesis: "internship programs increase the level of empowerment and involvement." - In our opinion the question: "How do you think this experience changed your way of being?" Is one of the most important aspects that are involved in an internship program and the answers received show that: most say they have more confidence in their self and more courage, more knowledge, accumulating some experience are more responsible and persevering to achieve their objectives, they are more professional than before this experience. Others have got a picture of what it means to have a job and what labor relations mean. So, confirming the hypothesis 2: "internship programs lead to increased competence and professional skills and personal development".

4. Conclusions regarding internship role in training and professional development of students

Internship has certain benefits not only for students, but also for the employers.

Internships provide work experience opportunities to university students, recent graduates and people considering career changes. Employers are willing to hire interns with little or no experience, especially if the intern is willing to accept little or no monetary compensation. However, the benefits of doing an internship go far beyond your pay-check.

Gain Valuable Work Experience

An internship provides the opportunity to gain hands on work experience that the students can't get in the faculty. First time job seekers and career changers aren't usually desirable candidates, but companies are willing to train them as interns and give them the experience they would need to get a job.

Have an Edge in the Job Market

Employers are usually more concerned with the students work experience than their qualifications and internships are often the only way to get the work experience they need to secure a job. Many employers prefer or require applicants who have done an internship or relevant work experience.

Transition into a Job

Employers see interns as prospective employees and many finish their internships and continue working with the company full time. Internships are the number one way for employers to find new staff in the USA.

Decide if this is the Right Career

If the student is not sure if this is the right career for him, doing an internship is a great way to try it out. Internships are generally short-term, so the young candidate can test his future career without committing and find out if it is a career that will satisfy him.

Networking Opportunities

Internships are a great way to meet people in different fields. An internship allows students to meet people who might help them land a job later on and give the contacts in the industry they're trying to break into.

Apply Faculty Knowledge

An internship can be seen as the pinnacle of the university education and give the chance to use the skills the students have learned in the faculty in a real-world setting. It's a chance to prove the worth of their qualifications and to show what they can perform.

Gain Confidence

After the students have done an internship, they has more confident in their self.

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VIEW ON STRATEGIC MANAGEMENT LITERATURE FROM ROMANIA

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This study focuses on analyzing the Romanian works on strategic management – a specific field of management theory. The literature to be analyzed is referred to the Romanian environment due to the national authors writing in Romanian on the one hand, and to the source of diffusion involving the products which were developed on the other.

This study evaluates the strategic management theory representation and reflection in the works issued in Romania by Romanian authors during the last two decades. Such an assessment is valuable for the evaluation of the development level related to a rather novel field of the socio-economic area..The evaluation is also useful in order to devise curricula for the faculties providing training programs related to business and institution management.

The study schema taken into account is discussed by reviewing similar examples selected from the foreign literature. The works to be analyzed were selected taking into account the interest triggered by the prestige of the quoted authors and by the analysis schemes they used. The approaches related to a specific segment of management are compared to the ones dealing with the field as a whole. “The form oriented references” of the study are compared with the practice developed in the countries considered as sources for the management theory.

The research has mostly a descriptive character with a longitudinal approach focused on the last two decades. The qualitative aspects prevail, even if an amount of quantitative references are also taken into account. The quantitative approach attempts to provide a wider image where certain approximations are used in order to build a basis of reference. With no intention to develop case studies, the examples were preferred to doubtful quantitative determinations related to the relevance of representation, which could have concealed the essential state of facts. The secondary sources used were selected according to the level of visibility.

The results offer a general view, as a “snapshot,” of the main set of characteristics related to the significant issues of strategic management published in Romanian by Romanian authors. Elements related to amount and contents are taken into account and deductive qualitative evaluations are developed on the quality of the issues. The limits of the study are predetermined by selecting an optimistic approach, a fact that implies the de facto formation of a favorable sample consisting of elements to be researched.

This study represents a point of entry for a “who’s who” type discussion on the current strategic management theory in Romania. Its exploratory character allows the planning of a higher scale research in order to devise a more reliable inventory of the products related to the field and to measure the real impact of the knowledge diffused by these works, books and articles.

By choosing this topic, the author attempted to draw attention to the necessity of researching on the “production” of theory authors involved in a certain field – in this instance the strategic management – in order to decide if the research framework of the associated practice has a reliable basis. Even if structured in a rather elliptical style, the conclusions suggest that in the Romanian field of theory there is still a wide array of unbeaten paths.

Key words: strategic management textbook, strategic management theory, strategic management studies

JEL Codes: M19, Y90

I. Introduction

The year 1990 witnessed the downfall of the ideological and political barriers which had impeded on the diffusion of management works. This fact triggered the development of a national

specialized literature which attempted at drawing the attention of local practitioners, and also of those attending at the time various stages of training in the field of management. Instead of the “official” textbooks, issued by groups of “authorized” writers, several author works were issued, and then subjected to the market validation on the model provided by the practice developed in the Western countries. During the following years, series of books focusing on theoretic segments of interest related to the up-to-date management have been issued. The features of domains such as accounting, marketing, human resources management and other similar segments were defined due to works, books and articles, issued by Romanian authors and referring, in a way or another, to the Romanian context.

Strategic management can be considered as one of these segments of interest related to management, and more comprehensively, to economy as a whole. If the issue of the first textbooks can be traced between the years 1995 and 2000, both the label and the concept “strategic management” have diffused vertiginously both within the programs of study provided by higher education and within the day-to-day slang of the decision makers. Both “strategy” and “strategic management” have permeated the discourse referring to works considered as being of significant importance. Moreover, these terms have been associated as attributes with other concepts, as for instance “marketing” or “tourism”, and in this manner the final result has become more difficult to interpret when taking into account the initial meaning of the term “strategy”.

As the interest for this topic and for the labels associated with it has increased, a review of Romanian achievements in the field of strategic management theory will be indeed useful, and this approach will imply research on the works which have been issued on the one hand, and on institutional structures and authors diffusing knowledge related to the field on the other. Focusing on this specific field of management, this study will rely on textbooks used at higher education level and also on materials attempting to become training instruments designed for the university.

II. Some inspirational Western models

On one way or another, the reading public has shown a constant interest in the synthetic approaches of retrospective character related to various fields of science. As the evolution progress involved in the knowledge development has augmented during the last decades, the demand for such works has also seemed to increase.

The strategic management has not remained immune to these signals, and has adapted to a more mature trend involving general management and the organizational behavior. This orientation has developed more in countries with a sound tradition in the field, such as the United States, the Great Britain and France. However, the necessity to introduce order into the field, a field most frequently considered as an interest arouser at national level, is being also taken into account at the moment in the countries with emergent economies. In these cases, the domains of interest are represented by the national contributions and by the manner they influence the field at a national scale.

If one is searching for reference patterns for these retrospective approaches in the American literature, as the United States were the most creative area during the last decades, one can distinguish the existence of two great categories. As one of them focuses on the significant authors, the other’s main domain of interest is represented by essential ideas and concepts. In other words, the first deals with a “history” of the authors organized in a chronological manner as the second can be seen as the history of “structures” which evolve according to specific concepts. Obviously, in both cases one cannot refrain from a complementary approach, the authors being reviewed by mentioning their contributions, as the “history” of concepts is described by referring them to their creators.

Some of these critical reviews are fathered by renowned names of the field, a fact that, even if in a succinct manner, imposes self quotation. The significant amount of works edited by names of reference for the field can also be included in this category of syntheses. The collections of

reference articles issued in special editions of best business reviews or journals are designed in a similar manner.

The list of this kind of syntheses issued in English is very comprehensive. One can identify in it interesting titles and lists of authors. In the same manner, certain “author syntheses” are of real interest due mainly to the prestige of the authors.

Moore (2001) builds a list including several authors specialized in strategic management, such as Andrews, Ansoff, Chandler, Porter, Mintzberg and containing also an amount of consultants of this field. Some of them, such as, for instance, Ohmae or Henderson, are renowned for their theoretical works in strategic management.

Mintzberg and Quinn (1992) structured a synthesis focusing on the strategic process, a synthesis involving more than two dozens of contributors. Moreover, Mintzberg, Ahlstrand and Lampel (1998) built an “inventory” of what had been issued related to the strategic management field by grouping the authors in a number of ten “schools” with the subtitle “A guided tour through the wilds of strategic management”.

A modern synthetic approach focused on concepts and taking into account the significant up-to-date topics was used in Canada by a group of professors, the main authors involved in this project being Taïeb and Toulouse (1996). Their vision is rather detached from the clichés of the American space, a fact that supports an elegant integration of the various “directing lines” of the field.

As the strategic management, a concept which has been defined only for half a century, is being analyzed from the point of view of general management, the syntheses where this concept is to be found have increased in a significant manner. The “who’s who” type lists have become more comprehensive in various shapes, their contents focusing on the authors’ main characteristics, such as education, experience and their main works.

For instance, Matteson and Ivancevich (1999) devised a synthesis where two dozens of “classics” are exemplified with several excerpts from their works, while Pugh and Hickson (1989) (a work translated into Romanian too) built their synthesis on summaries of complete works belonging to significant authors. Cooper (2000) is a good example for the category of authors who devised an extensive list of authors, each of them being allowed a space similar to that provided in a specialized dictionary.

Among the journals, one can distinguish the case of Harvard Business Review who created special editions such as “business classics”, dedicated to general interest topics. Usually, they are more restricted instead of taking into account a wider field such as strategic management.

Finally, we have to mention the strategic management synthesis provided by the English variant of Wikipedia. However, this synthesis focuses on reviewing the evolution of significant concepts and ideas, providing also a good “visibility” to authors of the field.

III. Methodology

The study analyzes the material issued by Romanian authors during the last twenty years in Romania, in Romanian language. The books issued at a national scale have been mainly taken into account, but also the university type textbooks with a local diffusion which are however “visible” when using search engines on the Internet.

On the other hand, articles and specialized conference works published in journals and proceedings have been reviewed. The analysis of this segment has focused on a category consisting of a number of journals categorized as B+ class and having a good visibility in Romania, and also of several conferences that seemed to have a more obvious orientation towards management and strategic management due to the titles of the proposed sections and of the selected works.

Two dozens of authors were selected as they were associated by Google with the search words “strategy” and “strategic management” in the Romanian context. The names were selected in

order to be analyzed only if the respective key words were to be found in the title of a work dealing with strategic management. The names of authors discussing the strategic management of a function of organization, as human resource management or marketing, were not selected for the analysis. There is no importance oriented delimitation between the twenty fourth author and the twenty fifth author of the list and the list doesn't involve any qualitative criterion of classification.

Several qualitative and quantitative features were taken into account for the dyads author-work selected, which could provide a general image of the standard related to the theoretical products belonging to the textbook type.

The qualitative comparison between the two types of works has taken into account both the identification of authors common to the mentioned types and a rather relative focus on certain topics of interest for the international literature of the field.

The analysis highlights a causal relationship between the features of the national policy involving the higher education and the characteristics specific to the state of facts related to the researched field of the theory.

Taking into account the aforementioned elements, the study can be described as having a descriptive character and providing some explanatory elements. The researched time span also provides the study with a longitudinal character. Finally, the developed domain of discussion proves itself to have an exploratory value.

IV. Landscape of the Romanian strategic management theory

In Romania, the strategic management is a subject specific to faculties of economic sciences and business administration, in most of the cases the named subject being available starting from the bachelor stage. During the last decade, the subject was also appropriated by the engineering faculties, and mainly by those of economical engineering. Thus, one can state that the subject is available in the curriculum of all the comprehensive universities. However, we should point out that the subject appears to be a pillar of the MBA programs framework provided by all the universities.

From public organizations to consultancy companies, there are numerous providers of formation courses besides the university type courses. Their activity is stimulated periodically by the appearance of certain opportunities such as the POSDRU European projects.

In this context, an evaluation of the written materials in the Romanian language by Romanians existing as a support for these courses represents a domain of real interest.

The most frequent generic title of the works associated to the field is "strategic management". Such a plain title supports the allegation that the respective book attempts to be mainly a textbook. Nicolescu (1996) issued as an author/editor a collection of authors who had discussed various general or functional topics related to the company by taking into account the "strategy" concept. In most of the cases, the references were rather awkward and the whole lacked substance because it referred to up-to-date strategic management. However, the work has the merit of being among the first works with diffusion at a national level.

Further on, Băcanu (1997) and Ciobanu (1998) came up with generic works related to the field. One should also take into account the issue of a translation with this title coming from Allaire and Firșirotu (1998). This work can be considered as a "landmark" for this analysis as one of the authors, a professor at a Canadian university, is of Romanian origin.

Starting with 1999 and during the following decade the most titles which are available on the market today or are being used as university course materials were issued. From these materials, roughly two dozen titles have visibility on the Internet, less than half of them being made available by the public system of book distribution.

An analysis of the amount of information these books provide shows that only few books count between 250 and 350 pages, most of them counting 200 or less pages. Due to the fact that the

average for western materials related to the field is of 350- 400 pages, one can infer that certain topics are discussed in a succinct manner and some topics are missing. Moreover, as in the case of the course materials conceived in the American manner an amount of 50-60% of the whole deals with case studies, within the Romanian materials the case studies are not often available besides the theory matters, the analysis identifying only five titles dealing with case studies from a list of 30 textbooks or similar materials.

Taking into account the bibliography used which further on generates the structure determining the approach available in the respective book, an Anglo-Saxon and mostly “American connection” becomes obvious, a connection to be distinguished at the majority of the Romanian authors, and also a “French connection”. The latter is represented by Ciobanu (1998) and Niculescu (1996).

A content analysis proves an obvious tendency towards the textbook format, without taking into account the promotion of new idea, models or concepts. The labels or “innovations” to be afforded to the Romanian authors are seldom. It is less difficult, however, to distinguish the theoretical background of the author because certain aspects associated to his favorite subject are indeed emphasized. For instance, in the case of Niculescu’s works one can distinguish the preference for the approach and topics related to financial analysis.

In what the coherence of structure related to the presentation of strategy or to the strategic process is concerned, this coherence is specific only to a small amount of the researched works, a segment of around 30% of the total amount of researched works.

In what the approaches involving the strategic management in the studies issued in journals or proceedings are concerned, a rather moderate representation can be distinguished. As the studies using the “strategy” label due to marketing reasons are excluded and a content analysis is developed, less than 5 % from the total amount of articles from a sample of B+ journals and conferences with ISI labeled proceedings may be considered as dedicated indeed to strategic management.

The research on authors who have issued both studies and textbooks shows that only a small amount of them write regularly on topics involving strategic management or provide a project materialized in a set of works sharing the same direction. Brătianu and Lefter (2001) stand an example for the university strategic management and Țuclea (2003) for the strategic management involved in the field of tourism.

The depreciation trend of textbook quality appeared during the last three years and this tendency can be related to the fact that issuing Romanian material in Romania doesn’t serve anymore in order to improve the assessment of the teacher performance. The lack of interest in academic books institutionalized by the decisions makers within the Ministry of Education is not at all counter-balanced by the appreciation of ISI articles and studies and, as a result, it hasn’t increased the consistency of theory offer related to the field. The more turbulent the economic environment gets, the shortage is more obvious. As a result, theoretical orientations towards stability become a necessity.

Besides the educational materials on strategic management with which the name of an author may be associated, there are many books, textbooks and “course materials” with a local impact or belonging to the “no name” type. These materials are in fact compilations belonging to various categories of value, some of them being obviously affected by dilemmas associated to plagiarism. Their level of coherence and consistence suggest that both those who have issued them and those who have used them in order to support their explanations in front of their students lack the knowledge required in order to counter-balance the low quality of the printed material with the label “strategic management”.

V. Conclusions

Even if focused on the most obvious and generic aspects, the analysis developed in this study proves the existence of a qualitative discrepancy between the offer of materials diffusing the theory and the offer of strategic management courses. These materials, mainly in book format, are adapted to the Romanian university requirements, being namely influenced by a time budget afforded to the respective curriculum subject. In other words, the detected “quantitative” standards are rather moderate in comparison with the ones available in the western world.

Even if there is indeed a tendency dictating any teacher to make up his own course material in order to avoid “the unique textbooks”, the materialization of this quantitative flow hasn’t yet provided a qualitative improvement. The plethora of “local sources” hasn’t yet generated any great innovative ideas or approaches.

Finally, in contrast with the general diffusion of the strategic management subject within the curricula, a rather insignificant amount of teachers may be associated with the respective field.

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MANAGING CHANGE: SOME THEORETICAL AND APPLICATIVE ASPECTS

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The strategic organizational change aims is the change of procedures and systems, organizational structures and responsibilities but especially acquiring new knowledge and skills. Significant authors (Drucker: 1999; Kotter: 1996; Buckingham & Clifton: 2001), supporters of the theory of strategic leadership show an inclination for the idea of optimal management of an organization, which depends on circumstantial factors as place and time, the individual and the context in which it acts. Many experts who studied organizational change saw as possible the future replacement of the current state, desired only after completion of specific phases, in a certain sequence. In this article we will focus our attention on the reduction phase of resistance to change. The research objectives targeted both theoretical aspects consisting in bringing to the forefront the relevant aspects related to organizational change in the current context and practical aspects related to identifying and analyzing the main elements that make it possible or on the contrary act as brakes in way of introduction and implementation of change. To achieve the research objectives, we used the method of direct observation and the questionnaire method supported by the gathering of more information from the organization's documents (Beton Construct SRL) and support discussions with the employees.

Data processing and analysis revealed that in the organization certain factors exist and manifest that constitute obstacles or inhibit organizational change, namely: the goal of the change is not clear, the rewards of change are not related to the effort needed to make them happen, change determines fear of failure, change is often imposed by coercion, change requires effort and commitment required for employees that think they do not have resources anymore.

Summarizing the results of usage for certain methods and techniques to implement change, we can say that the actions of an authoritarian management must be reduced at a necessary minimum and positive communication and motivation must be improved of those who contributed to the change.

Setting up an effective system to implement changes towards achieving and maintaining performance in our case, limited in time and space at contemporary bihorean space, like practical implication of our study, appears to be related to direct communication, the concentration of communication on solutions and not on problems, creating a climate of trust, time allocation and reconsideration for the notion of failure.

Keywords: strategic organizational change, obstacles, effective system

JEL Code: M13

1. Introductory elements regarding managing change

Over the years, carefully examining the factors that determine success or failure of an organization was a constant concern of management theorists and practitioners which gradually led to the crystallization of a specific methodology for analysis and strategic direction of business firms. "Strategic Management emerged and was designed as an advanced form of leadership, able to ensure anticipation of changes and to prepare the company to face them successfully, to increase its adaptive capacity and hence its speed of reaction and response to new challenges the business world is facing today" (Naneş 2000:37). Strategic management is often understood as a change management and it is. The literature has identified three types of change, namely: forced / required change, spontaneous change and strategic change, ie change that is chosen and formulated as an option. This requires an attitude and behaviour of anticipated adaption and voluntary organization and activity, in the event of a future environment more or less predictable.

The recent series of negative events with the devastating effects entitles us to say we are speaking about a future increasingly unpredictable. On the agenda of mankind dictated by their early warning signals there are discussions about the emergence of so-called *big shifts* or *inflection points* where the curves that describe the evolutions of different aspects so familiar of our daily routine change direction. A new philosophy, a new way of thinking and action can be obtained only with effort and sometimes the price paid is very high. A great example is that of the ship Titanic, sank 100 years ago. It is important to realize that we must learn from such an accident. The assimilation of the "Titanic effect" submitted by its identifier as: "the size of disasters decreases as people think it possible and even design the prevention or the reduction of their effects" (Watt 1977:84) is, in our opinion, an important pre-requisite in managing strategic change.

The strategic change aims at achieving substantive changes in an organization and is the opposite of small changes, the one that involves unessential changes in the organizational structure, work program or people in different functions of management or execution. The strategic change is a process that lasts, often incomprehensible and painful, which leads people to oppose, either openly or concealed. The strategic change aims is the change of procedures and systems, organizational structures and responsibilities but especially acquiring new knowledge and skills. In the new situation in which they were forced to dive, people need new knowledge and skills to act. In addition, managers need to communicate a vision, a direction to align its people, to motivate and inspire them energy; meaning they must become leaders. "Being a manager means to put people to do what needs to be done. Being a leader means to convince people to want to do what needs to be done" (Bennis 1994). Significant authors (Drucker: 1999; Kotter: 1996; Buckingham & Clifton: 2001), supporters of the theory of strategic leadership show an inclination for the idea of optimal management of an organization, which depends on circumstantial factors as place and time, the individual and the context in which it acts.

There are no few who have asked "*Why change programs do not produce change?*". Michael Beer, published an article with this exact title-question in the "Harvard Business Review" in which he argued that in order to change the behaviour of employees, they should be put in an organizational context, which should impose them roles, responsibilities and new relationships (Beer et al. 1990:158-166). Many experts who studied organizational change saw as possible the future replacement of the current state, desired only after completion of specific phases, in a certain sequence. In this article we will focus our attention on the reduction phase of resistance to change, specifically on finding answers to questions like: What are the elements that determine resistance to change? What is their mechanism of action? What are the reasons why employees show resistance to change? What are their forms of resistance to change? What specific methods and techniques that can reduce resistance to change? Which are the specific situations where it is recommended to use a particular method or technique?

2. Research hypotheses and methodology

The research objectives targeted both theoretical aspects consisting in bringing to the forefront the relevant aspects related to organizational change in the current context and practical aspects related to identifying and analyzing the main elements that make it possible or on the contrary act as brakes in way of introduction and implementation of change. Managing them properly can be an important prerequisite to improving performance.

Hypothesis I: in the organization exists and manifests factors that constitute obstacles or inhibit organizational change; the elimination or reduction of their influence would be a major step forward.

Hypothesis II: the analysis of the effects of certain methods and techniques for change implementation can determine the configuration of a more effective system for implementation of change towards achieving and maintaining performance.

The research was conducted on the Beton Construct company, specialized in processing ballast, the production of sorted and crushed aggregate and manufacturing of concrete. Beton Construct always invested in continuous improvement of product quality, production capacity and technical facilities, becoming since 2008 the local leader in the production of concrete and aggregates. In 2003 the company has benefited from Phare funds that were used for the purchase of an ultramodern sorting and crushing station (production Sweden). The company has 33 employees that operate in different departments: administration, accounting, billing, quality control of products, production of crushed goods, concrete production, transportation, repair and installation for its equipment. Out of the 33 employees, 8 are women and 25 are men. The company is managed by a General Manager, assisted by a Economic Manager and a Technical Manager. In addition, there are 7 persons, 4 heads of departments and 3 persons, TESA responsible. Out of the 33 employees, 20 are skilled workers (60.60%) and 3 are unskilled workers (9.09%). By age, 5 belong to the interval 20-30 years, 10 match the range 30-40 years, 10 correspond to the range 40-50 years and 8 the range 50-60 years. Wages are set according to the quantity of products or work performed, work schedules and rates per unit of product or work.

To achieve the research objectives and hypotheses, we used *the method of direct observation* and *the questionnaire method* supported by the gathering of more information from the *organization's documents* and *support discussions* with the employees. We chose the questionnaire for the following reasons: the respondent can complete the questionnaire at its own pace; the chance to provide information about any doubt; the opportunity to collect additional information through dialogue, as the support factor of the questionnaire; the low cost, providing anonymity; the low influence on the respondent. The questionnaire included 23 questions following circumscribed areas: the importance given to the action of reducing resistance to change; the reasons that determine rejection to changes; agreed methods and techniques for reducing resistance to change. Data processing was performed using SPSS software for statistical processing. The analysis was conducted only for the data collected by the SC Beton Construct SRL, for a sample of 29 persons drawn from different departments and functions, and multiple ranges of age and seniority at work. The questionnaire was answered by: 2 engineers, 2 accountants, 2 economists, 12 workers, 4 technicians, 2 analysts, 2 head offices, 3 persons in leadership positions.

3. Presentation of research outputs

After data processing and analysis the following were revealed:

- the main technique for reducing resistance to change is communication, informing on changes that are intended to be implemented. 64% of respondents were in favor for the existence of a communication on change in the organization;
- there is now a management concern for the continuous training of employees;
- in the case of planned changes, managers adopt a participative management style, during and after the implementation they are more communicative with the staff, adopt a positive attitude towards employee proposals for improving the process. Over 51% of total respondents said that during major change a participative management is practiced, the communication is more used in relation with the employees, employees are asked for their own views on the implementation of change;
- in the methods and techniques used to reduce resistance to change, positive motivation has a low share. This is reflected in days off, bonuses, highlighting in the group, all being placed as a percentage of total motivation less than 15%;
- negative motivation is found in the organization through sanctions, employees fear of losing their jobs (34%), or in conditions of crisis by practicing an authoritarian management, which determines a rapid reduction in the employee's opposition to imposed change (51%);
- influence / manipulation (on an average level) is another method used by managers, in a large percentage, in the following ways: presenting the change as the only possible alternative to the

crisis (45%); the presence and action of the group leader, which influences the whole group to comply with changes (51%);

- more influence to the proposed changes is manifested the employees which are more than 45 years old, with a significant 58%, in comparison to young employees that embrace change with a greater flexibility. The reasons are varied, they can arise from a poor communication for the change as a burden compared to the routine that is much favored by this group of employees. On the other hand, people under 45 years manifest an opposition of 8% towards changes, resulting from this the flexibility and adaptation to new requirements and not least the avoidance of routine.

4. Conclusions and Discussions

The analysis of implementation organizational changes in SC Beton Construct SRL, of methods and techniques used to reduce resistance to change allow us to make the following statements:

- employee participation it is and it is not encouraged to identify solutions to business;
- an interest in communicating the changes that are intended to be implemented exists, but not enough objectives oriented;
- in the case of changes implemented in emergency situations, the communication with employees takes place after implementing them;
- there is concern for the continuous training of staff, but predominately technical orientated;
- for some changes an authoritarian management was used;
- very low attention is given to the motivation linked to organizational change;
- employees who are facing the changes feel a great deal of fear, uncertainty and insecurity.

Checking the first research hypothesis. We can say that in the organization certain factors exist and manifest that constitute obstacles or inhibit organizational change, namely: the goal of the change is not clear, the rewards of change are not related to the effort needed to make them happen, change determines fear of failure, change is often imposed by coercion, change requires effort and commitment required for employees that think they do not have resources anymore.

Checking the second research hypothesis. Summarizing the results of usage for certain methods and techniques to implement change, we can say that the actions of an authoritarian management must be reduced at a necessary minimum and positive communication and motivation must be improved of those who contributed to the change.

Setting up an effective system to implement changes towards achieving and maintaining performance in our case, limited in time and space at contemporary bihorean space, *like practical implication of our study*, appears to be related to direct communication, "man to man" according to the principle "live what you say" ("*walk the talk*"). Essential seems to be the concentration of communication on solutions and not on problems ("*finding solutions vs. problem thinking*"). It is rightly said that it is beneficial to implement solutions at 60% than to dream at 100%. It is increasingly clearer the fact that to compete with more power, the company will need to consider developing its people in a environment supporting the manifestation of personality in socialized forms, as an objective as important as producing or delivering goods or services. In our opinion, *essential in the operationalization of this is creating a climate of trust, time allocation and reconsideration for the notion of failure.* Seen through the "transformational vocabulary" proposed by Anthony Robbins, when an idea does not provide immediate results, it should not be considered a failure but an experiment. The term used in 2011 by Forbes magazine is "*falling forward*", which emphasizes that any experiment, be it bad, is a step towards the right solution.

In our opinion, for Beton Construct and other bihorean firms, *the recommended change is the strategic change*, a proactive change that seeks to anticipate future changes and potential risks associated with the environment, as well as efficient and effective management by setting courageous goals and action. In planning strategic change, according main findings of our modest study who confirms the guide lines developed by significant authors (Zwilling: 2011; Mehri:

2006: 21-42) it is necessary to consider that its success depends on taking into account the reality that both people and organizations can absorb limited number of changes in a certain amount of time, that differ from one employee to another, from one organization to another, from one country to another. It must be a participative change in which affected people / groups must discuss measures to be adopted and come up with proposals and solutions for effective implementation.

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A MODEL EQUATION OF FLEXIBILITY AND KNOWLEDGE PRODUCT

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Environmental wastes can be a symptom of a suboptimal system. can help the company to reduce waste and improve environmental performance leading to increased system productivity. Every major industry was once a growth industry. But some that are now riding a wave of growth enthusiasm are very much in the shadow of decline. Other which are thought of as seasoned growth industries have stopped growing. In every case the reason growth is threatened, slowed, or stopped is not because the market is saturated. It is because there has been a failure of management.

Keywords: quality management, environmental management, change management, flexibility equation, product knowledge

JEL : M11

Introduction

Every major industry was once a growth industry. But some that are now riding a wave of growth enthusiasm are very much in the shadow of decline.

Other which are thought of as seasoned growth industries have stopped growing. In every case the reason growth is threatened, slowed, or stopped is not because the market is saturated. It is because there has been a failure of management.

Method of research

A Equation of flexibility and Knowledge product

The equation of flexibility and knowledge product can be written in function of following variables for our improvement product matrix were: Q_p represent quality perception, Q_a = quality action, Q_d = quality decision, P_q -quality perception , P_a ,-action perception, P_p - precision perception, T-technology, M-man, manufacture power, A-affect variable..

$$EKP = f(Q_p, Q_a, Q_d, P_q, P_a, P_d, T, M, A) \quad [1]$$

Once apart of data is selected the relationships represent the dependencies of all the selected data.

A model for knowledge product process it is presented in the following scheme which identify the way and the variables observed or affected which disturb the product process [15].

Knowledge it's part of every stage of life cycle product from the design stage, business information, organization work harmonize with the new environmental changes and finished with the new model of knowledge product (Figure 1).

The new trend of friendly product and friendly environment influence the enter activity of knowledge product because of the perception and the action of disturbance variables: noise, vibration, failures, damages, pollution.

The new provocation for designer will be to establish the connection and choose the best solutions and suitable programs for product, taking in consideration the matrix and learn from the each evolution of the cycle design [Klepper 1996]

It is clear that stand alone solutions will not serve the designers needs, if he wants to have access to all relevant information for a sound product development, further research work has to prove this.

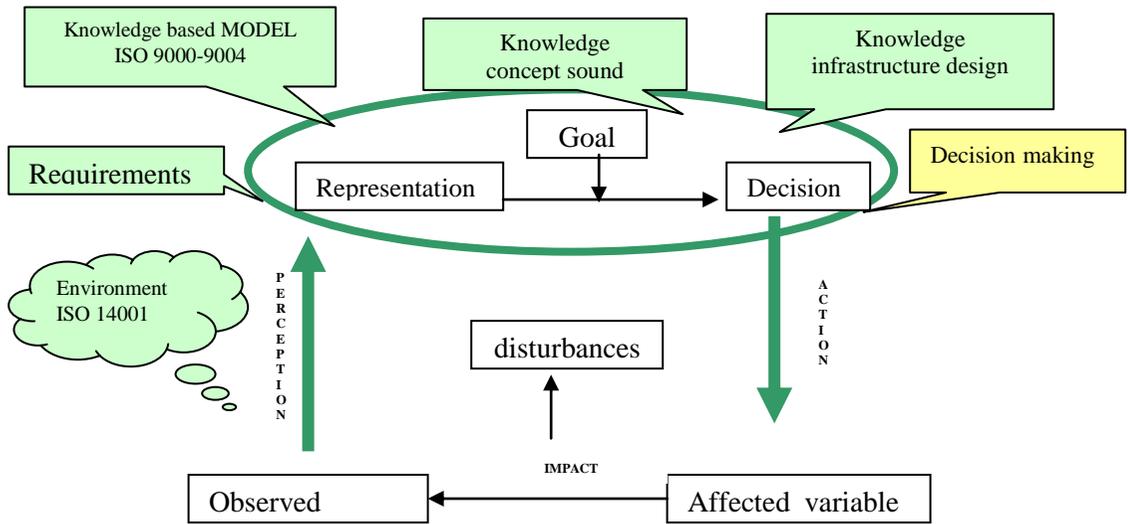


Fig.1. Modelling of Knowledge Product Process

On this platform information of various characters are located and shifted around for the purpose of being accessed from any point during the design process [Hubka 1996].

One approach is to have an integrated product data model and to create views upon this model. Each view represents a specific selection window which gathers all necessary information for a certain need of access [Cesaroni 2010].

However, for many this stage will prove to be the critical one; many wait until this period before acting, and it is the only stage where some sort of action is critical.

Theoretically the product life-cycle is a smooth and elegant curve; in reality there are constant short-term fluctuations due to external factors [Arvind Rangaswamy (1996)].

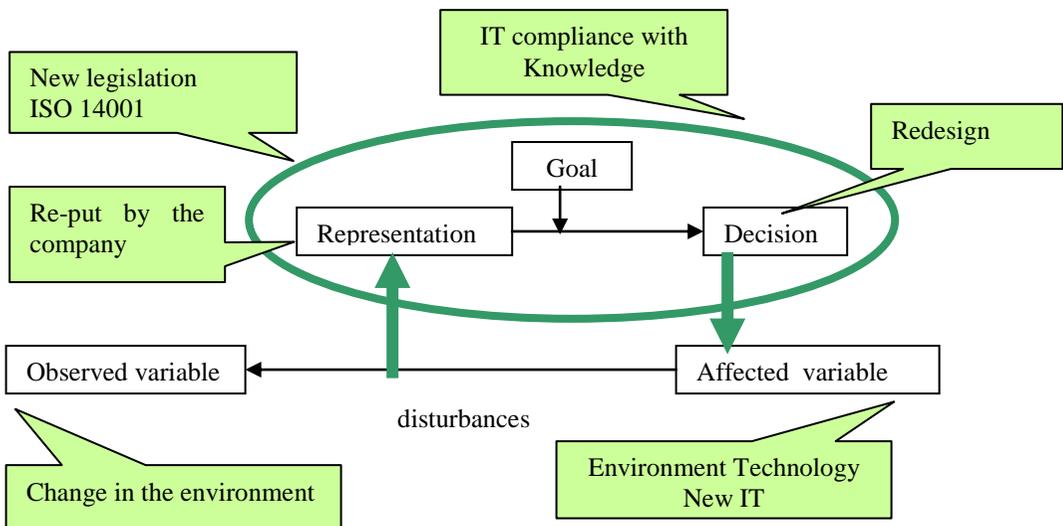


Fig.2. A Model concept for Product Improvement

Knowledge it's part of every stage of life cycle product from the design stage, business information, organization work harmonize with the new environmental changes and finished with the new model of knowledge product (Figure 2).

The first common mistake is to assume that any reduction in sales signals the onset of the decline phase. We state, that the set of requirements of a product is a feasible and suitable set of relationships to hold all the data pieces together and that this (most unsettled) set can serve as an integration platform for a design support system [Allemy (1995)], [Ungureanu 2001, 2002].

Results

To the end of the article I preset the results that prove that it is possible to translate product life cycle PLC knowledge into the improvement product matrix like in Figure 3 a Model of the Life Cycle Product from theoretical trend - sales - manufacturing design.

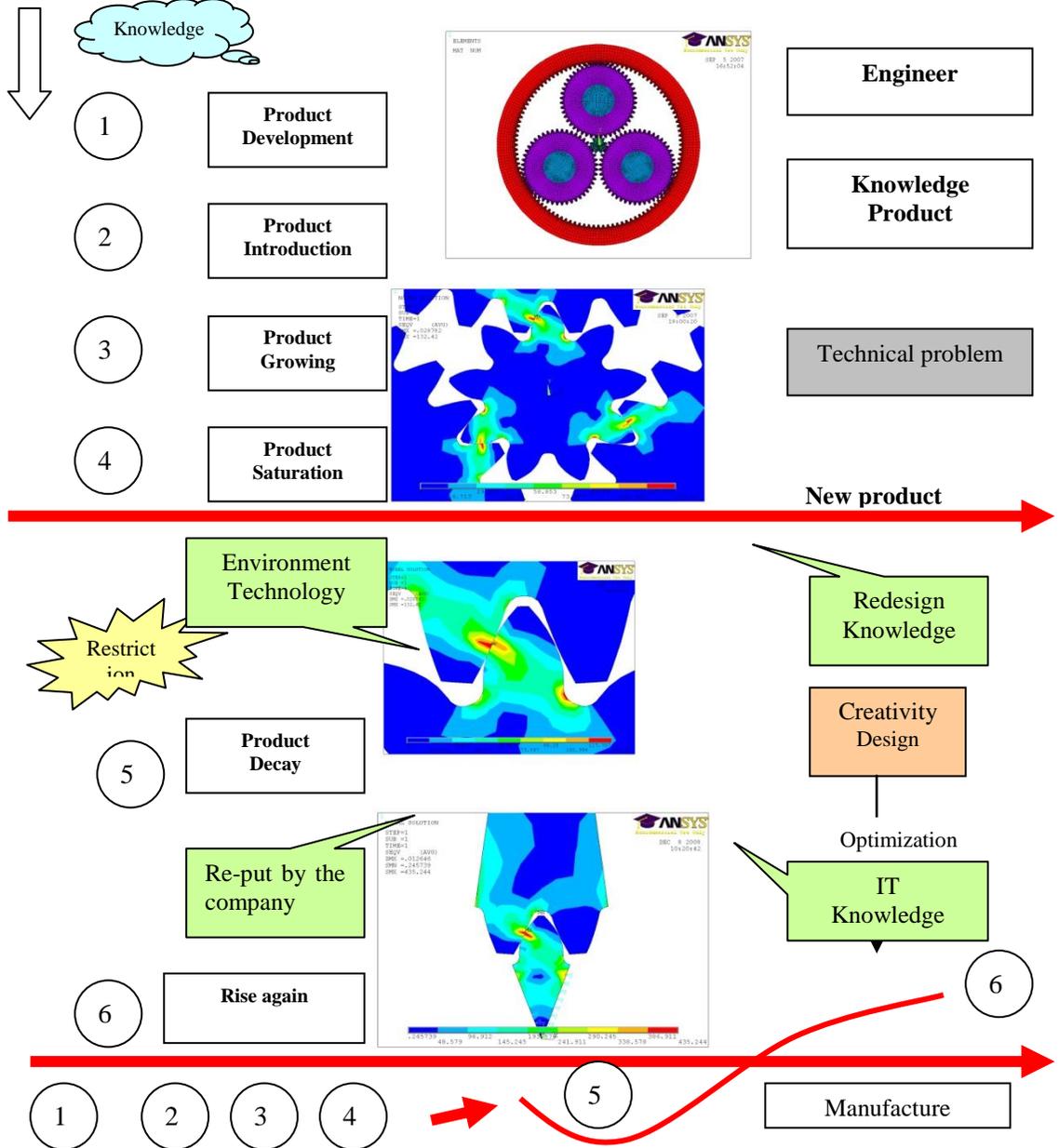


Fig.3. Life Cycle Product Model from theoretical trend -sales - manufacturing design

Conclusion

Moreover, a new design support system shall at least have those capabilities which the previous one had, it should as well of course provide more or better functionality.

It shall behave in the same manner as the previous one and be used in the same way. According to the research paper, the paper defines some models to relative environmental profiles of

- new material choices or packaging options.
- to reduce environmental impact at its source in the design phase.
- to serve as a communication tool between companies and consumers
- to establish from the design stage the re use of some materials,
- to identify which are the recycle materials [Dankwort 1996],
- to compare existing products with planned alternatives [Monolaisir 1999]
- to compare existing company products with products of competitors
- realize an internal information and training
- new strategies in marketing, advertising policies
- joining eco-criteria
- environmental cost allocation
- assess the gap from eco-label criteria
- radical changes in product life cycle [Klepper 1993]

From economical point of view the target costing methodology represents a totally different approach to classic cost management. In either case, a successful product supplier must focus more attention on managing product cost.

Orients especially on drive product cost in preproduction phase of product life cycle and try to achieve lowest future product costs [Barbuta Misu 2009],

Target cost calculation can be characterized either as activity whose aim is to check up all possibilities of cost reduction in product planning phase.

Result those activities should be product design, which meet all consumers requirements and expectation and whose cost and price which will provide to company required profit.

From cost-plus pricing to market based pricing a view (Figure 3) describes the way to look a product and his properties during the product life cycle.

In this way we can describe mainly the content of information concerning the product and the usage of system functionality with regard to each stage of design/ development [Nishiguchi 1996].

Using the equation of flexibility in knowledge process we can define and provide some common basis for life cycle product knowledge (Table 1).

In compliance with the various approaches it seems that the matrix representation considering product properties and life cycle is quite suitable to represent engineering knowledge handled in the systems and complete the circle of influence for the new model of knowledge product process.

Table 1. Life cycle costs

Recurring production cost =	Production labor + direct materials + process costs + overhead + outside processing
Non-recurring costs =	development costs + tooling
Product costs =	Recurring production costs + allocated non-recurring costs
Product price or acquisition costs =	Product costs + selling, general & administrative + warranty costs + profit
Life cycle costs =	Acquisition costs + other related capital costs + training costs + operating costs + support costs + disposal costs

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SOCIETAL CULTURE: A COMPARISON OF ROMANIAN, AUSTRIAN AND GERMAN STUDENTS PERSPECTIVE

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Our study compares the students' view on the existing cultural practices with their ideal societal value system in compared societies. For the purpose of this investigation, Austria and Germany were selected to represent Central European values since they are seen as a 'bridge' between Eastern and Western European societal values. The research findings are helpful in identifying signs of cultural convergence of Romanian societal culture with Central European values. In doing so, our study will hopefully broaden the body of knowledge about the cultural harmonization between newer and older members of European Union. As seen in the literature review section, such studies started only a few years ago. Comparison of Romanian, Austrian and German students' perspective on societal culture is performed for the first time by the authors of this study.

The underlying assumption of the study is that the future middle managers will mostly come from the graduates of business and engineering fields of study. The research sample consists of 1086 undergraduate and graduate students. The main research question concerns the differences between the Romanian, Austrian and German students' view on societal culture. The theoretical and methodological foundation of the study is rooted in GLOBE international research project. Our findings revealed significant differences between perceptions of actual practices and expectations between the compared groups.

Key words: cultural practice, cultural value, Romania, Austria, Germany

JEL clasification: M14, M19

1. Introduction

Starting from GLOBE (Global Leadership and Organizational Behavior Effectiveness) findings, GLOBE STUDENT project was initiated in 2008 (1). The present study is a part of GLOBE STUDENT project. While GLOBE project focused on present middle managers, GLOBE STUDENT focuses on *future* managers, to be recruited mostly from today's students in business and engineering. Based on this assumption, more than 90% of the sample was drawn from undergraduate and graduate students in these two fields of study. Our study is designed to reveal signs of cultural *convergence* of Romania with Central European countries. In doing so, our paper will hopefully broaden the body of knowledge about the cultural harmonization in a regionalized Europe. Specifically, we will try to answer the following *research questions*:

- 1) Which are (if any) the significant differences between Romanian students perceptions of actual societal practices and those of students from Austria and Germany?
- 2) How do Romanian students' societal values (expectations) differ (if) from those of students from Austria and Germany?

2. Theoretical foundation

It is well known that there is no single generally accepted definition of societal culture (Chhokar et al, 2007: 3). Our study shares the definition used by GLOBE international research project: "shared motives, values, beliefs, identities and events that result from common experiences of members of collectives and are transmitted across age generations" (House et al., 2002: 5). The

GLOBE project distinguishes between *practices* (“as it is”) and *values* (“as it should be”), noticing that in all societies, the shared values become good predictors of *future practices*.

The GLOBE research assumes that shared values are incorporated in behaviours, policies and practices, measurable through nine *dimensions*: 1) Uncertainty Avoidance; 2) Power Distance; 3) Collectivism I (societal collectivism); 4) Collectivism II (in-group collectivism); 5) Gender Egalitarianism; 6) Assertiveness; 7) Future Orientation; 8) Performance Orientation; and 9) Humane Orientation (definitions of these dimensions to be found in House et al., 2002: 5-6).

A few studies focusing on students in business and engineering have been published since 2010 (see, for example, Čater&Lang, 2011; Catana&Catana, 2010). The present study is designed to compare the cultural foundations of prospective managers and leaders in Romania to their counterparts in Austria and Germany (referred to as the *A&G cluster*). We expect to find significant differences between the two samples, both in perceiving the cultural practices and their cultural expectations.

3. Methodological issues

GLOBE student project uses the GLOBE research project questionnaires (House et al., 2004) with some modifications required by the subjects’ nature (students). *Culture dimensions* have been measured using the scales in section 1 (*as it is*) and, respectively, section 3 (*as should be*) of *Beta* questionnaire.

The population of interest was defined as engineering and business students studying in three Romanian Universities, one in Austria and one in Eastern part of Germany. Although the German subjects come from the Eastern Germany, we assume they caught up very fast with the Western part of Germany, thus could be taken as having similar perceptions and expectations (at least) with the Austrian sample.

Table 1 shows the joint sample structure with usable data. The surveys were carried out in individual participating countries in either 2008 or the first half of 2009. Collected empirical data has been processed with SPSS 17. Descriptive statistical analysis was carried out separately for the A&G cluster and Romanian sample. In comparing Romanian sample with A&G cluster, the *independent samples t-test* was used, with 0.05 significance threshold. The research results are briefly presented and discussed in the following paragraphs.

Table 1: Sample structure

Country of origin	What subject area/ study path do you study?			Total
	Business/ Economics	Engineering	Other	
Austria	148	110	54	312
Germany	162	133	40	335
Romania	166	261	0	427
TOTAL (valid answers)	476	504	94	1074

Made by the authors

4. Findings

Table 2 displays the significant differences between Romanian sample and the Austrians and Germans with respect to perceptions of societal culture *practices* (usable answers: Romania = 427; A&G cluster = 654). *Figure 1* highlights the differences in the mean scores of the compared samples for all nine cultural practices. Romanian mean values are higher than their A&G counterparts for Collectivism II, Power Distance, Humane Orientation and Gender Egalitarianism (the lowest difference). Higher mean values among the A&G cluster were noted for Uncertainty Avoidance (highest absolute difference), Future Orientation, Assertiveness, Performance Orientation and Collectivism I. *T-test* of differences between the mean scores (two *independent*

samples) shows that the significant differences follow the pattern given by the absolute values of differences between means. According to these research results, it is hard to argue that Romanian cultural practices are very similar to average A&G cluster ones.

Table 2. Significant differences between mean values: societal practice in Romania and A&G cluster*

Cultural practice (“society as it is”)	Romania	A&G cluster	Absolute differences	t-test (sig 2-tailed)
Uncertainty Avoidance	3.49	5.04	- 1.55	- 31.663 (0.000)
Future Orientation	3.44	4.72	- 1.28	- 24.219 (0.000)
Power Distance	5.81	4.97	0.84	17.165 (0.000)
Collectivism I (institutional)	3.78	4.40	- 0.62	- 11.661 (0.000)
Humane Orientation	3.83	3.43	0.40	7.506 (0.000)
Performance Orientation	3.66	4.46	- 0.80	- 13.142 (0.000)
Collectivism II (in group/family)	5.13	3.90	1.23	25.822 (0.000)
Gender Egalitarianism	3.99	3.84	0.15	3.316 (0.001)
Assertiveness	3.51	4.53	- 1.02	- 20.406 (0.000)

*two independent samples

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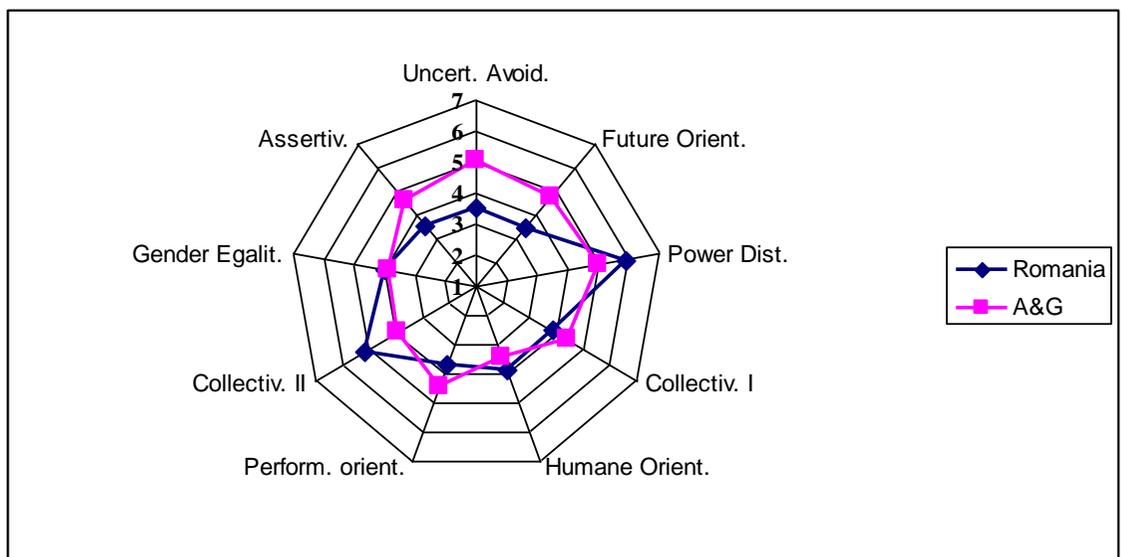


Figure 1. Differences in perception mean scores: Romanian vs. A&G students

Made by the authors

The data in *Table 3* compare the cultural values as desired by the two groups of prospective managers. *Figure 2* highlights the differences in the mean scores of the compared samples along with the nine cultural values. As seen, the Romanian students expect significant higher levels of Assertiveness, Uncertainty Avoidance, Future Orientation, and Institutional Collectivism than the group from Austria and Germany. Even though Collectivism II records the lowest absolute positive difference, it still shows that the Romanian sample desires a higher In group/Family Collectivism than the A&G cluster. The lowest absolute negative value between the two samples was noted with respect to Gender Egalitarianism. As for Performance Orientation values, the A&G cluster displays a desire for a higher concern of society in this respect. Finally, there is no significant difference in the expectations concerning the level of Power Distance and Humane Orientation between the two samples ($p > 0.05$)

Table 3. Significant differences between mean values: societal values in Romania, A&G cluster*

Cultural value (“society as it should be”)	Romania	A&G Cluster	Absolut differences	t-test (sig 2-tailed)
Uncertainty Avoidance	5.10	4.40	0.70	13.658 (0.000)
Future Orientation	5.23	4.66	0.57	9.830 (0.000)
Power Distance	2.65	2.65	0.00	- 0.127 (0.899)
Collectivism I (institutional)	4.94	4.65	0.29	6.178 (0.000)
Humane Orientation	5.41	5.38	0.03	0.674 (0.500)
Performance Orientation	5.89	6.00	- 0.11	-2.358 (0.019)
Collectivism II (in group/family)	5.70	5.59	0.11	2.146 (0.032)
Gender Egalitarianism	4.42	4.59	- 0.17	- 4.941 (0.000)**
Assertiveness	4.01	3.13	0.88	17.552 (0.000)**

* two independent samples

** equal variances not assumed

Made by the authors

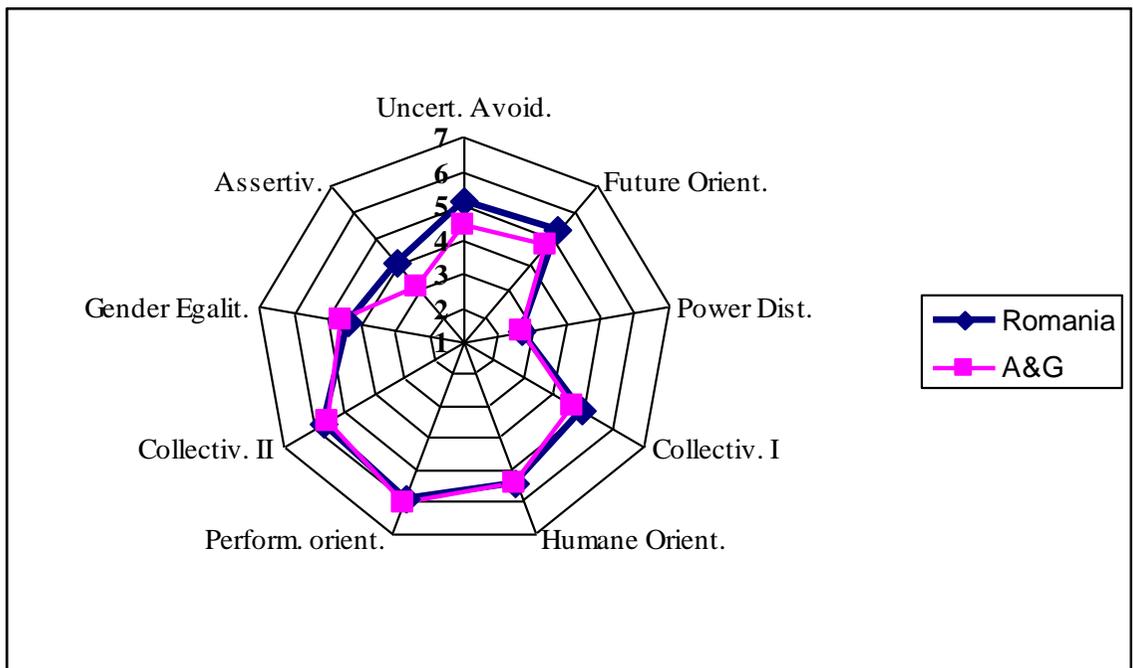


Figure 3 Differences in expectation mean scores: Romanian vs. A&G students

Made by the authors

5. Discussions

The prospective managers in Romania differ substantially from their “average” counterparts in Austria and Germany, both in *perceptions* and *expectations* related to their societal cultures. The highest significant difference in the Romanians’ perceptions when comparing with the A&G group concerns the cultural dimension of Uncertainty Avoidance ($t = -31.663$; $\text{sig} = 0.000$) showing the Romanians perceive their society as not being concerned with creating a stable legal, political and economic environment or with long term planning. Our finding contradicts the differences between the levels of Uncertainty Avoidance indexes displayed on the official site of Hofstede’s model: Romania 90 (estimated), Austria 70 and Germany 65 (<http://www.geerthofstede.com/media/651/6%20dimensions%20for%20website.xls>). Although Romania was not included in GLOBE related books (House et al, 2004; Chhokar et al, 2007), the level of Uncertainty Avoidance perceived by the students’ sample (3.49) allows us to include

Romania in “band” C-D of GLOBE study, close to Georgia (3.50), Venezuela (3.44) and Greece (3.39) (House et al, 2004: 622).

Could we take the Romanian students desire to have a higher level of Uncertainty Avoidance than the perceived one and, in the same time, higher than the expectation of actual middle managers, as a positive signal? If it means a legitimate need for a more regulated and stable business and work environment, yes! The negative experience of the last years of economic crisis, with lots of jobs lost and blurred perspective of creating new ones might be an explanation for the subjects’ desire for a lower probability of unpredictable future events that might negatively affect their life and so, for more orderliness, consistency, well-defined structures, formalised procedures and laws in their lives. But, if it is about a call for return to communism, i.e. to a philosophy of “taking” (“getting”) everything without “giving”/ “doing” something proactively, no, it is not a positive signal!

Related to the cultural dimensions as values, our findings show the Romanians, Austrians and Germans were highly similar in terms of their scores for Power Distance and Humane Orientation in their societies and this reveals a *certain degree of harmonisation* of cultures. While they are still significantly different, the ratings for Collectivism II suggest a possible trend toward harmonization in regard to this value as well.

On the opposite pole, the highest significant (positive) difference between the samples was recorded for Assertiveness ($t = 17.552$; sig = 0.000, equal variances not assumed). The concept of Assertiveness originates, in part, in Hofstede’s cultural dimension of masculinity (House et al, 2004), including aggressive, tough and competitive ways people deal with others. Our finding suggests that the Romanian students have a desire to “catch up” with Western “masculinity” in terms of their competitive behavior.

This constitutes an important new finding since data concerning Romania were not included in GLOBE related books (House et al, 2004; Chhokar et al, 2007). According to data collected and analyzed by Catana&Catana, (2012) on 216 Romanian middle managers, the mean value of expected Assertiveness at societal level is 4.08 (very close to that of students sample: 4.01). The GLOBE research shows that “GLOBE societies are reported to be...very different in terms of Assertiveness values”(House et al, 2004: 32) and that “only the Southern Asia and Confucian Asia clusters’ respondents indicate they want more Assertiveness, dominance and aggression in their relationships with others” (idem: 432). Based upon our findings, Romanians might be included among the respondents expecting higher Assertiveness in their societies.

Significant (negative) differences are noted with expectations concerning Gender Egalitarianism ($t = 4.941$; sig = 0.000) and Performance Orientation ($t = 2.358$; sig = 0.019). These two expectations reveal other “avenues” towards *increasing the convergence* in cultural values and future cultural practices (if the subjects holding such values/expectations will become managers and transform them in societal practices).

6. Conclusions

Our research findings offer specific answers to the research questions, specifically:

1. Romanian students perceive the present cultural *practices* in their environment differently from their counterparts from Austria and Germany, with the highest difference for Uncertainty Avoidance (much lower mean value). The lowest difference is recorded for Gender Egalitarianism (Romanian mean value, higher). Based on these findings, cannot speak about a major degree of convergence in cultural practices perception.
2. The *value* system hold by Romanians and A&G ones records significant differences, with the exception of the desire for a lower Power Distance and a more Humane Oriented societies. These common expectations, as well as the trend towards tighter relationships

in the family and groups of affiliation could signal future changes and a movement towards further *harmonisation* of cultural practices.

3. The fact that for all of the other cultural *values* (except Assertiveness in the case of the Austrians&Germans) the future managers assign higher mean values (that for the correspondent practices) lead us expect that they will act to change their cultural environments. Still, the cultural orientation of Romanian future managers will differ in many regards from the selected Central European sample averages.

4. The dissemination of our research findings among active managers, researchers, academic staff and management consultants may contribute to improving the management training of students and managers, and the management practices in Europe.

We are aware that our research findings have a few limitations. They are related to the sample structure (only two countries from developed Central Europe), assumption that business and engineering students will become a core part of the future population of managers, as well as comparisons with research findings based on different samples and in different periods.

Beyond the limitations, we believe that our findings offer certain insights into relevant issues for researchers, academics and consultants in management and leadership, as well as for today's practitioners. Future research should focus on studying cultural practices and value systems in directions like possible differences in respondents' relevant perceptions based on subjects' demographic characteristics. In addition, comparisons could be making with other countries taking part to GLOBE student project.

Notes

(1) The project is co-ordinated by Rainhart Lang from Chemnitz University of Technology. The Austrian data has been collected by Erna Szabo, from Johannes Kepler University Linz.

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RISK MANAGEMENT APPROACHES AND PRACTICES IN IT PROJECTS

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Risk is identified in project management literature as an important factor influencing IT projects success, and it is relevant for both academic and practitioners' communities. The paper presents the past and current approaches to risk management in IT projects. The objective of this paper is to compare the different approaches and relate them to existing practices. Project management literature and practice have brought different approaches to risk management, and as a result, many projects ended in failure. We present how risk management is considered in the literature, and we compare the main two approaches: the evaluation approach and the management approach. The contingency approach does not consider risk management to be a specific process as it is an embedded process in the other project management processes. Then, we present the main practices in risk management. The methodology applied is based on documentary study review and analysis of the concepts used by the literature. We analyzed the literature published between 1978 and 2011 from the main journals for IT project management and found out that the essence of project management is risk management. The risk management practices have a considerable influence on stakeholders' perception of project success. But, regardless of the chosen approach, a standard method for identifying, assessing, and responding to risks should be included in any project as this influences the outcome of the project.

Key words: risk management, IT projects, risk management approach, risk management practice. Code JEL: M15 – IT Management.

1. Introduction

Information technology plays a continuously increasing role in economy and successful IT projects are very important for companies. Mismanaged software (development and/or implementation) projects are very common and result in failure (Standish Group International, 2009).

Effective IT project management has been receiving attention from academics and practitioners since 1978 (Alter and Ginzberg, 1978). However, the effects of risk management are not always easy to establish.

There are several approaches to **risk management** in the IT projects literature, but the main ones are: the *evaluation* approach, the *management* approach and the *contingency* approach.

Risk management has become a key factor within organizations since it can minimize the probability and impact of IT project threats and capture the opportunities that could occur during the IT project life cycle (Alhawari et al., 2012).

The Project Management Body of Knowledge defines risk as an uncertain event or condition that, if it occurs, has an effect on at least one project objective: scope, schedule, cost and quality (Project Management Institute, 2008: 275).

There are causes for a risk and, if it occurs, there is an impact. Risk conditions can be related to certain aspects of the environment of the IT project or organization that may contribute to project risk, such as poor project management practices, lack of integrated management systems, concurrent multiple projects or dependency on external participants who cannot be controlled (Project Management Institute, 2008). Risk refers to all events, occurrences and actions that may

prevent the organization from realizing its goals. Risk is everywhere and is a potential problem that might happen. Regardless of the outcome, it is a good idea to identify risk, assess its probability of occurrence and estimate its impact (Alhawari et al., 2012).

Regarding the use of risk management in projects, professionals state that risk management must be conducted because all of the project management handbooks say so, and it should be done in the way the standard handbooks recommend it (Project Management Institute, 2008; Office of Government Commerce, 2007; Association for Project Management, 2006; 2004). This concept is found in literature that focuses on risk management (Ropponen and Lyytinen, 1997).

Project risk management has the objective to decrease the probability and/or impact of negative events in the project and to increase the probability and impact of positive events (Project Management Institute, 2008: 274).

Risks may have many manifestations: natural disasters, security breaches, failings of human resource, third-part vendors, financial turbulence, unstable business environments and project failures (Alhawari et al., 2012).

Researchers have had a common interest concerning risk and uncertainty in IT projects. Early authors (Alter and Ginzberg, 1978; Zmud, 1980; McFarlan, 1981; Boehm, 1991; Barki et al., 1993) treat risk management as an ex-post evaluation process (Bakker et al., 2010a).

Gemmer (1997) affirms that effective risk management requires functional behaviour of the stakeholders, which means that they may not necessarily comply with the risk management procedure. Dey et al. (2007) affirm that generally stakeholders must be involved in the risk management process, and this is crucial for the project's success or failure (Jiang et al. 2000).

2. Research methodology

The methodology used is based on documentary study and literature review and analysis of the concepts used in the literature. We analyzed the literature published between 1978 and 2011 from several journals including: International Journal of Project Management, Project Management Journal, International Journal of Information Management, The Journal of Systems and Software, Journal of Management Information Systems, having as research items: *risk management* and *IT projects*.

3. Results

3.1. Evaluation approach to IT project risk management

From the evaluation approach, the process of risk management is an analysis for determining the risk factors and causes of project failure. It aims to learn from past projects, by evaluating risks that have already occurred. The evaluation may result in modifying the use of the methodology of risk management or even changing the methodology. The contribution of the evaluation approach of risk management to project success is *indirect*, as the information gathered is used in future projects (Bakker et al., 2010a).

The *evaluation approach* answers the question *what* causes projects to fail and has three main elements:

- known risk factors as input for a project;
- the process of project risk management that collects information about risks and failure of the project;
- new factors that are added to the list of known risk factors.

This approach assumes that it is likely that knowledge of the risks and their causes will have a positive impact on the project outcome. The aim of this approach is to create project predictability in new projects by using information regarding risks and causes of project failure gathered from previous projects (Bakker et al., 2010a).

The promoters of the evaluation approach (Jiang and Klein, 2000; Procaccino et al., 2002; Wallace et al., 2004; Han and Huang, 2007) assume that knowledge of risks implies that they can and will be managed, therefore the project will end successfully.

3.2. Management approach to IT project risk management

This approach answers the question *how* to deal with risks in order to prevent project failure. The management approach to risk management has processes based on rational decision making and complies with the engineering view on project management. It focuses on identifying the events and situations specific to projects that can interfere with the original plan and developing measures to keep the current project on track. The contribution of the management approach of risk management to project success is *direct*, as it focuses on the relevant and specific risks of the current project. The promoters of the management approach (Gemmer, 1997; Ropponen and Lyytinen, 1997; Jiang et al., 2000; Kutsch and Hall, 2005; Dey et al., 2007; Bannerman, 2008) generally recognize risk management as a process consisting of well defined steps of identification, analysis, response, monitoring and control (Bakker et al., 2010a). The differences between the two main approaches are presented in table no 1.

Table no 1: Comparison of the two main approaches in risk management

The evaluation approach focuses on:	The management approach focuses on:
Finding generic IT risks	Finding specific IT risks
Future projects	Current project
Analysis only	Various activities and practices
Creating general applicable information	Achieving direct results

Source: Bakker et al., 2010a

Figure no 1 presents a combination of the main two risk management approaches.

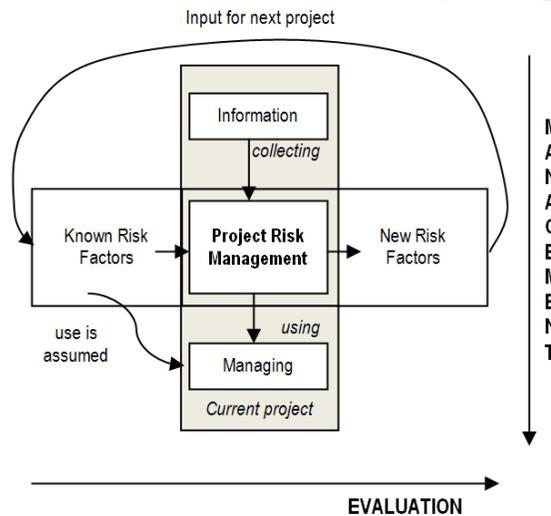


Fig. no 1. The two main approaches to project risk management combined

Source: Bakker et al., 2010a

3.3. Contingency approach to IT project risk management

One other approach discusses risk management from a contingency perspective (Nidumolu, 1995; Barki et al., 2001; Jiang et al., 2006; Sauer et al., 2007).

The *contingency approach* to risk management considers project success to be dependent on how well the project as a whole is able to deal with uncertainties in the project environment (Jun et al., 2011) as project uncertainty is negatively associated with project success (Jiang et al., 2002).

According to the contingency approach, risk management is not considered to be a separate management process. Instead it is embedded in the various processes and procedures of the project (Jun et al., 2011).

3.4. Risk management practices

Risk management has developed rapidly over the recent decades as an integral part of project management (Del Cano and Cruz, 2002). It includes the processes concerned with risk management planning, identification, analysis, responses, and monitoring and control on a project (Project Management Institute, 2008). Risk management is a discipline, which integrates knowledge from a variety of different business fields and where wide varieties of methodologies treat specific problems (Alhawari, 2012).

Risk management is very important and integral part of any business and well recognized by the project management institutions (Del Cano and Cruz, 2002). Risk management refers to strategies, methods and supporting tools to identify, and control risk to an acceptable level (Bruckner et al., 2001). The risk management objective is to identify all applicable risks in a project. This involves ranking the risks based on their importance, frequency of occurrence, level of impact and then establishes the actions needed to control the identified risks. According to the Project Management Institute (2008) and Besner and Hobbs (2006), the main risk management practices are presented in Table no. 2.

Table no 2: Risk management practices

Risk management practice	Description of the practice
<i>Risk Management Planning</i> (Project Management Institute, 2008; Besner and Hobbs, 2006)	Writing in the project plan about how risk management will be executed on the project, not writing a list of risks
<i>Risk Identification</i> (Project Management Institute, 2008; Besner and Hobbs, 2006)	Naming and identifying risks by: filling out questionnaires, consulting experts, doing brainstorm sessions, conducting interviews, etc.
<i>Risk Registration</i> (Besner and Hobbs, 2006)	Recording and maintaining the list of risks in: a database, one or more documents, spreadsheets, etc.
<i>Risk Analysis</i> (Project Management Institute, 2008, Besner and Hobbs, 2006)	Analysing risks: by estimating probability and impact, using simulations like Monte Carlo, etc.
<i>Risk Allocation</i> (Besner and Hobbs, 2006)	Assigning a person to be responsible for taking care of each risk
<i>Risk Reporting</i> (Besner and Hobbs, 2006)	Delivering information about risks and the status of risks to stakeholders.
<i>Risk Control</i> (Project Management Institute, 2008; Besner and Hobbs, 2006)	Organizing meetings with various stakeholders in order to present the status of project and establish actions for risks

Source: (Bakker et al., 2010b)

Kutsch and Hall (2009) conclude that little research has been taken to establish whether project managers involved in IT projects really apply risk management and what reasons lay behind their decisions to not pursue any active management of risk in some cases. The literature focuses on what project managers should do, more than on what they did do (reactive attitude instead of proactive attitude). As long as no evidence is produced to explain why IT project managers fail to apply project risk management, the acceptance of best-practices in project risk management standards is insufficient.

4. Conclusion

Risk is an inherent component of software development projects, as well as implementation projects. The essence of project management is risk management (Larson and Gray, 2011:234). There are two main approaches in IT project risk management: the evaluation approach and the management approach. Also some researchers consider another one: the contingency approach.

Success or failure of an IT project often depends on the contributions of stakeholders: top management, functional managers, customers, suppliers, contractors, and others (Larson and Gray, 2011), and that is why stakeholders must be involved in the risk management process.

All of the techniques and practices of risk management try to increase stakeholder satisfaction and increase the chances of project success.

Risk management should be proactive not reactive, and although many managers believe that the analysis, assessment and treatment of risks depend on subjective judgment of the project stakeholders, some standard method for identifying, assessing, and responding to risks should be included in all projects. This is supported by the “self-evidently correct” risk management practice (Williams, 2005). The actual process of identifying project risks forces some discipline at all levels of project management and improves project performance.

Risk management is an iterative process and it occurs all through the project life cycle. When risk events occur, using an effective risk management technique will facilitate measuring the project performance in terms of schedule, cost and quality. The risk management practices have a considerable influence on stakeholders’ perception of project success.

Effective risk management requires adherence to a thinking in which risks are treated, not denied and problems are identified and not hidden (Larson and Gray, 2011:234).

Regardless of the approach, a standard method for identifying, assessing, and responding to risks should be included in any project as this influences the outcome of the project.

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CONCEPTUAL APPROACH OF LEADERSHIP AND EMPLOYEES' INDIVIDUAL PERFORMANCE RELATIONSHIP

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Resume

There is a need for more leadership research in the hotel industry. A reason is the better understanding of the effects and influences that manager-employee relationship can have. Further, this can improve employee performance at their work and clients would be more satisfied. Due to the emergent stage of this field of research, the leadership and employee performance relationship has a lot of potential for being investigated in the context of hotel industry.

There are many types of leadership styles recommended to be used in managers' daily hotels' activities. The most suggested is transformational leadership.

Hotel industry is part of hospitality industry and is providing different services such as accommodation, food & beverage, entertainment. This makes hotel industry very specific and the hotel products, services unique for each of client. That's why high standards of organizational performance, a good manager-employee relationship and a high perceived employee performance by the clients are the keys for a long and sustainable business. Leadership is important in getting people to do the right things at their job. More, it helps employee to work better, to be motivated, to strive for excellence and perform beyond expectations.

The first objective of this paper is to analyze the main approaches of leadership styles applied in the context of hotel industry studies. The second objective is to explore, from a theoretical point of view, the direct and indirect relationship between leadership style and employee performance based on two mediator factors: job satisfaction and organizational commitment. These two mediators are the most used in organizational researches and have a high degree of validity.

The methodology applied is based on documentary study review and critic analysis of the concepts used by the literature.

The results of the conceptual paper are: the construction of the conceptual model of scientific research, new approach of the term "leadership" in hotel industry's relations. The paper suggests a future research the operationalization of the concepts used in the conceptual model and test them through statistics methods.

Keywords: leadership, employee individual performance, hotel industry, job satisfaction, organizational commitment

Code JEL: M 10, L83

Introduction

The critical and conceptual analysis of the constructs such as leadership, job satisfaction, organizational commitment and employee individual performance was based on the review of the different theoretical and empirical studies. The purpose was to find out different results about the link between them and the influence relationship that can generate employees' individual performance in hotel. Based on this it was proposed a conceptual integrated model.

A short literature review upon relationship between leadership and employee performance

Studies about leadership and performance relationship found out that there are positives associations, negatives associations and no linkages between these two variables. Yousef (2000:8) made a review of them and concluded that the results are "not entirely consistent", "inconsistent". Positive associations between these two variables were found in studies of the authors: Dawsan et al.(1972); Swanson and Johnson (1975); Euske and Jackson (1980); Euske et al. (1982) (Yousef 2000:8). Negative associations between these two variables were discovered

by Pritchard and Karasick (1973); Sheridan and Vredenburg (1978); Hampton et al. (1986) (Yousef 2000:8). Other studies showed that there is no link between them: Lowin et al. (1972); Graen et al.(1972); Downey et al.(1975); Weed et al.(1976); O'Reilly and Roberts (1978); Sheridan and Vredenburg (1978) (Yousef 2000:8). In the context of banking services, the results obtained by Dolatabadi and Safa (2010:40) confirmed that leadership style influence employees' performance.

The relationship between leadership and job satisfaction was rarely investigated in the context of hospitality and hotel industry. The empirical results from boutique hotels from Turkey showed that transformational leadership stimulates the job satisfaction and organizational commitment of the employee (Erkutlu H. 2008:708). Employees' performance is based on job satisfaction through organizational commitment. The measurement of performance is made using efficiency, efficacy and quality (Lee et al.. 1999 quoted in Tsai 2010:4120).

In the context of hospitals services, the research results showed that job satisfaction depends of manager's leadership style. Also, it was demonstrated that not always the participative leadership style is good for the employees. It is recommended that managers to select their leadership style based on organizational culture and on the organizational maturity of the employees (Mosadeghrad, A.M. and Yarmohammadian M. H.2006:11).

The situational leadership paradigm, initiated by Hersey și Blanchard since 1988, affirmed that successful leaders must to adjust their leadership style taking into account the maturity's employee stage to perform in a work position (Wu T.F et. al.:2006:436). The managers must have the capability to own different leadership styles and to adjust them based on the situation need it.

Hotels' context of the conceptual study

For a good understanding of the analysis context of this conceptual paper it is very important to highlight the elements that compose the hotel as it can be seen from the figure below (fig.no.1).

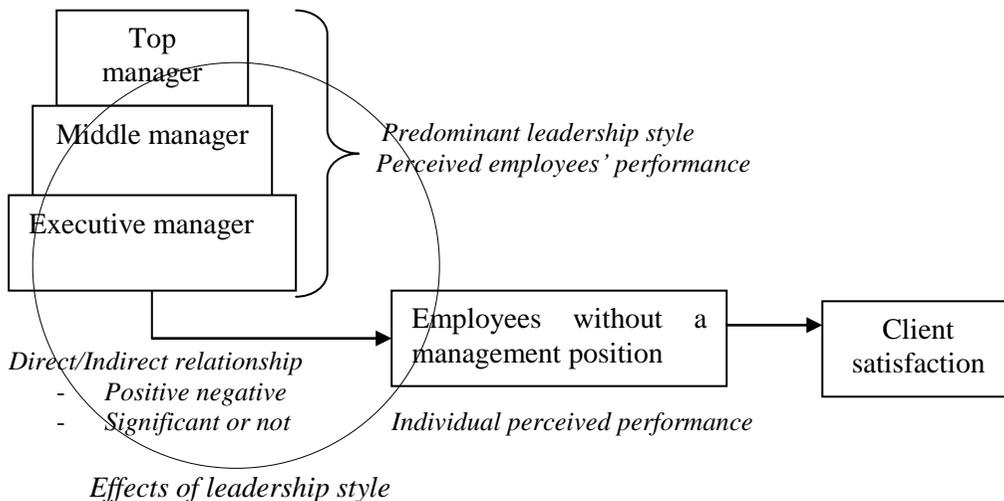


Fig. no. 1. Hotel context of the relationship study (made by author)

The first element that must be taken into account is the predominant leadership style influence. Wu T.F. (2006:443) demonstrated that the top manager leadership style has positive and also negative influences on the subordinates from the next levels of management. The study was developed in hotel research in Taiwan. The results pointed out that when the top managers adopt

an autocratic and democratic leadership style managers from the next levels may use a telling, participative and delegative leadership style. Telling leadership style is used when the top managers adopt an autocratic leadership style. On the other hand, when top managers adopt a democratic leadership style the managers from the next levels use frequently participative and delegative leadership style.

Second element is about the employees without a management position from the departments of the hotel: accomodation food&beverage, restaurants, housekeeping, marketing, human resources, mantenance and so on. The key employees are the frontline ones because they have a high contact with the clients and the managers leadership style influences in the most visible way.

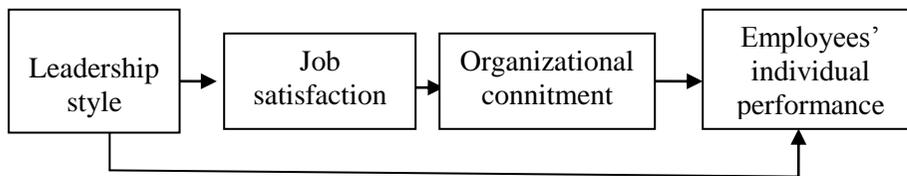
Research methodology

The methodology applied is based on documentary study review and critic analysis of the concepts used in the literature. This paper is conceptual based on a short and specific literature review.

Results of the conceptual analysis

The conceptual integrated model of scientific research

After the review of the literature and the clarification of the context analysis it was developed a theoretical model of the constructs. It was theoretically investigated the direct relationship between leadership style and employee individual performance. Also using two mediator factors “job satisfaction” and “organizational commitment” it was established the indirect relation between the main constructs investigated.



*Fig. no. 2 Integrated conceptual model of scientific research
(made by author)*

The reason of using these mediator factors is because of their validity and reliability proved in different contexts research. Due to emergent stage, there are only a few studies in hotel industry that analyze this relationship. Further is presented the clarification of the constructs used in the conceptual integrated model of research.

Leadership approach in hotel industry

Ciulla found out reviewing almost 221 definitions of leadership that the most common element used when leadership is defined is “leadership is about one person getting other people to do something” (Ciulla 2002:340).

Based on this, the leadership approach proposed in hotel industry context is: leadership is a dynamic process based on influence relationship between a leader and a follower which recognize and accept him as a leader (Ispas A. 2010:219). In addition, the follower is adopting a moral behavior and conscientiously follow the leader. The relation is based on achieving the objective of the hotels taking into account the situational variables from the hotel (internal and external ones).

Leadership styles

From the conceptual model the leadership style was explored taking into account four types of leadership. It was reviewed and analyzed: autocratic, participative, transformational and

transactional leadership styles. These were chosen based on their frequency of apparition in the studies, their results relevance and the national culture. Autocratic and transactional leadership style are used more in collectivist cultures. Transformational and participative leadership style are used in individualistic cultures. Năstase M. pointed out that when a manager will use a participative leadership style, the employees will become more involved, more responsible and their organizational commitment will grow (Năstase M. 2006:29).

Authors such as Muczyk and Reimann 1987; Yukl 1989; Bass 1981 agreed that **autocratic** leadership style is task oriented, is more convincing and manipulator being efficient to communicate a clear vision and conceive strategic objectives (Clark R., Hartline M., Jones K. 2009:212). **Participative** leadership style is more employee oriented. Managers involve their subordinates in the decision process taking into account their positive or negative opinions. Due to this, employees become more loyal and dedicated (Clark R., Hartline M., Jones K. 2009:213). Managers and leaders of hotels' department should pay more attention to developing efficient teams and to be more employee oriented through participative leadership (Ispas A. 2010, p. 218). The concept of **transformational** leadership style was developed by Burns (1978) and Bass (1985) and it became the most popular one. Transformational leaders transform the values, the need and the aspirations of the subordinates and help them to perform beyond expectations (Bass and Avolio, 1994 quoted in Walumbwa et al.:2005:236). It uses idealized influence, inspirational motivation, intellectual stimulation and individual consideration of the followers. Boyne S. pointed out the review of 11 articles from EBSCO international database on hotel topics. Transformational leadership is the most needed by employees because the organizational commitment and job satisfaction will grow and it stimulates employees' wish for high quality of their daily work and for the hotel's guests (Boyne S. 2010:14-16). **Transactional** leadership style is associated with autocratic style and is based on reward of the subordinates' work (Burns 1978 quoted in Emery C.R and Barker K. 2007:1). It involves Contingent Reward, Management-by-Exception-(Active), Management-by-Exception-(Passive) and Laissez-Faire.

Job satisfaction and organizational commitment

These concepts are used in the model as mediator factors between leadership style and employees' individual performance. According to Smith et al. (1974) job satisfaction has the following dimensions: job in general, salary, opportunities for promotion, supervision and colleagues relationship. This concept originates from Hawthorne Tests of Mayo, Roethlisberger and Whitehead (1927-1932). The results suggest that employees' emotions influence their behavior for work and sociological and psychological factors are the determinants of satisfaction and productivity (Yin, 2002, quoted in Tsai, 2008:304).

Organizational commitment was often studied at employees' work place paying attention to employee dissatisfaction and dedication. If their organizational commitment is low, they will be less work-dedicated and they will look for opportunities to leave their job (Lok P., Crawford 2004:321). In the literature there are two approaches: one based on behavior (leaving costs from the organization), the other one is based on employees' attitude (the identification with values and organizational objectives).

Employee's individual performance

Hotels' performance depends on leadership practice applied in hotel unit. Church, A.H. confirmed that leadership style of managers at the workplace directly affects quality of services and organizational performance (Church, A.H 1995:30). According to this, the paper analyzed the employees' individual performance and proposed to be studied taking into account two dimensions: efficiency and efficacy of their job. The results of The GLOBE Study showed that Romanian culture has a low performance oriented score (score 3,51), lower than Eastern

European average score (3,71) and much lower than world average (score 4,10) (Bibu, N., Brancu L. 2008:3,11).

Conclusions

The results contribute to the development of leadership knowledge in hospitality and more specifically in the hotel industry. These results can help managers to understand better the role of leadership style in making subordinates work better and achieve individual performance. For academic and researchers it brings a new relationship model that can be investigated in many areas of hotel and hospitality. Results can show if indeed leadership is influencing in a significant way (positive, negative) the employees' individual performance taking into account the dynamic environment of hotels' activities. There can be added factors such as "organizational culture" and "national culture" to find out more information about the leadership style and employees' individual performance.

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SOME ISSUES OF THE AIRPORT MANAGEMENT

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Internationally, the recommended standards for the operation and management of civil-use airports are provided by the International Civil Aviation Organization (ICAO). In most individual countries, airports are managed directly by the government, most often under the ministry of transport. In some countries, including EU countries, some airports are privately owned and operated, although, despite private ownership, they are still subject to much of the country's regulations regarding aviation operations. The complex system of civil airports is made up of individual airport facilities of varying sizes, serving various purposes, all organized into plans of regional, national, and international levels. The range of rules, regulations, and policies, administered from varying levels of government, cover the full spectrum of airport and aviation system operations. Furthermore, a large number of professional and industry organizations play a large part in influencing the policies by which airport management must operate their facilities. By understanding where an airport manager's airport falls within the civil aviation system, what rules must be followed, and what sources of support and assistance exist, the task of efficiently managing the complex system that is an airport, becomes highly facilitated.

Key words: airport management, airport authority, state-operated airport, public relations, local community

It is well understood that a viable and efficient transportation system is a fundamental and necessary component to the economy of any region. Transportation, by definition, provides the ability for people and goods to move between communities. This movement leads to trade and commerce between markets, which, in turn, lead to jobs, earnings, and overall economic benefit for a community's residents.

Even though there are a variety of transportation modes, such as automobiles, trucks, ships, and railroads, perhaps no other mode has as significant an impact on intercity trade and commerce as aviation. Travel in the aviation system allows for intercontinental travel of large volumes of passengers and cargo in relatively short periods of time. Access to markets around the world has resulted in the largest of communities reaping extraordinary economic benefit.

Airports are the gateways to the nation's aviation system, providing access to air transportation for the surrounding community. Commercial air carriers provide access to air transportation between many major metropolitan areas of the country. Thousands of smaller cities, towns, and villages have access to aviation by way of airports serving general aviation.

The airport has become vital to the growth of business and industry in a community by providing air access for companies that must meet the demands of supply, competition, and expanding marketing areas. Communities without airports or sufficient air service have limitations placed on their capacity for economic growth.

Airports and related aviation and non-aviation businesses located at the airport represent a major source of employment for many communities around the country. The wages and salaries paid by airport-related businesses can have a significant direct effect on the local economy by providing the means to purchase goods and services while generating tax revenues as well. Local payrolls are not the only measure of an airport's economic benefit to the community. In addition, employee expenditures generate successive waves of additional employment and purchases that are more difficult to measure but nevertheless substantial.

It is often said that managing an airport is like being mayor of a city. Similar to a city, an airport is comprised of a huge variety of facilities, systems, users, workers, rules, and regulations. Also, just as cities thrive on trade and commerce with other cities, airports are successful in part by their ability to successfully be the location where passengers and cargo travel to and from other

airports. Furthermore, just as cities find their place as part of its county's, state, and country's economy, airports too, must operate successfully as part of the nation's system of airports.

Whether privately owned or part of a public system, there are fundamental characteristics of the administrative and organizational structure of an airport. Privatization refers to shifting governmental functions and responsibilities, in whole or in part, to the private sector. The most extensive privatizations involve the sale or lease of public assets. Airport privatization, in particular, typically involves the lease of airport property and/or facilities to a private company to build, operate, and/or manage commercial services offered at the airport.

The number of people employed at a given airport can range from as few as one, at the smallest of general aviation facilities, to as many as 50,000 at the world's largest airport authorities. Those airports that employ fewer numbers of people expect these people to accept a wider range of responsibilities. For example, an airport management employee at a small airport might be responsible for maintaining the airfield, managing finances, and maintaining good relations with the local public. At the larger airports, employees are typically given very specific responsibilities for a particular segment of airport management.

Airport management as a career

There are many career paths within the field of airport management as evidenced by the wide variety of job descriptions under the previous section. Even the job of airport manager varies greatly. At one extreme is the manager of a large metropolitan airport, an appointee or civil service employee of the city government or airport authority, who heads a large staff of assistants and specialists through which he or she manages a highly complex organization. At the other extreme is the owner-manager of a small private field near a rural community. The latter might combine activities as airport manager with work in some other business. Between these two extremes is the manager of a municipally owned or privately owned airport where there are a limited number of scheduled airline flights each day. Based at the airport are several fixed-base operators (FBOs) and a number of aircraft owned by individuals and corporations. The typical manager of a medium-size airport deals with all segments of the aviation community including the airlines, general aviation, and state agencies. In the early days of aviation, an individual could become an airport manager if he or she was a pilot and had several years of experience in some segment of the industry. Although the individual had to be able to manage the operation for the owner, his or her experience was likely to be in some area of flying rather than in business management. Today an airport manager must be primarily a skilled and experienced executive with a broad background in all facets of aviation and management in general. It is no longer necessary that the manager be a pilot.

It is also acknowledged that almost every airport manager's job situation is unique in some major respects because of the wide variety of size of airport and type of ownership and operation. There are also wide variations in government procedures in different communities. This sometimes causes the responsibilities, salaries, and authority of airport managers to be completely different from one city to the next. Even the job title varies. Director of aviation, airport superintendent, executive director, airport director, general manager, and other titles are often used instead of airport manager.

The airport manager⁷⁸ is often part landlord and part business executive. As a landlord, the safe condition and operation of the airport is the manager's greatest responsibility. The maintenance

⁷⁸ **Airport director.** The airport director is responsible for the overall day-to-day operation of the airport. He or she reports directly to the airport authority, the airport board, or governmental commission charged with the development and administration of the airport. This individual directs, coordinates, and reviews through subordinate supervisors, all aircraft operations, building and field maintenance, construction plans, community relations, and financial and personnel matters at the airport. The airport director also:

- Supervises and coordinates with airline, general aviation, and military tenants use of airport facilities.
- Reviews airport tenant activities for compliance with terms of leases and other agreements.
- Supervises enforcement of aircraft air and ground traffic and other applicable regulations.

of the airport buildings and land is also important. As a business executive, the manager is in charge of public relations; financial planning; profitable and efficient day-to-day operation; and coordination of airline, concession, and airport facilities to best serve the tenants and flying public. The airport manager's primary duty is the safe and efficient operation of the airport and all its facilities regardless of its size. However, at least in the larger commercial airports, the manager does not have direct control over most flying activities. He or she must deal with all groups and individuals who use the airport facilities. These include representatives of the airlines that schedule flights, maintain and service their aircraft, and process passengers; all segments of the general aviation community and individual and corporate owners and operators of aircraft; and the government-employed staffs of the air traffic control facilities, customs, and so forth. All of these groups can be regarded as tenants of the airport, carrying on their independent activities. Besides dealing with the companies and individuals directly concerned with flying, the manager is in contact with concessionaires who operate restaurants, shops, and parking facilities, and with the traveling public.

The size of the airport and the services it offers its tenants and the public play an important part in determining the airport manager's specific duties. Some of these duties were enumerated earlier in this chapter under job descriptions. A manager must formulate fiscal policy, secure new business, recommend and enforce field rules and regulations, make provisions for handling spectators and passengers, oversee construction projects, see that the airport is adequately policed and that airplane and automobile traffic is regulated. The manager interprets the functions and activities of the airport to the city or other local government and to the public; he or she is a public relations expert as well as a business manager. This public relations function is extremely important and will be taken up at the end of this chapter in a separate section. Not all of these duties are required of all managers of airports. Many airports are too small to have Central Aviation Administration-staffed control towers; others have no scheduled airline flights. In these airports the job is simpler, but the manager must usually do all of the work personally. In large airports, the manager has many assistants and supervises the work. The job of airport manager is obviously not completed between 9 a.m. and 5 p.m. The hours are often irregular and most managers have some weekend and holiday work. They will often have to work at night. In emergency situations they will usually work additional hours. Difficult weather conditions, labor problems, personnel irregularities, and flight schedule changes are only some of the things that will affect job hours. Even when not actually working, most airport managers are on call.

Education and training

The major requirement for the job of airport manager is business and administrative ability; this means the ability to make decisions, to coordinate details, to direct the work of others, and to work smoothly with many kinds of people. Perhaps the best college program to follow is one that leads to a degree in aviation management. College courses in engineering; management; accounting; finance and economics; business and aviation law; and airline, general aviation, and airport management are good preparation for a career in airport management. A large number of the primary airports in the world have 1- or 2-year internship programs that train college graduates for various aspects of airport management. Because the position of airport manager is the top job in most airports, advancement generally comes by changing jobs—usually by working

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- Confers with airlines, tenants and others regarding airport regulations, facilities, and related matters.
 - Participates in planning for increased aircraft and passenger volume and facilities expansion.
 - Determines and recommends airport staffing requirements.
 - Compiles and submits for review an annual airport budget.
 - Coordinates airport activities with construction, maintenance, and other work done by departmental staff, tenants, public utilities, and contractors.
 - Promotes acceptance of airport-oriented activities in surrounding communities

for a larger airport. In a large metropolitan airport, an individual usually works up from managing various departments to become an assistant manager or director and finally manager or director. The important public service an airport provides along with its economic advantages to a community has caused city governments to recognize the need for professional management of airports. As the number of new airports increases and the facilities of many existing airports expand, new managerial positions will be created. Many of these will not be top jobs, but the airport of the future will require assistant managers specializing in one part of the huge operation. Because the job of managing a medium-to-large commercial airport is a fascinating one that requires high qualifications, there will be tough competition for jobs; however, the motivated individual with a solid educational background and varied experience in the fields of aviation and management will find openings in a field of work that is and will remain comparatively small—but one that provides an interesting and challenging profession. Unquestionably, one of the most important and challenging aspects of an airport manager's job is that of public relations.

The airport and its public

Basically, every airport has four “publics” with which it deals, and despite the wide variance in size and scope of activities of airports, these publics are basically the same for all airports:

- *The external business public.* These are the past, present, and future airport customers for all the services offered on an airport. It includes all segments of the business, government, educational, and general flying public.
- *The external general public.* These are the local citizens and taxpayers, many of whom have never been to the airport but who vote on airport issues or who represent citizen groups with particular concerns.
- *The internal business public.* These are the businesses and enterprises whose interests are tied directly to the airport—the airlines, other members of the general aviation community, government officials, and other aviation and travel-oriented local businesses and trade organizations, and the employees of all of these enterprises.
- *The internal employee public.* This group includes everyone who works for the airport and its parent organization.

These are the most important airport publics. These are the sources of vital information that management must have in order to know what and how it is doing, and they are the ones who must be informed and persuaded if any airport objective is to be achieved

The airport manager and public relations

Public relations is a management function that attempts to create goodwill for an organization and its products, services, or ideals with groups of people who can affect its present and future welfare. The most advanced type of public relations not only attempts to create goodwill for the organization as it exists, but also helps formulate policies, if needed, that of themselves result in a favorable reaction. Aviation and airports have such great impact on people's lives, and on the life of a nation, that it is difficult to find a person who has no knowledge or opinion of airports. Despite the tremendous growth in all segments of aviation over the past 25 years, and the resulting challenges, problems, and opportunities, aviation has not been exempted from the controversies that inevitably are part of any endeavor affecting or touching the lives of a large number of people. This controversy is the reason why every opinion, whether positive or negative, will be a strong one. The net result is that every airport has an image—either good or bad. The great problems of airports are always related to the original and elemental images resulting from the collective opinions of the public. These images are really the balancing or compensating factors that correspond with the problems the public encounters with airports. These images are deposits representing the accumulated experience of jet noise, hours of struggle to reach the airport on clogged highways under construction, the frustration of trying to find a

closer parking place, the lines to obtain tickets, the time waiting for luggage, and other inconveniences. In this respect, some of the public will have an image of the airport as a very exciting place that makes major contributions to our society through commercial channels, and even more valuable contributions of a personal nature, by offering a means to efficient travel, and thus greater personal development and greater enjoyment of life. Despite the hundreds of positive impacts of aviation, negative images do arise. Perhaps such negative images result from the fact that the industry has been so intent on the technological aspects of resolving problems that it has overlooked the less tangible components. The industry has the technology and resources to resolve many of the problems of the airport-airway system; however, the important link or catalyst in bringing together technology and community opinion is the airport public relations effort.

Regardless of the size of an airport, there are several basic principles underlying the public relations process:

- Every airport and every company and interest on the airport has public relations, whether or not it does anything about them.
- Public goodwill is the greatest asset that can be enjoyed by any airport, and public opinion is the most powerful force. Public opinion that is informed and supplied with facts and fair interpretation might be sympathetic. Public opinion that is misinformed or uninformed will probably be hostile and damaging to an airport.
- The basic ingredient of good relations for any airport is integrity. Without it, there can be no successful public relations.
- Airport policies and programs that are not in the public interest have no chance of final success.
- Airport public relations can never be some kind of program that is used only to respond to a negative situation. Good public relations have to be earned through continuing effort.
- Airport public relations go far beyond press relations and publicity. Public relations must interpret the airport interests to the public, and should be a two-way flow with input and interpretation of public opinion to airport management and community leadership. Public relations must use many means of reaching the various segments of the public interested in airport operations, and must try to instill the public relations spirit into all facets of the airport's operation.

Public relations objectives

The primary objectives of an airport's public relations activities are as follows:

- Establishing the airport in the minds of the external public as a facility that is dedicated to serving the public interest: Many airports work closely with the local chamber of commerce in developing a brochure or pamphlet citing various accomplishments and activities at the airport that would be of interest to the local business community and the community in general.
- Communicating with the external public with the goal of establishing and building goodwill: The airport manager and other members of his or her staff often serve as guest speakers at various civic and social organizations. They also become active members of local or civic organizations in order to informally promote the airport and determine the pulse of the community. Public announcements of new developments at the airport are made through all media. This is a continuing part of the communications process.
- Answering general and environmental complaints on an individual basis. It is important that the airport develop a good rapport with its neighbors and concerned citizen groups. Working closely with the airlines and other internal business publics, airport management attempts to work out such problems as noise by changing traffic patterns and adjusting hours of flight operation. Tours of the airport are given to various community groups in order for them to get a better understanding of operations. Civic-oriented activities are also conducted at the airport

to improve relations with airport neighbors and address their concerns. Citizen participation in airport planning and public hearings is another means by which airport management is continually apprised of community feelings about airport-related activities.

- Establishing good working relationships with internal business publics whose interests are similar to those of airport management.
- Promoting programs designed to enhance and improve employee morale.

Both the airport and the community have a responsibility to work together to solve their mutual problems, attain desired goals, and ultimately achieve a better community. It takes continuing contributions—and sometimes sacrifices as well—to the general welfare on the part of individual citizens and the aviation industry to earn the opportunities and rewards of a good community for the public. This two-way relationship has its problems too. Many are spawned by misunderstanding that can arise and grow to disproportionate size, and in this context, result in a negative image for the airport and a loss of public confidence in the aviation industry. Ensuring that problems are met head-on, with full and explicit information made continuously available to the public to prevent misunderstanding, is the point at which airport public relations enters the picture.

Like any other facility that serves the total community, an airport requires total community understanding. A well-executed public relations program can make the community aware of the airport and its benefits and create an atmosphere of acceptance. Attitudes are not changed overnight, so the public relations effort must be a continuous campaign to build understanding and develop attitudes of acceptance.

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PROPOSAL OF THE SOCIAL CONTRACT IN MANAGEMENT AS INSTRUMENT OF ANALYSIS FOR THE EMPLOYMENT RELATION. THE EXPERIENCE OF AUTOMOTIVE INDUSTRY IN ROMANIA

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The communication presents the partial results of a research proposing the social contract as a new instrument of analysis for the employment relation in a social context in change, such as the case of Rumania. Until then, the research which aimed at the employment relation which is formed between the employer and the employees widely appealed to the concept of psychological contract (Rousseau, 1989; 1995). The psychological contract, defined as the perception of the mutual obligations assumed by the employee and by the employer, benefited from a fashion effect in the 1990s, when the economic difficulties questioned the model of classic employment relation based on loyalty.

However, most of the empirical works on the psychological contract are static studies, for the greater part elaborated by questionnaire, which do not allow to define the impact of the social context change on the evolution of the employment relation. Although certain studies are interested in a context of change (Dick, 2010), most of the past works describe the contents and the evaluation of the psychological contract in an unchanging social environment. Yet, we saw it in the case of the ex-communist countries or those of the Northern Africa, the change in the environment of the employment relation is more present than ever.

Our communication proposes a research frame which would be more suited to the understanding of the employment relation in a society in change. To do it, we rely on the social contract in management, which we define as the ensemble of the norms and of the tacit laws existing in a society or a group given with regard to the relation of employment.

The approach by the social contract presents the advantage of including multiple elements bound to a societal context, such as the laws, the national culture, the faiths shared by the business environment, etc. (Rousseau, 1995). It offers a new frame of analysis for the employment relation by suggesting that it is through the systematic and global vision of the values and standards relating to the employment relation, that we can better comprehend the consequences of a change of the employment relation.

Given its exploratory character, we use an inductive, thus qualitative, methodology, to perform this research. The partial results of the analysis of the interviews led in two Romanian companies during the summer of 2010 allowed us to identify several components, which we called "terms" of the social contract. These results will deliver to the practitioners and to the researchers in management a relevant tool to better understand the relation of employment in different national cultures as well as a measuring instrument for the quality of the employee-employer relation.

Our communication ends by proposing various paths of reflection which will allow to use this approach in future researches concerning the employment relation.

Keywords: social contract, psychological contract, change, employment relation, national culture

JEL Codes: M0 Business Administration and Business Economics; Marketing; Accounting: General

I. Introduction

We live in a world in change. Technological, competitive or social and cultural changes harmonize to transform profoundly the context of the employment relation (Chaudhry, Wayne and Schalk, 2009). These changes put important challenges for management practitioners as well

as for the scientific world that look for answers to the problems of adaptation and management of the change of the relation employee-employer.

In order to analyze this relation, the psychological contract turned out to be for more than twenty years a powerful and relevant instrument. Defined as "the ensemble of the promises which play the role of obligation between the employee and the employer" (Rousseau, 1995, p. 5), the psychological contract has, according to the results of hundreds of research studies, important impacts on the attitudes, behaviour and affect of the employees. So, the perception of the respect for the psychological contract was connected to the job satisfaction (Turnley and Feldman, 2000) and to the intention of staying in the company (Dabos and Rousseau, 2004). It also has important influences on the affect of the employees and on their well-being (Guerrero and Herrbach, 2008). On the other side, the defiance of the promises (i. e. the breach of the psychological contract) contributes to the increase of the intention to leave the organization (i.e. turnover) and to the decrease of the commitment, of the job satisfaction and of the behaviour of organizational citizenship (Zao and al. 2007).

The concept of psychological contract was especially instrumented and used in North American and British studies by taking for granted a relation of employment in a stable social context. Furthermore, the psychological contract is a reflection of the individualistic vision of the relation employee-employer, such as it is perceived in the Anglo-Saxon countries. Nevertheless, after having made the review of the literature in human resources management of the last twenty years, we arrived at the conclusion that in situation of change, as in the ex-communist countries or those of the Maghreb, the modification of the foundation of the employment relation could turn out rather strong, in order to disturb the standards, the faiths and the ancient way of conceiving and of functioning for the employers and the employees. In these circumstances, an instrument as a psychological contract which represents a "photo" of the organizational reality at the moment "t", stable and shielded from any movement, becomes, in our spirit, restrictive and even old-fashioned.

In order that the researchers and the practitioners understand more the foundations of the employment relation of a certain country, we propose as instrument of analysis the *social contract in management*. By relying on the ideas of Rousseau and Schalk (2000), we define the social contract as "the set of norms, faiths and presuppositions concerning what is acceptable and tolerated in the employment relation". So, we want to go further than the notion of "promise", central in the conceptualization of the psychological contract. In our spirit, "making a promise", whether it is on behalf of the employee or of the employer, is not always connected to the free will of these two actors, but, sometimes, to what "everybody does" in a given entity, whether it is an industry, a private or public sector or a state economy.

The research that we lead at the moment and whose partial results will be the object of this communication suggests identifying the components of the concept of social contract in management, facts that were performed in a sporadic and superficial way in the existing literature. Thus, we ask the following research question:

What would be the conceptualization the most suited to measure the social contract in management?

We hope that our approach will open promising ways of research for the other researchers who are interested in the analysis of the employment relation and who could refine this conceptualization.

II. Literature review

The term of "social contract" is used for the first time in 1762 by Jean Jacques Rousseau to speak about the functioning of the human society. In the light of the revolutions which were prepared in the Europe of those times, J.J. Rousseau asserted that the rules according to which functioned the societies were not natural, but resultants of the decisions taken by the members of the society

who act as free agents (Bernadi, 2010). The social contract represented, according to him, an unwritten "agreement" which included mutual rights and obligations between the State and its citizens. Paying the taxes, complying with the laws by receiving protection from the State, here are some examples.

Rousseau's social contract was resumed in works of law (for example Donaldson and Dunfee, (1994) or Keely (1995) for describing what is considered as "marks of evaluation of an acceptable minimal level for the moral standards" (Donaldson and Dunfee, 1994, p. 265), namely *hyper norms*. Thus, in this approach, in order for a norm to be imperative in a society, it has to be guided by principles of morality and ethics. According to them, it is important to identify well the "real" moral norms, by means of the following reasoning:

The norm (N) is an authentic norm in the situation (S) for the members of the community (C) if:

1. The submission to the norm (N) is accepted by most of the members of (C)
2. The abnormality with regard to (N) is disapproved by most of the members of (C)
3. An important percentage (indeed beyond 50 %) of members of (C) is going to act in agreement with (N) when they meet the situation (S) (Donaldson and Dunfee, on 1994, page 264).

Later, the literature in management begins to take interest in the idea of social contract in order to define the norms/standards which determine the behaviour considered to be suited in a given entity, whether it is at the level of a company or of an industry (for example Ivens, (2006); Edwards and Karau (2007). These researchers criticize the level "too much abstracted" and remote from the real life of the organisations of the "classic" social contract and ask for a "democratization" of the social contract at the microeconomic level. According to them, even at the level of a workgroup, we can assist to the emergence of "small social contracts" that people accept and follow because they answer their needs of compliance with the morality in the company (Edwards and Karau, 2007).

We strongly believe that the social contract in management could turn out to be an instrument richer than that of the psychological contract for analyzing the employment relation, because it is the resultant of the dominant values and standards in the culture of a country. According to Rousseau (1995), the social contract is built through the influences of the law system, of the media, of the educational system or as a result of the business environment pressures. These influences are going to determine, after all, what is acceptable in the employment relation, what constitutes the rights and the duties of the employers and of the employees as well as the vision on the employment in terms, for example, of mobility or employment durability.

III. Research methodology

In order to identify the characteristics of the social contract which we call "terms", we performed a qualitative-type research in two Romanian companies functioning in the automotive industry in the region of Sibiu. Because we speak about an exploratory study, only the inductive method could give the best results (Suddaby, 2006). According to the requirements of the inductive methodology, we used a "theoretical" sample (Pratt, 2006), thus we chose to question approximately 40 persons coming from a company with Romanian capital and from a branch of a multinational company. By means of semi-structured conversations, we asked to the participants to speak about the employment relation before and after the fall of the communism in order to identify the big themes of what people considered as "usual" thus "common practice" in their companies. Furthermore, by contrasting two philosophies of management (Romanian and foreign) we hope to enrich the understanding of the social contract in this industry.

IV. Research results

In a previous research (Muresanu and Guerrero, 2011), we forwarded the idea that the point of departure in the analysis of the social contract in a given entity would be its economic ideology. So, we identified in the literature of the field, two ideologies that we placed to the two extremities

of a continuum, namely the ideology of the planned economy and the ideology of the market. In the present research, we analyzed two cases of social contract, namely the one of the centralized economy, such as perceived by the people who worked during the communist period in Romania and that of the very competitive market economy of the automotive sector. We went further in our analyses, by trying to identify the elements of the market economy social contract in a state-owned company and in a multinational one. Having identified the elements of the SC, we passed at the following abstraction level by grouping these elements in categories which we call "terms" of the social contract. Consequently, we reminded the hyper standards that "made justifiable" the social contract, namely that make so that the norms of the SC become acceptable and tolerated. The Table 1 presents the matrix of the elements of the social contract in management.

Table 1. Terms of the social contract in management

<i>Hyper standards</i>	<i>Terms of the SC</i>	<i>Elements of the SC</i>
Morality	Protection	<i>Lifetime employment</i> <i>Employability</i>
Equity	Valuation of the others	<i>No link between the performance and the reward</i> <i>Unemployment in employment</i>
Justice		Remuneration according to the performance and to the educational level
Good will	Self valuation	Consultation concerning the decisions taken by the company Creation of a friendlier atmosphere at work
Fair deal		<i>Employability</i> <i>"Fight" to move forward in the career because " I deserve it "</i>
	Recognition	Authoritarian / equalitarian hierarchical relation Lack / existence of recognition for a work well done Lack of initiative and implication Incompetent employees promoted based on politics or " on highly placed acquaintances"
	Dialogue	Depreciation / valuation of the work <i>Consultation concerning the values of the company</i> <i>More equalitarian hierarchical relation / very hierarchical relation</i>
	Implication in the work	Lack / encouragement for the implication and the initiative at work Passive / active attitude at work

Source: realized by the author

Let us take the example of the United States for an application of this analysis diagram. According to the information of the literature in management and according to our own experience, we can assert that at work, the American employers offer little protection to their employees: the employees are judged according to their performance and they worry to a big extent of their capacity of finding a job quickly. The most deserving are the most appreciated and, generally, people are ready to make everything to distance themselves from their colleagues. Given the small hierarchical distance, the recognition of performances and the dialogue are made very quickly. The North American culture encourages the initiative and the implication in the decision-making process.

V. Conclusions

We started the development process of a more dynamic instrument of analysis for the employment relation, by trying to fill this lack in the literature of management by a concept filled at the same time with the major principles of the hyper standards and with its practical character. From the practitioners' point of view, the social contract in management can represent a frame of understanding for what is tolerated, acceptable, even expected in an employment relation. By performing the exercise of describing "the terms" of the social contract that we propose, the leaders of foreign companies, for example, will be more warned and better equipped in their strategy choice as regards the human resources of the host country. The local leaders can also use our approach to manage changes which can affect certain "warm core", as for example, assuring the job safety that represents the centre of the social contract in the public sector. From the scientific point of view, our research will deliver to the researchers a tool more structured than that which existed so far in the literature. For example, we go further from the approach proposed by Edwards and Karau (2007) who see the social contract as a kind of "ideal psychological contract" or from the other approaches which consider the social contract only a material of "high moral principles" (e.g. Donaldson and Dunfee (1994) or Keely (1995).

We encourage the researchers to continue to refine the concept of social contract in management and to propose quantitative measures, by means of questionnaires, for the same concept. Other future research could be interested in the links which are woven between the social contract, representation of the more "collective" level of the employment relation and the psychological contract, the expression of "individualization" of the employment relation. Furthermore, an interesting research approach would be the analysis of individuals' adaptation to the changes of the social contract in management.

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HUMAN RESOURCES MOTIVATION – AN IMPORTANT FACTOR IN THE DEVELOPMENT OF BUSINESS PERFORMANCE

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It is well known that the people of a company are a strong resource for business and that the human resource function is valuable in assisting the workforce in order to accomplish the objective of the company.

The productivity of a company is strongly related to its people and its strategies. Therefore, a powerful human resources management system has started to develop in Romania as well. The people that are hired in companies bring along a wide range of qualifications, abilities and knowledge, which might as well be useless to the company needs. Some of them identify with the company and are motivated in helping reaching goals, while others see the company as a vehicle meant to satisfy their own targets.

This paper touches upon the importance of human resources motivation when it comes to accomplishing individual performances and, implicitly attaining organizational performances. Many human resources scientific researchers have discussed the subject of human resources motivation, have sought to understand what prompts people and how they have been motivated. The question ‘Why do we need motivated employees?’ is so often asked by chairmen. Motivated employees help the business survive and they are more productive. When aiming at efficiency, managers must understand what motivates the employees, according to their tasks. Of all the functions of a manager, motivating human resources is probably the most complex.

Keywords

*Human resources, human resources management, motivation, reward, performance measurement
Jel codes: O15, E24*

1. Introduction

As early as 1960, John Kenneth Galbraith was pointing at the importance of human resources compared to the technical resources: “*Should machines represent the decisive aspect, the social arrangements that help us develop our infrastructure and the equipment are those of prime importance. But if people are the ones that matter, our first concern should be creating those arrangements that help conserve and develop personal talents.*” (Niță 2010: 17)

During the period between the end of the year 1970 – the beginning of the year 1980, the term personnel was known under various names, but at the beginning of the year 1980 the term “human resources” department has started to take shape. This change has proven the acknowledgement of the fact that employees are important resources, not just simple employees that occupy certain functions. This change has also admitted to the fact that employees are not mere costs, but vital income and profit sources. In very many companies this change has been rather symbolic, since many managers have remained skeptical about the added value brought about by managing human resources. For example, in his book, *The Human Equation*, Jeffrey Pfeffer (1988) reports that only approximately half of the CEOs believe that human resources truly matter. This issue may be partly explained by the fact that human resources investments (such as training sessions or stimulation programs) may be extremely visible, while the results of these investments can be rather difficult to measure (Liu et al.2007: 504).

Human resources represent an extraordinary human potential, which needs to be understood, motivated or stimulated for an in-depth involvement of the employees in reaching organizational goals. From this point of view, the individual, through its structure, mentality and culture, forms into a biological entity that will always represent the vast ‘unknown’. (Manolescu 2007: 37).

Modern human resources management concepts are based on various research directions of this issue. During the last hundred years, the rank of human resources management in the managerial system has changed repeatedly, sometimes even undergoing radical transformations. The visions, approaches and theoretical principles of scholars and practitioners from this field have been reconsidered. Presently, especially human resources are strongly emphasized in scientific, methodological and applied studies in the field of management, unlike terms such as ‘work resources’, ‘workforce’, ‘wageworker’, which have been more popular in the past. This position has nothing to do with a certain trend and it is not merely a scientific terminology juggle, but a present imperative and it was crystallized by thorough researches, based on worldwide experience, the characteristic of the national human resources management. The national and foreign practices have known various stages in the conceptual approach of the productive person, so that nowadays, we can definitely state that *approaching a person from the point of view of its efficiency* is unique and of future importance.

2. The necessity of human resources motivation

On an individual, organizational and national level, productivity has extremely important implications for the spirit of competition of the company. The company can cope with the changes required by competitiveness and progress only by orienting the efforts of the managers towards motivation and satisfaction of the employees. In order to succeed in the activity provided by subordinates, managers must be good commanders of the motivation process (Certo 2002: 465).

Of all the human resources processes that can be developed within companies, the motivation process occupies a central place since all the others derive from its healthy functioning, to a certain extent. Motivation is the inner state that determines a person to act in a way that ensures the accomplishment of all the objectives. (Rudolph and Kleiner 1989: 1-4). In other words, motivation explains why people act the way they do.

In the management of the company, the true meaning of the actions and behavior of the employees cannot be discovered without knowing the motives that has triggered them. This accounts for the frequency of the questioning of the motives behind our and others’ decisions. Knowing the motives does not only help enhance action efficiency, understand motives that generate a certain behavior, but it also helps us acknowledge its moral value.

Why is motivation important? Between motivation and performance there is a relationship of interdependence. Unlike money, raw material or other production factors, people mean much more to the company. Their need and value systems, their motivation and satisfaction degree will always determine individual and organizational performance. In fact, no company can exist without the human resources that shape it. But paradoxically, people are also the only factor that can act against organizational purposes. Company owners are often blinded by profit and consider human resources less important, forgetting that profit can grow if employee motivation and satisfaction grows. The costs of this objective are smaller than the losses caused by unsatisfied employees.

The role of motivation is not solely that of making people work, but that of making them work well, that of determining them to make full use of their physical and intellectual resources. Where there is motivation, there is productivity and performance and the people are grateful. In other words everybody wins. Motivation is crucial not only to the organizational success, but to the success in each department, project or plan and it undisputedly represents one of the most important fields of responsibility.

The prestige companies that have learned the lesson regarding “how we can turn human resources into a force” in good time are now at the top of economical development and apply entrepreneurial strategies in the human resources management and stay among competitive

companies, year after year. This is why it is important to consider the human factor before the competitors discover its weaknesses.

Why is it important to motivate employees? Nowadays, in this tough economy, it is very important to have a motivated workforce, even more important than ever. A motivated employee is a productive employee and a productive employee is a profitable one! When people are not motivated they become less productive, less creative and stop showing interest for the company. Why is human motivation so important? So that you can continue your activity!

3. The principles of the motivational theory

Managers are more and more preoccupied with motivation in their work, especially since employees demand acknowledgement and involvement in the need fulfillment, without the external authority and control to have the impact it used to. First of all, in order to explain motivation, we need to try to understand the “whys” of behavior. “Why does an individual act one way or another?”; “Why does the individual stop doing a certain thing even if it is necessary?”; “Why is it that the same motive can trigger different behaviors?” (Mathis et al. 1997: 39). Many scientific researchers have tried to answer these questions by investigating the mechanisms of human psychology, founding motivational theories. Motivational theories differ among themselves according to how they explain behavior through motivation content or through determined psychological processes. Most of these theories can be divided in three basic types: content theories, process theories and strengthening theories.

Content theories identify factors that incite or trigger the motivational behavior. These gravitate around a larger or smaller set of needs, which underlie behavior.

The process theories regard factors that direct the behavior. These refer to perspective systems and look for interaction patterns of more variables that together shape behavior. Therefore, process theories focus on the interaction of the person with the environment, laying emphasis on understanding the decisional process that underlies behavior.

The strengthening theories refer to the factors that determine the repetition of a behavior.

Table no. 1. Classification of motivational theories (Mathis et al. 1997: 40)

Categories	Characteristics	Theories	Examples
Content theories	Refer to factors that incite or trigger the motivational behavior	- Hierarchy of needs; - Theory X and Theory Y; - Dual factors; - ERG (ERD).	Motivation through money, social status and accomplishments
Process theories	Refer to factors that direct the behavior	- Expected performance; - Porter-Lawer; - Equity; - Setting goals.	Motivation through the inner urge of the individual towards work, performance and recognition
Strengthening theories	Refer to the factors that determine the repetition of a behavior	- Operant conditioning	Motivation through rewarding a certain behavior

The motivational process is based on a series of needs that signal the existence of a deficit at the individual level. For example, if a worker is dissatisfied with his/her salary, this deficit causes a need at an individual level. In order to satisfy this need, the worker has more options: he/she can

ask for a salary increase, he/she can work harder in order to prove he/she deserves a salary increase or he/she can look for another work place.

Although there still are 'old-fashioned' employers that believe that offering too many advantages means a costly investment for the budget of the company, the reality is totally different: motivating human resources does not involve high costs, on the contrary.

The manager has to make sure that each employee is motivated so that, in this way, the manager will know that the employee in question is also productive. In other words is accepted from the beginning that employees have various needs that must be satisfied. The fact that a person is motivated by money is not less honorable than the fact that someone is motivated by the opportunity of getting better qualifications.

Human resources underlie the competitiveness of a company and its subsequent prosperity. They represent one of the most important values of a company and the efficient human resources management is essential for the success of a company in the present context.

It is worth making efforts in order to have motivated employees. They ensure:

- enhanced quality of the offered products and services;
- greater effort to please the manager;
- positive attitude towards the company;
- better observance of deadlines;
- low personnel fluctuation;
- small absenteeism rates;
- creativity and assuming of responsibilities.

Approaches in understanding motivation are different because some theoreticians have developed their own opinions with regard to motivation. They have approached motivation starting from different points of view, from ideas determined by the social conditions of the time. None of the approaches can be considered the correct one. Each contributes to the understanding of the human behavior and each has its limits.

Many of the theories and motivation patterns are difficult to apply by the managers. The most frequent procedures form a reward system within a company, a reward system which represents the official mechanism for defining, assessing and rewarding the performance of the employees (Chaşovschi and Albu 2006: 28).

In conclusion, it can be stated that in the future, an educated, motivated and modernly managed workforce will be strategically beneficial in any field. As a consequence, only those companies that will prove to be capable of ensuring an adequate and inspired management and that will offer an attractive image will be able to be of interest to a well-prepared workforce. Once aided by employees with a proper level of training, quantifying, enhancing and maintaining human resources will fall under the responsibility of the managers on all levels.

4. Rewarding the human resources performance

Rewarding the human resources is one of the most important functions of a company and, therefore, a main priority for the human resources management. People look for work places, mainly to make a living. They expect a good salary and benefits in exchange for their work. Having a properly satisfied work force has a circular impact, since, if employees are happy with their rewards, they will be more productive and the company, in its turn, will enjoy more benefits. When the employees are not happy with their rewards, they are less productive and the company is held back. Developing an equitable rewarding program is therefore extremely important for all companies, but there is also talk of a social impact. People depend upon their work to make a living and their involvement in the society represents a direct impact on the way in which their work is being rewarded.

Many employers consider monetary reward to be the only one motivating the employees. But if the owner raises the salaries and the employees are still not motivated, this means something is wrong in certain aspects.

One of the concerns of scientific researchers from the field of the human resources is that of determining what exactly motivates them to work harder.

A reward system reflects what the company cherishes and why it is willing to pay for the aspects in question. Wanting to offer proper rewards and sending a message to everyone about what is considered important in a company underlies the system.

In a company, the performance is also influenced by the way in which rewards are being used. As well as other markets, the labor market has its buyers and its sellers. The economic factors that act on the external labor market are determinants for the wage levels.

A correct reward management takes into account the philosophy, politics, plans and processes used for maintaining and developing rewarding and, implicitly, motivation systems. On the one hand, reward as a process supports the economic strategy planning of the company and is integrated with other strategies, especially with those that regard human resources development. On the other hand, it focuses on developing abilities and competences among employees in order to enhance resources organizational capability.

According to the researchers and to the managerial practice, in order for a reward or a work result to act like an efficient motivator, the following essential requirements must be observed (Sasu 2007:10):

- the person in cause must wish for the reward, otherwise it will certainly not become a motivating factor;
- the person must be convinced that his/her additional effort will lead to performance increase, which must not be prevented by factors that he/she cannot control;
- the person must be convinced that his/her increased performance will bring him/her, as a result, the reward he/she wants. The connection between the additional effort, reaching a superior performance and receiving the reward must be clear, direct and strong or, at least perceived in this way.

5. Measuring human resources performance

If the human resources that define the company are characterized by satisfactory knowledge and competences, the company generates proper conditions for its durable development. But if the human resources that define the company are not characterized by satisfactory knowledge and competences, then the company generates conditions for stagnation or even bankruptcy.

These aspects lead us to strongly affirm that the human resource is extremely important for the company. The decision makers of a company must pay special attention to this field in this macro-social context of the conceptual reshaping of human resources and their strategic role within the company.

The employee represents the modern man/woman, constrained by his/her life conditions and has ceased to make philosophical assumptions, trying to accomplish as much as possible. Therefore, a specific set of capabilities and qualities, which are reflected in the work result and in the individual professional performance, underlies each employee.

When it comes to evaluating employees it is necessary to establish the most adequate assessment criteria of individual performance, i.e. the complex of features that guarantees for professional success. Limiting these criteria to the dimension of the professional performance is a complex issue, often imbued with uncertainties and subjectivity, which makes failures quite frequent.

Measuring the individual professional performance represents a necessary and rightful action with personal as well as collective implications. When it is not perceived in a positive way and it seems a mechanical action at the end of each year, influenced by the results from the last period, the evaluation will prove to have a detrimental impact upon the future activity of the collective.

Determining the individual professional performance at the end of a certain period of activity represents a balance sheet, a source of information towards which we cannot be indifferent and which triggers questions and influences individual and organizational decisions. This is why the measurement of individual performance needs to be objective and entails great responsibility.

Practically, the performance of an employee is successfully measured in a certain professional activity when the correct instrument is used. Therefore, a certain present stage of the professional success, which in time will reach a different level, is determined. The dynamic character of the individual performance is a reality that should not be neglected.

The incorrect measurement of individual performance leads to the establishment of a negative climate which has a detrimental impact upon productivity due to unfulfilled targets and work tasks and due to the bad quality of products, works and services. The negative work climate is characterized by high lateness and absenteeism rates, inobservance of tasks and deadlines, etc., which ultimately leads to a high personnel fluctuation rate.

When having to assess their personnel, managers may do so with or without discernment. Imprecise personnel evaluation represents a cause of future failure. For example, considering everyone 'very good' leads to demotivation of the ones that are truly very good, for the fact the result of their work is considered equal to that of the mediocre employees, which, in turn, will consider they have worked hard enough and can therefore reduce their effort.

6. Conclusions

The performance of the companies has nowadays become a major attribute of the employees, of the existent human resources, respectively. The success, meaning the degree of competitiveness and the profit of the companies depend mostly upon the human resources management, motivation and upon the degree of involvement of the employees. Under these conditions, it is necessary that the manager proves to be concerned with assessing and training quantitative and qualitative development regarding human resources, in the present and in the future, so that they are adapted to the development and variety of products and services offered by the company.

In order to understand motivation, managers must first understand the motives which trigger a certain individual behavior and certain reactions in threatening situations or the motives which have a certain influential impact. Motivation is an internal process, not an imperative that can be imposed from the outside.

Managers must understand motivational strategies, the way in which these succeed or fail based on how they manage to influence the internal motives of the employees. The theories of human needs give us an insight to what motivation means. According to Maslow, certain internal needs are located closer to the base of a personal hierarchy than others and people aim at satisfying certain needs located on higher levels only after the basic needs are fulfilled. Therefore, managers must provide opportunities for self-fulfillment or the employees will be unmotivated.

Managers are permanently concerned with the way in which they can motivate their employees to work better, considering the idea that a manager can take measures that will have an impact upon the quantity and quality of the employees' performance. For example, a manager concerned with determining the employees to produce more, may be interested in determining the enhancement of the quality of their work or in convincing them to spend less time resting and more time thinking about their work and careers.

The power to change one's behavior is in the hands of the person whose behavior the administration tries to change; motivation is therefore a process that takes place inside of a person. The manager needs to find a strategy to reach the inner state of the employee, determining him to be motivated, to act according to his/her own feelings. Even though managers often ask themselves how they can motivate someone, they are not the ones that motivate the employees. People are motivated or demotivated according to their inner state. In trying to

influence this inner state, the best approach managers can choose is trying to influence people's motivation.

If all companies from a field have similar technologies, the company that handles the motivation issue the best, is the one to be ahead. If employees on all levels are motivated to stay in the company, do their job at the highest efficiency level possible and try to work things out the best way they can, that company will be more efficient than the ones with lower performances, where no one tries to be innovative or to find ways of increasing the performance level.

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PURCHASING MANAGEMENT AND ITS IMPORTANT ROLE IN PROVIDING VALUE ADDED TO ORGANIZATIONS

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Nowadays, in the knowledge based society, purchasing management has become one of the most important tool for improving the profitability of organizations. Because of its important role, purchasing is the function that has a tremendous impact on these efforts to create value in the organizations. This article summarizes the main value that can be provided by the purchasing function to the organizations. The paper starts with the presentation of the evolution stages of purchasing management Furthermore, we present the strategic role of the purchasing management in the knowledge based society. Based on the results of a questionnaire we summarized the main value added by purchasing in the companies from Maramures county. Finally, we draw conclusions and we elaborate some guidelines for managers.

Keywords: purchasing management, value added, knowledge based society

Coduri JEL: O32, M19

1. Introduction

The term “knowledge society” was used for the first time in 1969 by Peter Druker but it was better defined by Mansell & When (1998) and Stehr (1994). We can find the keys to knowledge society following the steps of what we call the information society, heading towards a much more collaborative global world of knowledge sharing: a globalization of knowledge.

The proliferation of information technology create opportunities and threats for organizations. The adoption of E-procurement helps member of the supply chain networks to penetrate new markets and find new customers’ segments. Lederer et. al (2001) suggested that an organization can use E-procurement to create strategic advantage through improved customer relationships resulting from greater business efficiency and better information access and flexibility.

The aim of this article is to present the strategic role of purchasing management in the knowledge based economy. The article starts with the evolution stages of the purchasing management. Furthermore, the paper presents the main value added that can be provided by purchasing management. Next, we summarized the main value added by purchasing in organizations from Maramures county. The paper ends with conclusions and recommendations for managers.

2. The evolution of purchasing management

The purchasing function has became lately one of the most important tool for improving profitability of the organizations. This reputation was received because of its important contribution to the costs reduction and to the quality improvement.

Until it has reached this stage of development and the recognition from management, the purchasing function has passed through several stages over time. In the first stage, purchasing management was focused only on the supply of raw materials necessary to carry out the production process and purchasing was considered only an administrative function.

In the next stage, purchasing is receiving a commercial orientation due to the achievement of short-term profit by negotiating prices and selecting the suppliers which offered the lowest prices. In the third stage, purchasing had a logistic orientation which aimed at obtaining the smallest total cost of purchasing through the optimization of the purchasing process. Nowadays, purchasing management has a strategic orientation and contributes to the achievement of long term benefits.

In table 1 you can observe some of the differences between the traditional and the strategic role of purchasing. We identified the differences at the organizational level, at the suppliers' level and at the operational factors. As you can notice, the role of the purchasing has change at all levels and it became a strategic function of the organizations.

It has been changed also the way managers look at the purchasing function. This is visible through the hierarchical position occupied by the purchasing function in the structure of organizations. Thus, if the purchasing is seen only as an administrative function, it does not occupy an important place, only a low position in the organizational structure.

If is viewed as a commercial function, purchasing is reporting directly to the top management. If purchasing is part of the logistics, it is integrated with the other functions in the organization. As purchasing becomes a strategic function, it is represented in top management of the organization.

Tabel 1: The main differences between the traditional and strategic role of purchasing

Concept	The traditional role of purchasing	The strategic role of purchasing
I At the organizational level		
<i>The decision process</i>	Limited at the operational decisions or at tactical decisions	Implication in the strategical decisions
<i>The contribution to the organizational profit</i>	Costs reduction through negotiation of better prices and discounts	Main tool for improving profitability of the organizations
<i>The organizational structure</i>	Accent on centralization	Accent on decentralization in order to be closer to the possible problems
<i>The purchasing department status</i>	At the lower levels	At the highest levels, demonstrating professionalism
II At the suppliers level		
<i>Relationships with suppliers</i>	The suppliers are considered as an enemy which has to be caught	The suppliers are considered as partners
<i>Negotiations with suppliers</i>	Win or lose	Win-win
<i>Suppliers' portfolio</i>	Big, based on the assumption that more suppliers can assure better the resources needed by the organization	Small and based on an efficient logistic
<i>Suppliers' location</i>	Locally or national	Globally
III Operational factors		
<i>Strategy</i>	Departmental plan	Business plan
<i>Decision</i>	Fragmented decisions	Decisions based on total cost

<i>Systems</i>	Simple IT system	analysis Advanced and integrated IT system
<i>Employees</i>	Without special education	Higher commercial and technical education

Made by the author

3. The strategic role of purchasing management in the knowledge based society

Plăiaș (2006) considers that an efficient purchasing management can produce the following types of impacts onto the organizations:

- fundamental impact;
- information impact;
- impact on the organization image.

Fundamental impact

In many organizations the purchasing volume represents an important percentage from the total turnover. In the Romanian economy, the purchasing volume represents approximately 62% from the total turnover, and in USA the purchasing volume is around 60%. In figure 1 you can observe that the savings made when purchasing goods and services contributes directly to the profit of the organizations.

The purchasing impact on the organizations can be direct and indirect. The direct impact refers to the purchasing price. So, if the purchasing price can be reduced without to affect the quantity, quality and the delivery conditions, then the savings made will contribute to the profit increase. In other words, every RON saved will be added entirely to the organization profit.

The numbers from the boxes that you can see in figure 1 represent the current performances of the organization. What you see between brackets are the new performances that results from a reduction with 7% (0,25 million) of the purchasing expenditures for buying goods and services.

This reduction of the purchasing expenditures will determine the increase of the profit rate from 9,87% to 12,96% and of the return on assets from 1,22 to 1,29. This will determine the increase of the return on investments from 11,09% to 14,25%.

As you can notice, every RON spent when purchasing goods and services leads to the increasing of profit with one RON. We can observe thus the importance of the purchasing function for the increasing profitability of the organizations.

Information impact

Purchasing can represent an important source of information because of its unique position in the organization. Due to its position, purchasing has a direct interface with the market where the organization is operating and also with the specific needs of the organization. Therefore, the information received from the current and potential suppliers and also from other purchasers can be useful and valuable for the other departments from the organization.

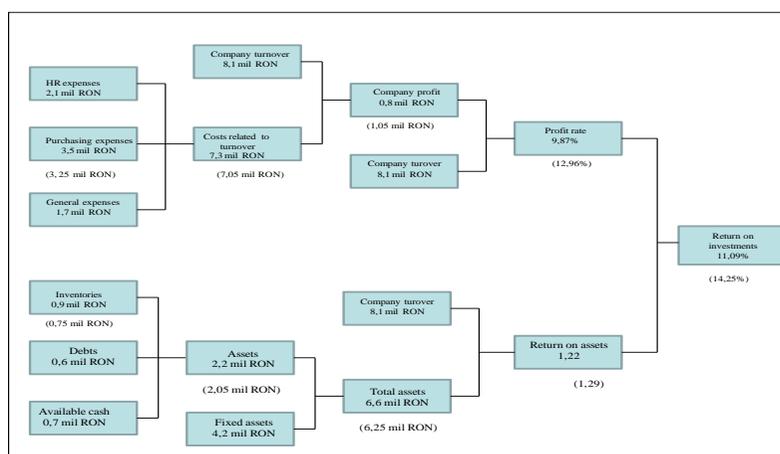


Figure 1: The relations between the purchasings costs and the rentability of investments
 Source: Plăiaș, I., Marketing of aquisitions,Risoprint, Cluj Napoca, 2006, p.38

The manager of the purchasing department can play an important role in the organization based on the important information that he has.

Impact on the organization image

Purchasing can affect also the organization image in the environment where it operates. If an organization does not have an etiquel behaviour against its current and pottential suppliers, then the organization image is in dangeour.

4. Main value added by purchasing in the romanian companies

Purchasing has become an important activity also for romanian companies because of the main value added that can be provided by purchasing management. In the attempt to discover how are things in practice regarding to the main value added by purchasing management we applied a questionnaire to 75 companies from Maramures county. The companies were selected from different sectors of activity.

The questionnaire had two parts. The first part of the questionnaire contained questions about general data of the companies (name, object of activity, number of employers, turnover, etc.). Also, respondents had to indicate the organizational structure of the purchasing department and to attach the organizational chart.

The second part contained information about the purchasing department. In this part of the questionnaire we made several statements about the purchasing department, which respondents had to evaluate on a scale of 1 to 5 (Likert type scale).

The statements we have made include the following aspects:

- the recognition of the strategic importance of purchasing function;
- the main added value provided by the purchasing management;
- the total amount of money spent by organization on purchasing.

From the total number of questionnaires sent, we received back forty one questionnaires. Next, we present the analysis of survey results and major conclusions we have drawn from this study.

Regarding the recognition of the important role of purchasing function we received the following results (see fig. no 2). In this respect we asked the respondents to express their satisfaction on the

statement formulated (Management recognize the important role of purchasing in the organization) on a scale from 1 to 5 where: 1 = completely against; 2 = mostly against; 3 = neither agree, nor against; 4 = mostly agree; 5 = completely agree.

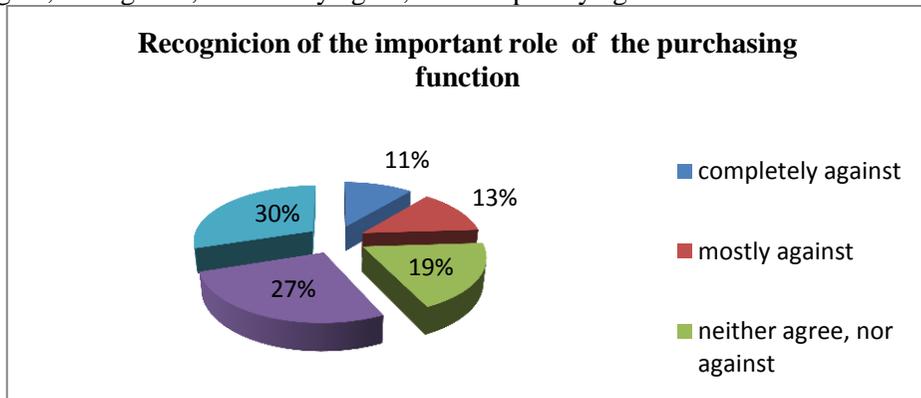


Figure 2: Recognition of the important role of the purchasing function in the organization
Made by the author

If we analyze the data received we can observe that:

- most managers from Romanian companies began to perceive the huge potential of purchasing within organizations (30%);
- there are some managers who are completely against (11%), mostly against (13%) or neither agree nor against (19%) with the statement that we formulated.

In order to analyze which are the main value added provided by purchasing, we made a with the most important value added and we asked respondents to rate them on a scale from 1 to 5 where: 1= very often, 2 = often, 3 = sometimes, 4 = very seldom, 5 = never. The results obtained are presented in figure 3.

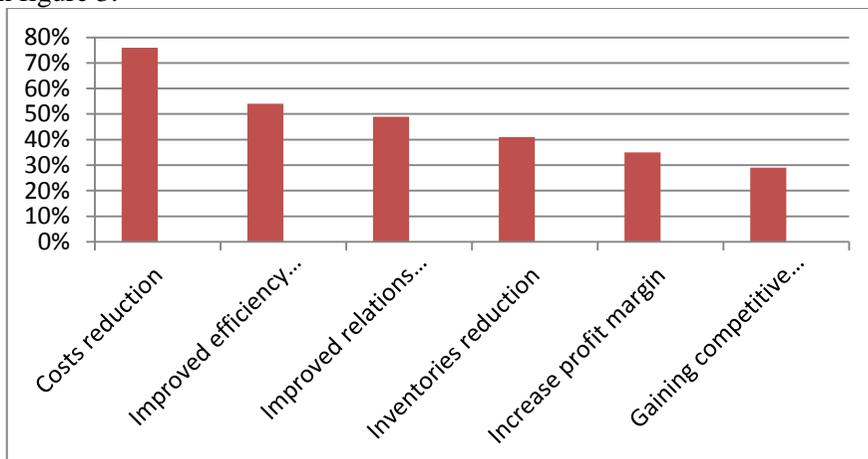


Figure 3: The main value added provided by purchasing
Made by the author

We can observe that the main value added by purchasing is costs reduction. This is followed by improved efficiency of the purchasing process and improved relations with the suppliers. Gaining competitive advantage was the value added which was very seldom provided by the purchasing management.

5. Conclusions

Based on the obtained results from the questionnaire we can conclude that most managers from Romanian companies began to perceive the huge potential of purchasing within organizations. In the same time there are also some managers that do not realize the important role of the purchasing function in the organizations.

Based on the results from the questionnaire, we can conclude that in the majority of the managers could not identify the total amount spent by their organizations on purchasing. They didn't know how much is spent on what in their organizations. This means that purchasing is not treated by managers as a strategic function of their organizations. Because of this undervaluation, managers are missing opportunities for adding value to their organizations.

With this article we want to draw the attention of researchers and managers on the huge potential of the purchasing function to provide value added to the organizations in the knowledge based society. In order to achieve this, managers should pay more attention to the procurement process and they should create special policies and procedures for the purchasing process which can improve the efficiency and effectiveness of the procurement process.

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EXTERNAL FORCES DRIVING CHANGE IN THE ROMANIAN SMALL AND MEDIUM SIZED ENTERPRISES

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Change is a constant in everyday life confronting organizations to continuously adapt their strategy, structure, processes, and culture in order to survive and stay competitive on the market. Implementing organizational change is one of the most important skills required for managers and in the meantime the most difficult one.

The forces driving change within an organization, that can be either external or internal, are those that propel a company forward towards change and in order to identify the need for change and make the proper changes, managers have to develop a tool that allows them to analyze how does the environment influence their business activities. A vision for change will clarify the directions in which the organization needs to move, starting from its current state and taking in consideration the existing opportunities and threats from the environment that allow to move to a future desired state.

The purpose of this paper is to identify the concern for change in the Romanian small and medium sized enterprises by presenting and explaining the past and present influences of the main external forces that have determined the need for change in the last 3-5 years and to make recommendations about future possible changes that have to be performed by managers for a better harmonization with the environment. The research method used for this study is the interview on a sample that contains some of the most relevant SME's from the western side of Romania, from different industries. We analyzed the main external forces that had an impact on the small and medium sized enterprises and how were they generating the need for organizational change, in order to see which present and future changes are required.

Key words: organizational change, need for change, environment, forces of change, SME's

JEL classification: M10,M19

Introduction

The environment shows various influences on the activities undertaken by companies, so an analysis of its factors is important in order to establish clearly the organization's current situation and the steps required for change that will allow a certain level of development which leads to performance.

The need for change must be identified as necessary by the managers of the organization, because as Rosbeth Moss Kanter stated, "*organizational change is not driven by pressure from the environment, resulting in a set of problems that trigger an automatic response, but the perception of key actors on the environment*".

The potential changes identified in the environmental analysis should be carefully studied and correlated with the resources and the particularities of the organization, establishing first a hierarchy and then implementing the most important ones, because the success of the organizational process of change depends on the quality of this stage.

The paper aims to identify all the external forces that have shown their influence on small and medium sized enterprises from the western side of Romania, in the last 3-5 years and how are they currently acting, while identifying also their future development. The focus is on how managers perceived those external influences and the changes they have made, but also on

proposals for potential organizational changes for the Romanian SMEs, which can be made in the future, for a better adaptation to the environment.

The study was conducted on a total of 50 SMEs from the western side of Romania, by applying an interview to top management.

External forces driving the need for change in Romanian SMEs

According to Article 3 of Law nr.346/2004 on stimulating the establishment and development of SMEs, the SME are those organizations which satisfy the following conditions:

„ a) have an annual average number of employees less than 250;

b) have an annual turnover equivalent to 8 million euros or a loss in the balance sheet not exceeding the equivalent of 5 million euros;

c) meet the criterion of independence (any form of organizing the economic activity, autonomous patrimony and authorized under applicable law to acts and acts of trade, for profit in competitive conditions, namely: companies, cooperatives , individuals engaged in independent economic activities and family associations authorized under the law in force) ”.

„ SMEs are classified according to the average annual number of employees in the following categories:

a) up to 9 employees - microenterprises;

b) between 10 and 49 employees - small enterprises;

c) between 50 and 249 employees - medium enterprises. ”

(Law nr.346/2004, Article 4, paragraph (1)).

The external forces that generate the need for change are:

-Economic forces;

-Technical and technological forces;

-Natural (ecological) forces;

-Political forces;

-Legal forces;

-Socio-cultural forces.

1. Economic forces

The main economic forces that have shown and continue to show their influence on SMEs in Romania are:

-The domestic and international market;

-The development pace of the economy;

-The purchasing power of the population;

-The financial potential;

-The infrastructure.

1.1. The domestic and international market

This category of factors had a major influence on the activities of SMEs in Romania, causing recently significant changes. Following the events that occurred worldwide, after 2008 the economic recession caused a continue decrease in the market's absorption capacity, having a negative impact on many businesses from different industries.

The most affected was by far the construction industry. Primarily this was caused due to interest rates that have offset the growth in prices, people being encouraged to consume more and more, by borrowing to buy real estate because of the nonsense anticipation of continuing growth in their prices. This increase in demand has led to increased offer, companies lending as well in order to build more. Commercial margins in such cases were extremely high in order to cover rates and bank interest and when the financial blockage has occurred, followed by lack of liquidity, the

situation has become dramatic. Sale of real estate and prices have fallen, many companies being forced to lay off most of their staff due to the reduction of demand and the lack of funds to pay salaries, many of them even coming close to bankruptcy.

Unfortunately the forecasts are not optimistic, and future trends show a rise in prices and decrease in volume, bankruptcies and takeovers, while the new investors are not willing to enter the market, especially for the fact that the amount of existing production capacity is exceeding the current needs.

Micro enterprises are addressing almost exclusively to domestic markets, having no ability to promote their products and to penetrate on foreign markets.

Changes needed to be done in order to minimize these negative influences are: to identify niches in existing businesses, to identify consumer needs that are not currently met or are met inadequately, to identify business ideas which may have a chance of success even in times of recession, or orientation to other businesses (e.g. online businesses that require minimal investment, poor storage facilities resulting in lower costs and hence prices). The micro can focus on the export trade in traditional organic products (such as brandy, palinka, ham, sausages), with an attractive manner of presentation.

1.2. *The pace of economic development potential* had a negative impact of small business in Romania, because they are the first affected by its contraction.

The influences of the crisis on large companies have also affected the small enterprises that were providing certain services to those large companies.

The more difficult economic conditions in Europe and elsewhere, the budget deficit, inflation and unemployment rate, will lead to a small future growth of the Romanian economy, having a negative influence on the SMEs.

The absorption of European funds for our country is low, so any changes required for improving the small business activities are related to writing projects and attracting grants used to develop, creating new production units, upgrading the existing ones or purchasing intangible assets such as software, patents, licenses etc.

1.3. *The purchasing power of the population* shows a direct influence on the micro enterprises due to the fact that the Romanian citizens are mainly their customers. The reduction of wages in the public sector by 25% in 2009 and the reduced wages in other fields, has affected in a negative way the people's purchasing power. Also, taking in consideration that the economic crisis has manifested itself in other European countries, where a large number of Romanian citizens left in search of a better job, the impact on their purchasing power is obvious.

The measures taken recently in Europe have made more difficult for the Romanians to access a decent job (see legal restrictions imposed in Spain), have led to a continuing decrease of financial support for the family members that were left behind, affecting the purchasing power of the Romanian citizens that also affected the sales made by SMEs. This decrease, along with increasingly pessimistic information about the evolution of the purchasing power of EU citizens, the dangers of euro area, the economic problems faced by some countries (such as Greece, Spain, Portugal), generates a prudent behavior for Romanian citizens. All this adversely affects the chances of development of micro enterprises in the present and future, because in order to survive on the market, they must reduce the prices, given that production costs remain unchanged, or in most cases even increase.

The changes needed in this case, refer to the businesses reorganization primarily in terms of their size for a better flexibility that allows them to easily adapt to new requirements, and finding new ideas, less costly to allow costs reduction and prices. As we stated above, online commerce is becoming more popular mainly due to very competitive prices compared to the ones of traditional stores.

1.4. The financial potential

Although there is a strong banking system in Romania, access to credit for micro enterprises is extremely limited. The main reasons for this are: the lack of possibilities to guarantee loans, particularly high interest rates that discourage a loan, state guarantee funds for SMEs relatively low. Appetite for credit is generally low for private entrepreneurs, their development being based on previous profit or from loans provided by partners or shareholders, without resort to external financing sources - mainly bank loans.

We believe that the future actions of accessing bank loans by SME managers will be limited, for the same reasons as before, but is recommended to study carefully the various programs offered by Romanian banks, designed just for this type of business in order to encourage external financing that will allow SME's to identify new opportunities.

1.5. The Infrastructure

Two thirds of the total area of Romanian infrastructure has to be rebuilt and international studies show that the poor state of roads and lack of investment in this segment is a major impediment to economic development. This is why many investors choose to invest in other countries, the negative effects of such decisions being manifested also on SME's.

Unfortunately the actions that can be taken to remedy this situation are limited. The business location is a very important decision, so that access to necessary resources that allow an effective activity to be as easy as possible.

2. Technical and technological forces include the technical level of machinery, equipment and facilities that may be purchased by organizations, the number of patents, licenses etc.

These factors have not created in recent years great pressure for change in small companies. In general, we cannot talk about technology and performance at this level. The interest for the latest achievements of science and technology, justified by the nature of the micro activities is low. Purchases of new equipment (which mainly relate to computers and cars) are rare and only in those companies engaged in productive activities.

The main changes that can be made are: more focus on IT, a better use of the Internet for research, a better management through better communication with employees, a better record of management using software for management, accounting, employee records, employee evaluation, relationship with the bank, online payment.

It is also recommended to take in consideration the high growth potential of online shops. Although in Romania there are many Internet users, the number of such businesses is relatively small.

3. Natural (ecological) forces including all natural resources (atmosphere, climate, soil, subsoil, vegetation, etc.) had a strong impact on the SME's.

As a result of alignment with the EU law, Romania has adopted a series of laws that protect the atmosphere. Restrictions on smoking have generated additional investments in order to create spaces for smokers and nonsmokers.

The increasing purchasing price in certain raw materials has generated the need for change, such as orientation to other cheaper materials (e.g. the increasing price of fuel has led to the adaptation of vehicles to use LPG, especially for those businesses in the area of transport - taxi). Future changes that should be made in this direction include the orientation towards natural products, speculation in the consumer trends, and greater emphasis on investments for environmentally friendly actions.

4. Political forces including the political system and the activity of political parties' showed

multiple influences in our country due to changes in fiscal policy, budgetary policy and the calling for foreign loans to cover the budget deficit.

Major changes in EU policies, implementation of austerity measures for countries that have a high debt burden (like Greece, Italy, Spain and Portugal), changes of prime ministers in Greece and Italy have led and will lead to future changes in Romania as well.

The political decisions of European countries with high unemployment rates have influenced the Romanian citizens that weren't able to find a job in those countries (especially Spain), some of them returning home and trying to establish new business as a result of the experience gained in other European countries (mostly in agriculture).

As future possible changes that can be made regarding the political factors, the entrepreneurs should have a greater involvement through existing bodies and political forces to propose actions that support the development of the entrepreneurial phenomenon in Romania.

Such proposals addressed to various political parties and their support to promote legislation will ensure a greater protection for small businesses.

5. Legal forces refer to all laws, decrees, decisions, regulations etc. specific in a certain country. Their impact upon Romanian SMEs was mostly negative. For example the change of the taxation system by the appearance of the so called "minimum tax" led to the closure or suspension of over 200.000 small businesses. Later this law was reversed, returning to the micro income tax.

Another legislative change with a strong negative effect was the increased VAT rate from 19% to 24%.

As further actions in order to minimize the negative effect of the legal forces, the entrepreneurs should be aware of legislative changes in the EU that are implemented in a relatively short period of time in our country.

6. Socio-cultural forces (social structure of population, education, science, culture, etc.) don't have a great potential to influence the micro enterprises.

Although the number of young graduates with higher education has increased, most of them are working in many jobs below their training.

In recent years some micro enterprises had problems hiring qualified trades (especially in catering and production) because of the very low interest of young people for these professions.

Because of these deficiencies many businesses started to provide training services for youth who want to qualify in a trade.

Possible future changes that can be made include trainings in accordance with the requirements of economic agents, human resources training under the new labor code, organizing teambuilding to stimulate employees' creativity which are very important in finding solutions for change and innovation.

Changes in terms of mentality and attitude towards work are still needed for a better quality of work.

It is desirable to increase the appetite of young people to develop businesses, to become entrepreneurs (through education and values promoted by society).

At the micro level exchanging experiences with similar businesses in other countries (if there are such opportunities) or even organizing presentations of new elements of business from other countries can motivate and change attitudes of their employees.

Conclusions

The need for change must be primarily associated with the need for survival because without identifying the need for organizational change as being opportune, managers can not ensure on

reaching long term planned goals, which will lead to the organization's decline or even bankruptcy.

The interest in making changes in the SMEs in Romania is very low, among the main reasons being the perception of the Romanian managers that do not consider that by making changes, things can get better in order to obtain increased performance. The daily routine and lack of studies in management or even economic science (managers usually apply empirical management based solely on experience and intuition) does not give them time to depart from current concerns and try to evaluate what happens around them.

Most managers do not give a great importance to the changes taking place in the business field and do not consider that change can influence their business activities. Changes are not considered a success factor in the organization. The managers often think of change only in critical times, in situations where changing is required (primarily changes in legislation: VAT rate, income tax, separate rooms for smokers and nonsmokers, winter tires, new labor code provisions etc.)

In order to identify the need for change as being opportune, managers should start with an environmental analysis that allows a clear view upon the organization's current situation and the necessary steps for change that assures a development which leads to performance. Not all factors manifest their influence with the same intensity, so it is important for managers to primarily identify the key factors with the highest power of action and then to focus their attention on factors less influential.

Possible changes identified by this analysis should be carefully studied and correlated with the resources and the particularities of the organization, establishing a hierarchy and then implementing the necessary actions.

Aknowledgments

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- *** *Law nr.346/2004 on stimulating the establishment and development of SMEs*

STUDY ON THE PROBLEMS IN THE STAGES OF FILLING OUT THE APPLICATION FORM AND TECHNICAL-FINANCIAL REPORTING ENCOUNTERED BY THE PUBLIC INSTITUTIONS IN THE CENTRE REGION IN ACCESSING EUROPEAN FUNDS

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The article has as main field the project management, specifically, identifying the negative factors on European projects. The article assumes that there is a connection between the absorption of European funds and the maturity of the Romanian society in terms of project management.

The main objective of the research is to identify the problems faced by public institutions from Centre Region in accessing European funds. The purpose of the research is to identify the causes that led to the low absorption of European funds, with devastating effects on the current economic situation.

The present research is based on a preliminary analysis performed by the author on the rate of accessing European funds published in an article entitled “The current state of European funds absorption through funding programmes – measure of the Romanian performances in the project management practice”. The small degree of absorption of European funds resulting from the analysis shows a poor practice of the theory on project management. To identify the causes of this problem, a research was carried out to recognise the issues that led to this situation.

The investigation included two successive surveys, the first one qualitative, exploratory type, interview-based, meant to demonstrate the qualitative aspects of the investigated phenomena and the other one, quantitative, based on a questionnaire in the form of occasional surveys. The qualitative and quantitative research methods are used in combination; this approach has become necessary especially due to the very complex reality whose trueness cannot be captured through one method. The investigation has however a highly quantitative character, the purpose of the qualitative research being to provide the prerequisites for achieving the quantitative research.

The qualitative research revealed the existence of some problems faced by institutions in relation to accessing and developing projects that focus on several directions: when filling out the application form, the technical-financial reporting, at the contracting phase of the projects, problems of partners. The article deals with the first two, and from the respondents’ answers, the phase with the greatest number of problems was that of filling out the application form, followed by the technical and financial reporting.

Regarding the usefulness of the results, it should be noted that the information obtained from the conducted research supplies, theoretically speaking, the studied field and brings an important contribution not only to possible beneficiaries of European funds (public, private organisations, NGOs, the state, etc.), but to the entire Romanian society through the economic growth it generates

The authors’ main contribution is to integrate this study into the logical thread of the thesis entitled “Strategic management in European project funding”. The research conducted in the project management specialty literature emphasises the uniqueness and originality of the

proposed and researched theme, which meets a current and pressing requirement of the Romanian society.

Keywords: funds, projects, problems, access, reporting.

Cod JEL: M16.

1. INTRODUCTION

The central goal of a research is the discovery of certain hidden truths that have not yet been explored, to approach truths that have not been discovered and that help find solutions for the identified problems.

At the beginning of this 3rd millennium we notice that the term “project management era” is more often used to describe the period we are going through and it is increasingly more used by managers and specialists from almost all areas of economic, social and political life. But there is the question: How is this term found in the contemporary Romanian economic reality?

Although we always hear talking about projects and European funds, the signals drawn towards us refer to the low rates of absorption of those funds. Assuming that there is a correlation between the degree of maturity of project management in the Romanian society and this low degree of European funds absorption, identifying a solution to prepare Romania for the next programming period 2014-2020 in view of obtaining higher rates of absorption becomes a necessity.

The article has as main objective identifying the problems faced by the public institutions from Centre Region during the stages of filling out the application form and technical and financial reporting, and also the causes that have generated their occurrence.

2. PREVIOUS RESEARCH

As noted in the summary, the study is part of the approach of a PhD thesis which began with identifying the current stage of the scientific knowledge in the field of project management. Research has revealed that the study theme is unique and it completes the studied field.

An article published earlier by the authors (Ranf and Dumitrascu 2011: 153-163) ended with the conclusion of a low rate of absorption of European funds of approximately 17%. This is the starting point for beginning a research on identifying the main negative factors on the European projects from Centre Region. These results indicate the existence of an immaturity of the project management practice in Romania. Identifying the causes of this low level of maturity in the field of project management should be a priority for the whole society, in order to turn structural funds into opportunity.

Improving the capacity to absorb European funds – has become a constant concern and worry of government so far – means, first of all, to identify the main gaps, insufficiencies or inefficiencies encountered by the people responsible with writing projects and implementing them.

3. METHODOLOGY OF RESEARCH

The investigation combines methods of qualitative and quantitative research. But the investigation has however a pronounced quantitative character, the purpose of the qualitative research being to provide the prerequisites for achieving the quantitative research.

The conducted interviews among the respondents revealed that the problems encountered by institutions in relation to accessing and developing projects focus on several directions: when filling out the application form, the technical-financial reporting, at the contracting phase of the projects, problems of partners. The article deals with the first two: filling up the application form and reporting the application form. This conclusion of the qualitative research formulates the premise that the questionnaire-based quantitative research started with.

The population of interest for the study, namely the population chosen for the sample, is composed of public institutions (town halls, county councils, foundations, public administrations,

prefectures) or NGOs located in Centre Region (the counties of Alba, Brasov, Covasna, Harghita, Mures and Sibiu), the greatest part that have accessed European funds, in order to have the opportunity to identify and analyse the main difficulties they faced in accessing and implementing projects.

A number of 95 questionnaires were correlated, of which 73 questionnaires were processed, the remaining 22 respondents being institutions that have not accessed any type of funds (European, governmental) and whose processing would have vitiated the results.

4. RESULTS OF THE RESEARCH

An important objective of the present research is to identify the difficulties faced by institutions in accessing and implementing these projects. Therefore, institutions were surveyed about the degree of difficulty they encountered when filling out the application form and the technical and financial reporting.

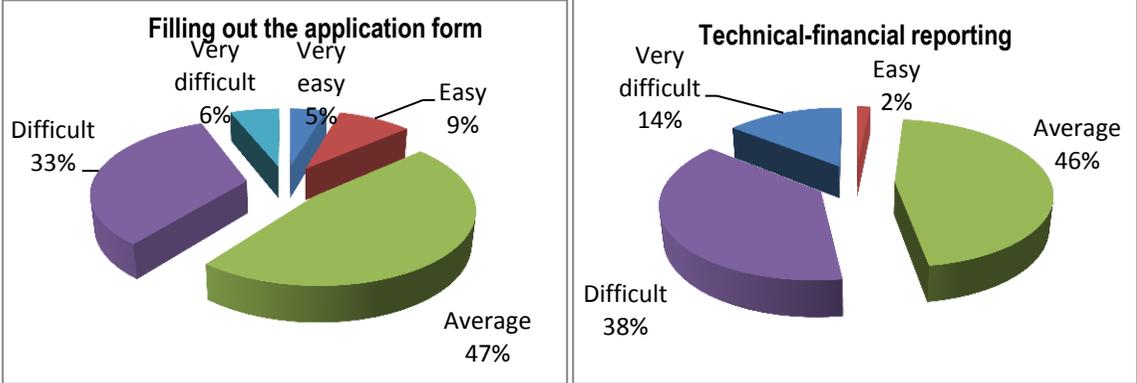


Figure 1 The degree of difficulty in filling out the application form and technical and financial reporting (made by author)

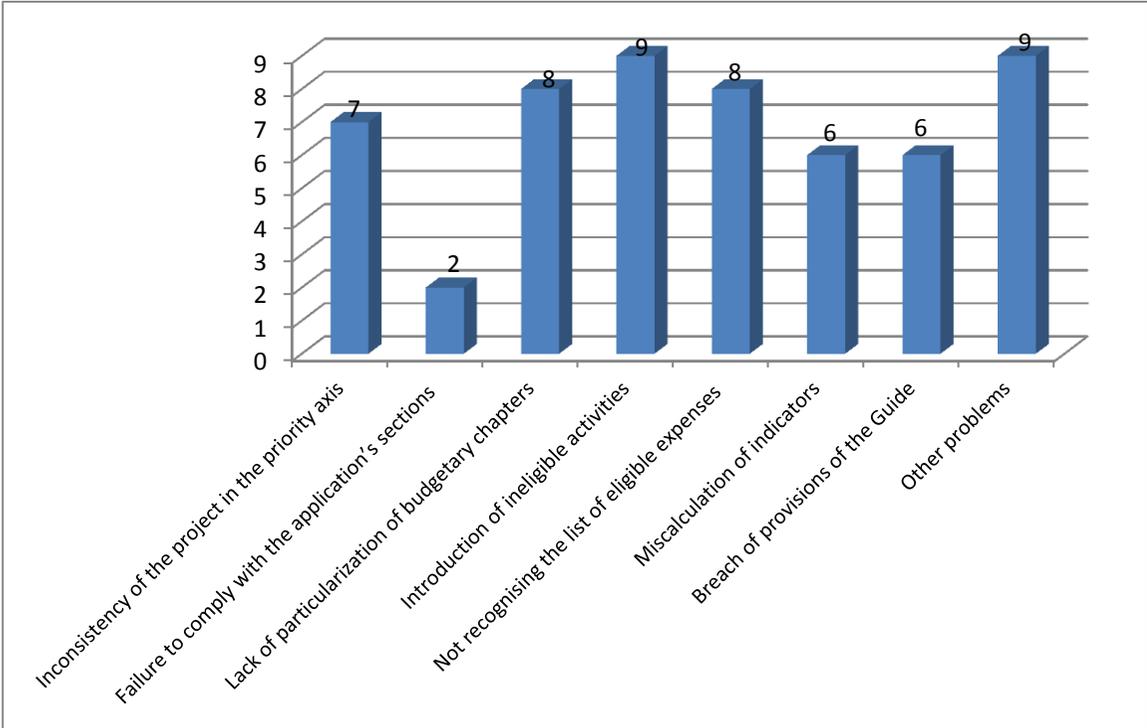


Figure 2 Problems faced by respondents in filling out the application form (made by author)

In terms of identifying the main problems encountered in filling out the application form, as well as their causes, we started from a series of problems identified in primary sources, problems published online for each operational programme, but essentially similar. Respondents added to them causes and, according to the situation, other problems they encountered. Respondents associated a series of causes to these problems, outlined below.

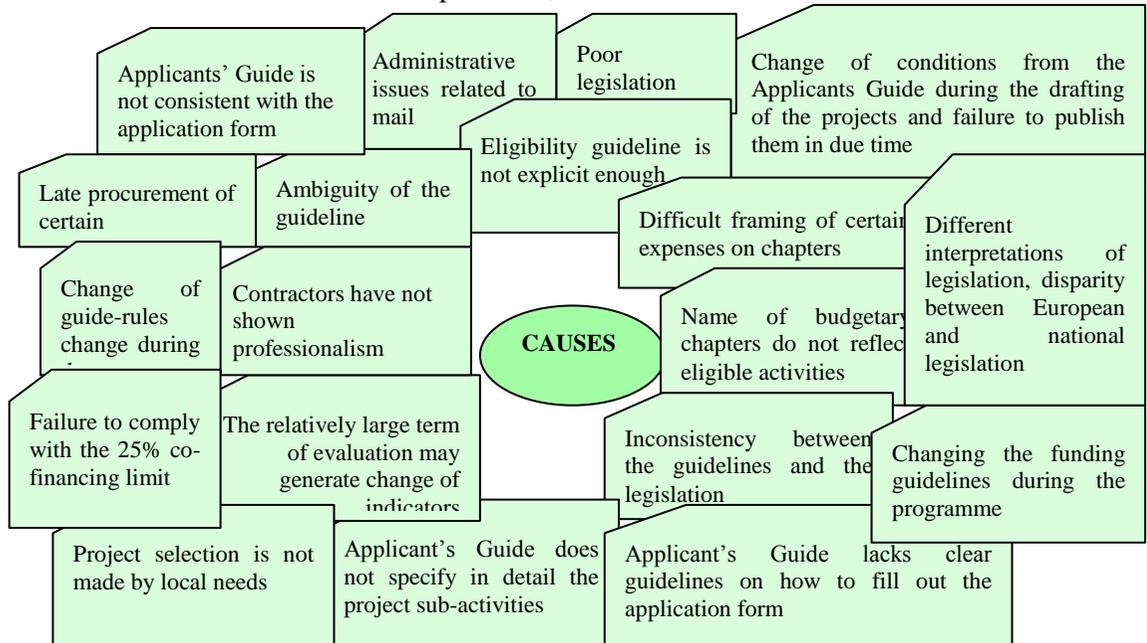


Figure 3 Causes of the problems encountered by respondents in filling out the application form (made by author)

Analysing the figure above, it can be noticed that the main problems encountered by the public institutions in filling out the application form originate in the complete understanding of the Applicant's Guide, their eligibility criteria and also of some changes in those guidelines during the projects and their late publication. Respondents also accuse consulting firms they are working with of lack of professionalism.

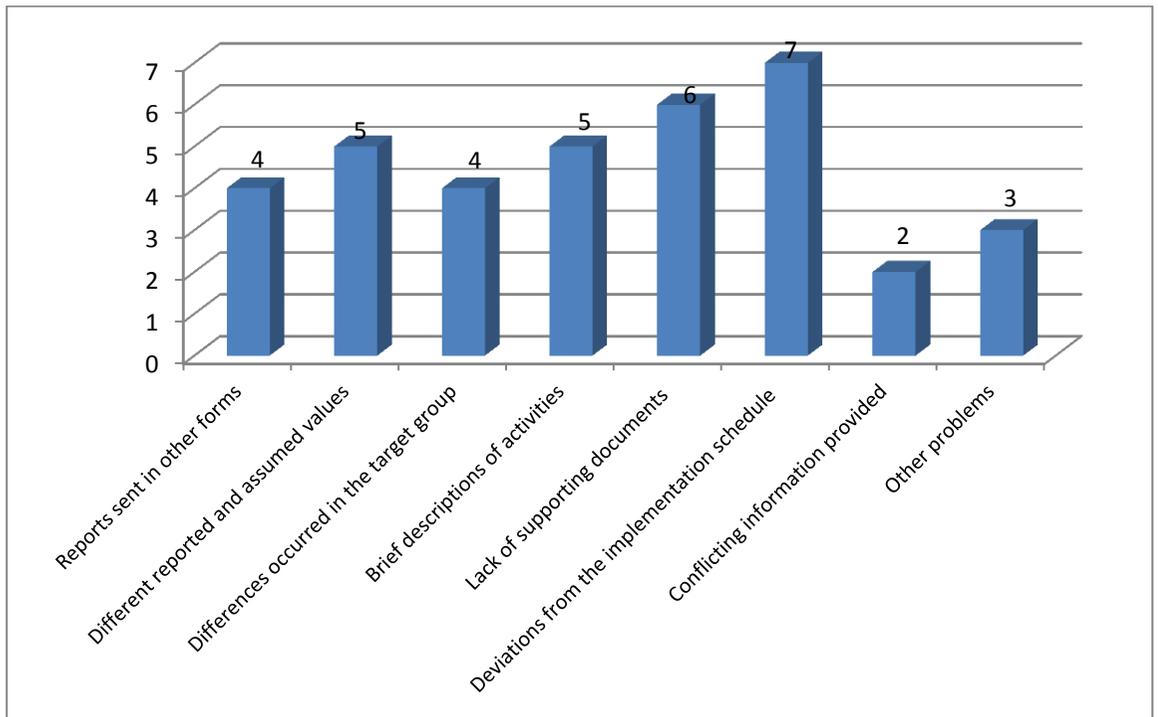


Figure 4 Problems faced by respondents in the technical and financial reporting (made by author)

Figure 4 deals with the issues encountered by the surveyed institutions in the technical and financial reporting, specifying their frequency.

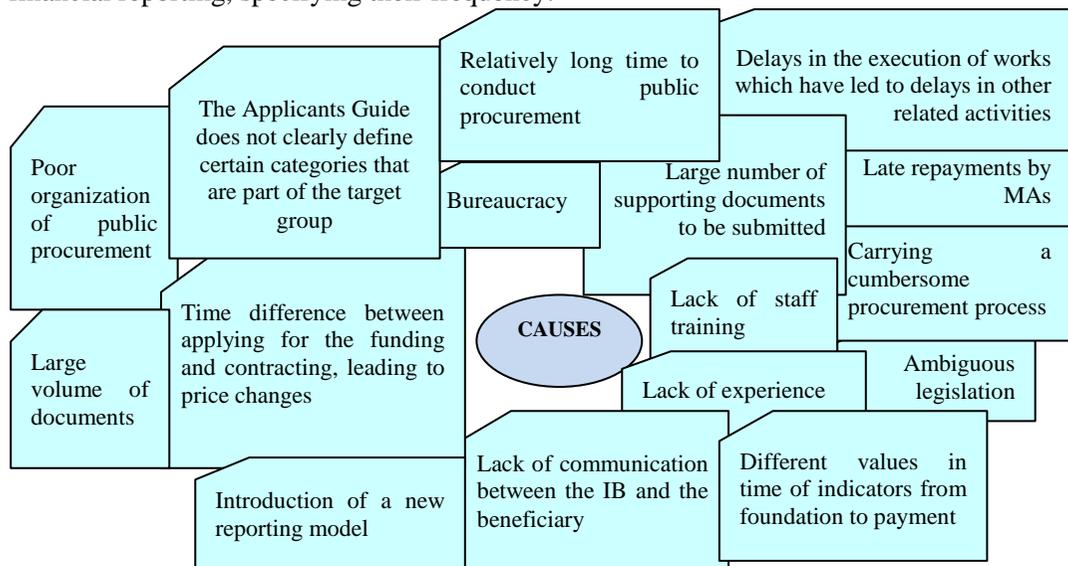


Figure 5 Causes of the problems encountered by respondents in the technical and financial reporting (made by author)

The main reasons for which respondents claim they faced problems during the technical and financial reporting stage include a large volume of documents that need to be reported, sometimes the same documents must be forwarded at different stages of reporting. Respondents also accuse the poor organisation of public procurement: during the evaluation period, acquisitions have been merged in the same activity and expenses came during the 3rd different

procedure of procurement. Institutions also had to forward certain documents due to changes in reporting formats.

5. CONCLUSIONS AND RECOMMENDATIONS

The research, whose target groups is the institutions from the Centre Region, aims to obtain information from the respondents regarding: the problems encountered by them in carrying out projects in two phases: filling out the application form and the technical and financial reporting. From the respondents' answers, although they have reported a higher degree of difficulty in the technical and financial reporting stage, the filling out of the application form was the phase with the greatest number of problems (a total of 55 problems). For each of the stages, respondents added a series of reasons that have caused these problems. Problems reported by respondents appear because of lack of commitment and professionalism of fund management institutions, and also because institutions that accessed funds.

Although the target group is represented by public institutions, the information obtained after processing the data become useful to any organisation, be it public or private. The methodology for accessing European funds is the same for any institution, the difference being the conditions from the Funding Guide, conditions that should be studied in detail by each applicant for European funds.

Among the benefits that the present research brings to institutions which carry out European projects or plan to develop projects in the future, there are:

- quantifying the problems encountered so far by the institutions that have developed projects or that have tried to access European funds enables institutions to get an advantage when they decide to take advantage of the opportunity provided by European funds;
- from the experience of the institutions that have developed projects, either successful, or unsuccessful, we should learn that the strictest coordination of time, human and financial resources is essential.

Obviously, the usefulness of the research lies in the fact that its results allow us to develop recommendations, both for the institutions that carry out projects and for the institutions that deal with the management of European funds in Romania (Intermediary Bodies and Management Authorities).

A recommendation for the project development institutions to obtain better results in the development and implementation of projects would be the studying in detail of the Funding Guide in order to reduce the number of problems encountered during the stage of filling out the application form, a stage, in many cases, underestimated by institutions as degree of difficulty.

Recommendations for institutions dealing with European funds in Romania:

- elaboration of Funding Guide that would provide detailed and explicit information to possible applicants on projects to ease the filling out of the application form;
- approval in advance of possible changes that occur in the Funding Guide;
- correlation of information from Funding Guides to the current legislation;
- reducing projects' evaluation periods which have exceed even a year.

6. NOTES

(1) This research is conducted within the project SOPHRD/6/1.5/S/26, cofinanced by the European Social Fund through the Sectoral Operational Programme "Human Resources Development" 2007-2013.

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A STUDY ON THE BENEFITS AND THE RISKS OF OUTSOURCING LOGISTICS IN THE ROMANIAN INDUSTRY

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Logistics outsourcing is considered to be an excellent source of competitive advantage for companies. Its benefits are long praised about in the specialty literature, but its risks are often briefly described. We believe that both the benefits and the risks of outsourcing logistics extremely important and must be regarded as a source of success or failure as it will be described in this paper.

Our research objectives refer to investigating the main outsourcing risks and benefits in the contemporary Romanian industry sector, in order to be able to identify which are the most threatening risks and also the most wanted benefits in the opinion of the production companies.

We regard logistics outsourcing as an exceedingly captivating and up-to-date topic, because it provides a satisfactory solution to various company issues that pertain to increased specialization, collaboration and integration in efficient and effective supply chains. The management of this activity with its main functions including the benefits and the risks will be approached in our research. The outsourcing of logistic services is a complex concept that our paper undertakes to discuss in some costs, access to new and costly technologies, scale economies, of its aspects.

Our study is developed on 108 Romanian companies that have more than 50 employees. Based on our previous studies in Romanian industry, we decided that our research is best based mainly on quantitative methods. The instrument of our research is the structured questionnaire. The general goal of our research is to investigate the way in which companies manage the risks and the benefits both expected and attained in the process of outsourcing logistics.

The implications of our research for the field of logistics refer to the fact that we were able to identify which are the most important and attainable outsourcing logistics benefits out of the large number stated in the international literature. Furthermore, we structured the risks encountered by Romanian companies which took a chance on outsourcing logistics. All in all, we consider that this is an excellent starting point for our future research in this field as we plan to investigate further on this topic by analyzing the outsourcing logistics benefits and risks also from the perspective of logistics service providers from Romania.

Key words - logistics outsourcing, strategic decision, benefits, risks.

JEL - M11

I. Introduction

At a first glance, the process of outsourcing logistics appears to be quite smooth, but reality shows that it is rather complex, sophisticated and strenuous. It is this complexity that made the vast issue of outsourcing logistics a worthwhile object for our research. Our curiosity is understandable, if we consider the large number of failed outsourcing agreements, i.e. more than 55% within the first five years (Donath, Mazel, Dubin, Patterson 2002).

We regard logistics outsourcing as an exceedingly captivating and up-to-date topic, because it provides a satisfactory solution to various company issues that pertain to increased costs, access to new and costly technologies, scale economies, specialization, collaboration and integration in efficient and effective supply chains. The management of this activity with its main benefits and risks will be approached in our research.

It should be however noted that in spite of all arguments in favour of outsourcing, managers haven't always achieved the expected outcome and some even declared themselves utterly disappointed. Bengtsson claims that the effects of outsourcing have generated a rather small amount of inconclusive, contradictory results, explaining that only a few studies consider the relationship between the reasons of outsourcing and its effects, while other explanation does justice to the fact that outsourcing is a trade-off and a dilemma (Berggren and Bengtsson 2004). To exemplify: the outsourcing that aims at reducing costs may also impair the capacity to design and assimilate new products and therefore, the capacity for innovation (Berggren and Bengtsson 2004; Dankbaar 2007). There are also situations where the results of outsourcing depend on the balance of internal and external integration (McIvor 2008; Espino-Rodriguez, Padron-Robaina 2006). The high level of complexity and interdependence of activities, processes and systems is often regarded as hindrance in the way of efficient and effective outsourcing.

II. Literature analysis

Logistics: concept demarcations

The concept of “logistics” appeared under several “guises”, i.e. alternative designation, throughout recent history: distribution, physical distribution, technical & material procurement, marketing logistics, logistic distribution, material management, logistic material management, procurement chain management, supply Chain Management, industrial logistics, business logistics (Lambert, Stock 1993: 4).

The list remains open for any further designation used in history, but we believe that the quoted ones are quite relevant and it should be noted that all these designations referred in fact to the same phenomenon: the management of the goods' advancement from the production to the consumption site. At present, the most popular term among experts is *logistics management* and we therefore chose to adopt it for the purposes of this paper also, along “logistics”.

In 1986, one of the group experts in this field, known as The Council of Logistics Management, formerly known as The Council of Physical Distribution Management SUA, provided a comprehensive definition of the management concept under analysis. According to this definition, *logistics management denotes “the process of planning, implementation, efficiency and effectiveness control related to the transfer and storage of raw materials, inventories, finished goods and information from the source to the final consumer in order to satisfy the customers' requirements”* (Stock, Lambert 2001: 3).

This is considered to be a relevant definition of logistics and is therefore still in use, after all these years. Emphasis is placed on meeting the customers' needs in this case. The only shortcoming of this definition would be the fact that it ignores service companies.

Outsourcing of logistic activities and services: concept demarcations

Outsourcing is a quite encompassing term in Romanian, it may assume various form, that are easily and often mistaken for each other. In contrast, there is marked difference between *outsourcing* and *offshoring* in English. The latter may itself assume various forms, i.e. it may be performed within one and the same major transnational company (“*captive offshoring*”) or in cooperation with a foreign third party (“*offshore outsourcing*”) (Gorp 2008: 14).

The two forms of outsourcing denote various strategies applied by some companies to penetrate foreign markets, as the term itself always conveys the notion of a company performing various activities in a foreign location. It is important to bear this detail in mind, because the phenomenon under our scrutiny, i.e. outsourcing, may take place either domestically or abroad, but always through a third party.

In Romanian, there is no marked distinction between these notions and English original terms are often used to avoid confusion. This paper will focus on the term *outsourcing*, construed as the strategic employment of external specialized suppliers to execute or manage activities or services that do not count as core competences for the company that resorts to outsourcing (Rushton, Walker 2007).

III. Research methodology

The main objective of our scientific endeavour concerns the analysis of outsourcing of logistic activities and processes among Romanian industrial companies in terms of identifying the main benefits and risks. We chose to base our research on non-probabilistic sampling, namely on rational theoretical guided sampling. For our empirical study we have selected industrial companies with more than 50 employees located in the North-West region of Romania.

As the application of the questionnaire regarding the outsourcing of logistic benefits and risks is concerned we chose to put together a sample of 300 companies to which questionnaires were sent either by e-mail or fax. This approach yielded a very high response rate: 125 questionnaires have been returned, 17 thereof being invalid. The questionnaires were collected and checked for validity. The 108 valid questionnaires were numbered and loaded in data processing software. The graphs and frequency tables were generated by this software.

IV. The results of the research

The participating companies have identified the fundamental benefits reaped from the outsourcing process. In addition to those suggested by us, some respondents have mentioned benefits related to the conservation of their own capitals in the blank space at the end of the question. Fig. no. 1 summarizes the benefits of outsourcing according to the participants.

As shown in fig. no. 1, the respondents consider cost reduction to be the most important benefit of outsourcing. This choice is justified, because logistic costs make up approximately 29% of a product's total cost (Fredricksson, Johansson 2009: 281). This is an effective motivation for resorting to outsourcing, given the fact that outsourcing contains a promise of cost reduction.

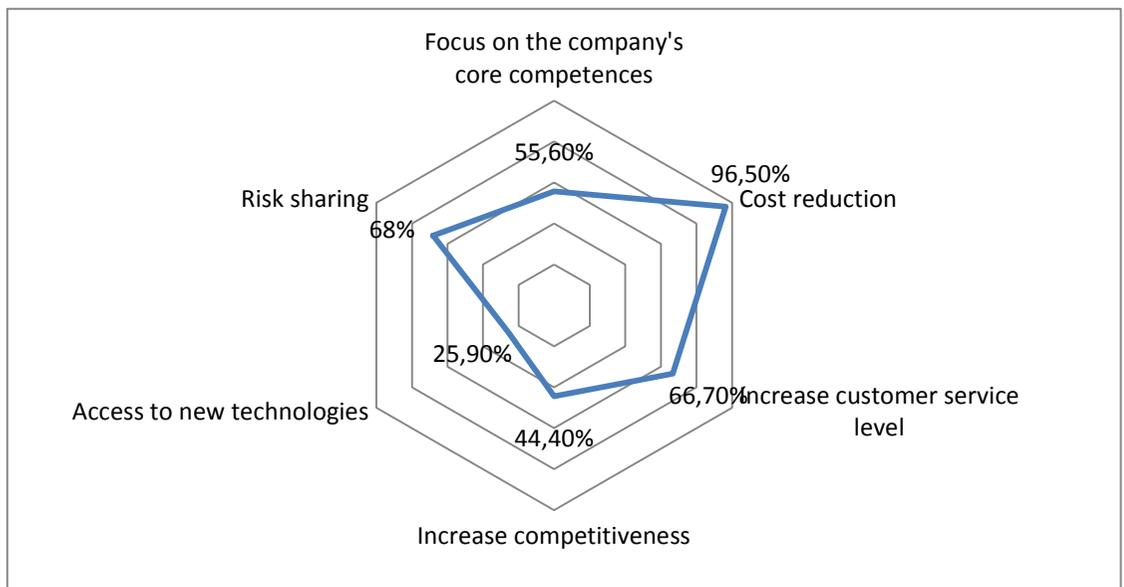


Figure 1. The benefits pursued by companies that resort to logistics outsourcing

Source: made by the author.

Although cost reduction seems to be the most wanted outsourcing logistics benefit, our studied population claims that risk reduction is the second most valuable benefit that they obtain in the process of outsourcing logistics. 68,5% of our respondents believe so.

Furthermore, Romanian companies also target to optimize the customer service level. 66,7% of our respondents stated that increasing the level of customer service is a popular benefit that they get by outsourcing some or all of their logistics activities.

Encountered risks

During our research we had the opportunity to notice that the most frequently cited outsourcing – related risks were: the supplier's failure to meet the required quality standards (43,5%), events of default (39,8%), poor communication with the supplier (33,3%). All problems encountered in the outsourcing process are listed in fig. no. 2. It should be noted that the respondent companies had several response alternatives to choose from.

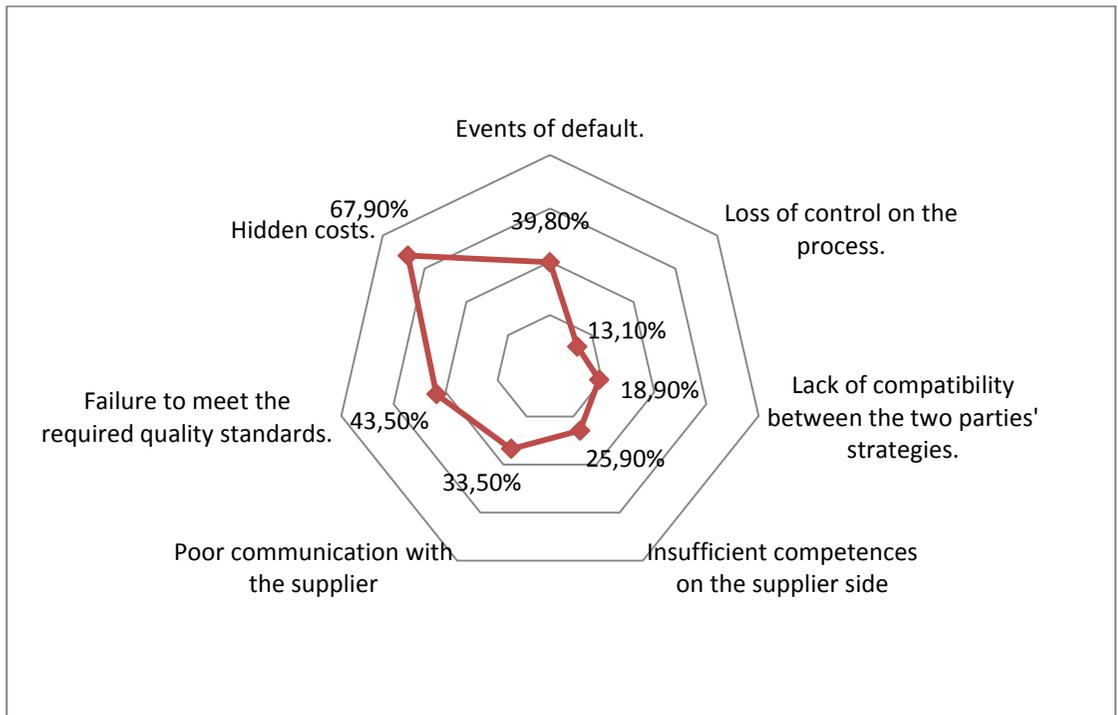


Figure 2. Problems encountered during the outsourcing of logistic activities
Source: made by the author.

Our respondents admitted that all of these risks are truly endangering the outsourcing process and that what they fear the most are all the hidden costs that they encountered only after they enrolled in the process. The risk related to the hidden costs can be minimized through a solid outsourcing contract, but for doing this the companies must benefit from a large experience in this field. This matter will be subject of our future research in which we will identify the most suitable ways to eliminate or reduce the outsourcing logistics related risks.

V. Conclusions

The decisions regarding the outsourcing of logistic services are designed to optimize the performances within the value chain if the compatibility with the competitive strategy of the company is secured. A company whose competitive drive is the performance of the logistic system will provide a competitive edge in terms of costs, quality and innovation in case of outsourcing. In order to benefit from the advantages of logistics outsourcing, managers must treat this area as a source of competitive edge.

As a company grows, one of the most challenging tasks is to choose the outsourcing strategy, in which the outsourcing of logistic services plays an important part, securing a medium- and long-term competitive edge.

Today many companies with a significant position on the domestic and international markets resort to suppliers of logistic services that – given the complexity of the global logistic chain - establish regional, national and international distribution centers. This fact compels managers to scrutinize the external environment, the market respectively, with utmost attention, to plan logistic activities and processes, to analyze their necessity and adequacy, to develop control procedures and to monitor their success or failure.

The aim of outsourcing logistic activities and processes is to develop optimal logistic systems for the targeted market and for each market area. The increasingly limited opportunities for growth in

terms of efficiency and effectiveness among manufacturing and services companies motivates intensified efforts for the discovery of new “critical area” in the companies' activities that might enable the companies reach their targets ducts, services and customer service level. These critical areas are also linked to the area of logistics, that offers considerable opportunities for increasing competitiveness and securing a competitive edge and still provides unexploited or insufficiently exploited resources, in which the drawing up and implementation of outsourcing strategies play an important part.

The limitations of our research refer to the fact that we only found respondents from the North-West region of the country. We intent to extend our future research to investigating companies from the entire country. Another limitation includes the fact that our research does not establish any ways in which the outsourcing logistics related risks can be minimized or even eliminated. For this reason our future work will focus on this matter.

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THE INTELLECTUAL CAPITAL IN KNOWLEDGE-BASED SOCIETY AND ECONOMY

Sabău Remus

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The management improvement in the educational public institutions from Romania owns an undeniable priority in each state government. The necessity of the changes in institutional management related to the administrative system and, mainly, to the management of the intellectual capital defines the utility and the efficiency of meeting the necessities in the respective educational environment and sets as one of the main problems, recently emerged, the elaboration of a number of structural-organisational and functional-operational measures, stimulating management modernization at an educational level, including the higher education institutions, with a main reference to the intellectual capital.

In the national literature, these problems are not highly scientifically examined. In my opinion, in Romania, at present there isn't any well-defined framework in connection with the management of the intellectual capital from the educational institutions. That's why I considered that this isn't just an actual topic but it is also a central subject. I'm convinced that a more thorough examination of the intellectual capital will be able to contribute on a long and a medium term to the administrative growth and development. The intellectual capital has a key role in the international relations development and triggers, in my opinion, radical structural changes, which are very important for the amplification of the educational institutions value. The ability to create, use and increase the intellectual capital value is, in my opinion, the foundation on which it is based the public management of educational institutions in a country, the welfare and the life quality for her citizens.

The knowledge valorification is a long process, which doesn't offer rapid results. But the effects of promoting and propagating of knowledge are, firstly, on a qualitative structural level and can lead to beneficial effects on long term.

In my opinion, in countries in course of development, knowledge itself isn't yet perceived as an active which can be used at its maximum capacity. As a consequence, in my opinion, both the real management and the researches in the management domain should be oriented especially towards this subject.

The main aim of this article is to underline the managerial essence of the intellectual capital and to highlight its effects on the organisational performance of an educational institution – and at the same time- to determine managers, generally, and top managers, especially, from educational institutions in Romania, to understand the intellectual capital management importance.

The main objectives which I have proposed myself to attain in this paper are science-oriented especially, meaning that I have tried to illustrate the place and the role of the intellectual capital for the socio-economical development, as well as the most important characteristics of the intellectual capital intended to facilitate the creating of the management institutional framework and proficient management of the intellectual capital under the conditions of changing specific to a society and an economy based on knowledge.

Key words: intellectual capital, management, knowledge, economy, performance.

JEL – K11; J24; O34; M12.

I. Introduction

According to the established objectives I defined the essential activities which aim at attaining them:

- The identification and systematization of the main theoretical-methodological concepts for defining the term “intellectual capital” on the basis of investigations on papers from local and worldwide specialized literature.
- The exploration of the composing elements from the structure of “intellectual capital” ;
- The analysis of the manner in which, along time, various economical schools representatives’ opinions have evolved, in connection with the integration tendencies in the economical sciences of some concepts such as: the human capital, the intellectual capital, the intangible assets etc;
- The justification of the necessity of promoting some managing policies and of intellectual capital management as a possible mechanism for the developing of the intellectual capital in educational institutions;
- The highlighting of interdependencies existing between the intellectual capital and the investment in education, as main factors of growth and development in a society based on knowledge;
- The applying of my own method of investigation in Romania, at the level of schools in Marghita;
- The proposition of some recommendations related to the development perspectives of the intellectual capital in educational institutions in Marghita;
- The attempt to maximize the attention of scientists, of politicians, and of the main governors on the intellectual capital role in the economic progress and for promoting the making of a positive image in relation with the importance of education for our society professionalization and for attaining a superior qualification level.

The attaining of objectives implied both the analysis of theoretical-methodological concepts and of the manner in which decisional factors can create, develop, utilise the intellectual capital for the attaining of strategic objectives of an educational organisation.

II. The theoretical framework

The first researches in the intellectual capital area started from the second half of the twentieth century, at the time when scientists realised that resources and the quantity of the existing resources of an institution, don’t have a decisive role in the results. Because of this, in the last five decades of the century, a great number of researchers in this domain have developed a new trend based on the resources efficiency. In the 80s of the past century, researchers wondered why institutions with the same financial resources, physical and human, give birth to different levels of value. The answer to this question revealed that the factor which explains these differences has in view the various levels of productivity and market value. The disputes emerged when the market value seemed to be bigger than the accountancy value of an institution. The researches proved that this fact emerges because the intangible assets and especially the intellectual capital are also taken in consideration.

This discovery underlines the fact that educational institutions have various resources and competences. The intellectual capital and its management have at a theoretical level three distinct origins which come from the following researchers: Hiroyuki Itarni, David Teece and Karl-Erik Sveiby.

The first was Hiroyuki Itarni from Japan, who studied the effect of the invisible assets for the management of Japanese educational institutions. Unfortunately, his educational paper in Japanese language from the year 1980 “*Mobilizing Invisible Asstes*” has been translated into English only in the year 1987, and only since then it became accessible to the wide educational public.

The second important author is David Teece and his partners Penrose, Rumelt, Wemrfelt, who researched various theories. Teece presented his survey in 1986 in an article about the technology of marketing. His article "*Profiting from Technological Innovation*" proved the importance of extracting value from innovations.

At last, the papers of the Swedish Karl-Erik Sveiby refer to the human capital as a dimension of the intellectual capital. Sveiby is the one who created "*The Swedish Movement*" in the theories related to the intellectual capital and the knowledge management. He was the first who revealed the importance of measuring the human capital. His first work was educational and was written in 1986 in Swedish. The first book which debates the subject of the knowledge management was educational and was written in 1990 in Swedish.

Sveiby revealed that, unlike the conventional actives, knowledge increases when it is shared and disseminated with and to the others (Agndal 2006:91). In the field of specialized literature it is considered that especially Itami and Sveiby's contributions had a great meaning for the institutional strategy. Due to the fact that certain actives of the educational institutions are intellectual, the acquisition of the aptitudes, knowledge management and the know-how management are targeted, so that learning becomes the basis of the strategies.

Leif Edvinsson is the follower of Sveiby, who made up the first annual report of intellectual capital at Skandia in 1995. In fact, he grouped those invisible actives and he named them as the intellectual capital. Leif Edvinsson created the manners to explain what Skandia called "*the hidden values*" and developed a national intellectual capital management (Edvinsson 2008: 525). The researches continued even later, in the twenty-first century. Thus, Malhotra sustains that, the intellectual capital in the educational system is difficult to control, because of its intangibility, and that is why, it is hard to establish what represents the intellectual capital itself. (Malhotra 2003). Later, Jan Mouritsen and his partners showed that it is not possible to create absolute models of the intellectual capital indicators. (Stahle 2008).

We are going to present, in short, some definitions of the intellectual capital from the educational institutions.

Stewart defined the intellectual capital as an intellectual element which has been formalized, triggered and utilised in order to produce actives of a higher value. He defines the intellectual capital naming it "*the packet of knowledge which can be used*" (Stewart, 1997:288) in an educational institution. Another definition of Stewart given for the intellectual capital is: "*The intellectual capital is the intellectual element- knowledge, information, intellectual property, experience – which can be put into practice*" (Ibidem).

The definition of the intellectual capital after Annie Brooking is that it represents the combination of four elements, and these are: the actives of the exterior environment, the actives of the intellectual property and the actives of the infrastructure. The market actives are those which emerge from a positive relation of the educational institution with the exterior environment, such as contracts, the citizens' loyalty level (Kok 2007). The actives of the intellectual property refer to know-how, copyright and other regulations.

The actives of the human resources are the capacity and the creativity in solving the problems, and other aptitudes of the employees in the educational institutions. Brooking defines the intellectual capital as "*the term given to the combined intangible actives which allow the functioning of the institution*" (Brooking, 1996:24).

The intellectual capital, being analysed by a lot of scientists, received various definitions. Edvinsson (Edvinsson 1997) said that, the intellectual capital of an educational institution can be compared with the root of a tree, both being invisible, and having a great contribution to the quality of the educational institution results. This is also the model of the intellectual capital which is being referred to many times. Edvinsson and Malone's model divides the intellectual capital into two parts: the human capital and the structural capital. The human capital refers to the employees of an institution, their competences, their creativity, their social capacities, and others.

But at the same time, the human capital refers to the value, philosophy and the educational institution culture. They showed that the educational institution cannot have in its property the human capital. On the other hand, the structural capital, in its turn, is divided into the institutional capital and the consumer capital. Here, the institutional capital refers to the innovations of the educational institution and to its processes. Figure no. 1 presents the model of the intellectual capital after Edvinsson and Malone.



Figure no. 1. The model of the intellectual capital after Edvinsson and Malone.

Source: Figure drawn by the author, after the theoretical model

Another structural division of the intellectual capital in the educational institutions was presented by Roos and his partners, who were of the opinion that the intellectual capital divides itself between the human capital and the structural capital, the human capital containing competences, the attitude and the intellectual agility, and the structural capital containing the relations, the institution, the innovation (so-called “renewal”, by Roos) and development (Roos 1998). Figure no. 2 presents the model of the intellectual capital after Roos.

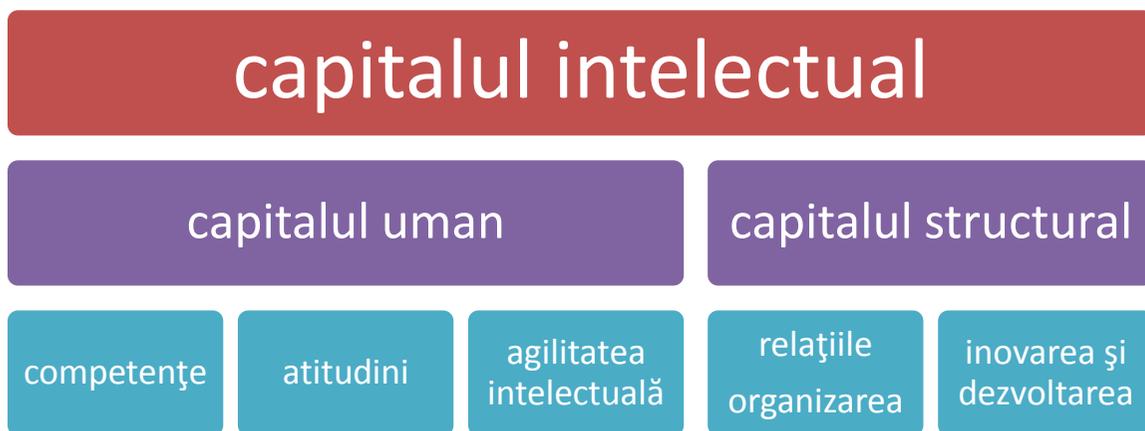


Figure no. 2. The model of the intellectual capital after Roos

Source: Figure drawn by the author, after the theoretical model

Professor Bratianu defines the intellectual capital as the hidden part of an educational institution value, because it “represents the intangible resources of the institution, which cannot be measured with the financial instruments used in measuring the tangible resources” (Bratianu 2009:22). Lacks in the analysis in this area are due to the fact that the models of the intellectual capital don’t explain the way the intellectual capital is utilized for creating value. What was discovered by Leitner and Warden in 2004, is that the theory wasn’t able to explain the correlation between the elements of the various models of intellectual capital (Canibano 2008:24).

As a conclusion, in my opinion, the intellectual capital of an educational institution represents the sum of all the knowledge detained by the officials in an educational institution, which brings about an increase in efficiency, and at the same time, that part in the educational institution which can be created together with the increase of the personal value of the employees, by correctly using knowledge, aptitudes, learning capacity of employees, and also through investment in employees. But all these focus on the knowledge of the consumers, as a final element to attain by increasing the employees' value.

2.1. The structure of the intellectual capital

The intellectual capital includes both the intangible actives and also the actives which represent the intellectual property. The intangible actives are the human resources, the interpersonal relations in the educational institutions, the organisational culture, the mode of organisation and functioning, and the intellectual property is represented by the name of the organisation, the author rights, the registered marks, as well as the inventions patents. The majority of the consecrated authors in this domain divide the intellectual capital into: human capital, structural capital, and relational capital.

The human capital is composed of knowledge, aptitudes, personal agility, experience, intuition, and personal opinions of employees. This is not property of the public institution, so the staff takes it when they leave that institution (Hung 2009:51). In other words, the human capital is based upon the individual capacities of the employees, which are useful at a collective level for attaining the aims of the public institution. The know-how, imagination and creativity of the employees are as important as the tangible resources for an institution (Petrescu 2008:76).

The structural capital is made up of patents, models, administrative systems and information technology. This represents the structure, strategy, culture and knowledge from the processes of a public institution. It means that, the documents of know-how, the rights of intellectual property and the patents, the software of the public institution, the marks which have been registered, and respectively, the procedures, the data bases and others. These are the actives which remain in the organisation even after the staff leaves the institution.

The relational capital refers to all the relations of the organisation with the exterior, that means the relation with "the clients, citizens, the private environment, the partners, the allied, and others" (Ross 2011:6707), influencing the satisfaction and the loyalty towards the educational institution. The stress is put especially upon the personal relation with the clients (Dumitrescu 2010:2).

III. Methodology

3.1. The design of the research

For the attaining of the research objectives related to the effects of the intellectual capital over the organisational performance in an educational organisation a survey based on a questionnaire was realised. The questionnaire elaborated in order to answer to the research topic is composed of three constitutive parts of the intellectual capital having the aim to test its efficiency: human capital, structural capital, relational capital. For the assessment of the questionnaire answers a scale with five levels of appreciation on the manner of meeting a certain request was utilized, from : 1 = "Total disagreement", 2 = "Disagreement", 3 = "Neither agree nor disagree", 4 = "Agreement", 5 = "Total agreement" (after cases).

The research part contains 19 questions referring to the human capital -which allow the obtaining of data connected with efficiency through:

- Learning, education, improvement (questions 1-9);
- Experience and competence (questions 10-14)
- Innovation and creation (questions 15-19);

Taking into consideration variations of the greatness of organisations involved in this research, we propose that the analysis of the obtained data to be made depending on the staff number, for the following three categories:

- Category 1: 10-14 employees
- Category 2: 15-24 employees
- Category 3: over 25 employees

The first category comprises the number of employees between 10-14, because an organisation with less than 10 employees is not representative for the present research. Moreover, we consider that small organisations with a number of employees under 10 persons don't have a management system clearly highlighted. Thus the intellectual capital management in the above-mentioned organisations is less obvious.

IV. Results

Following the analyses, it has become evident that learning investment, education and improvement investment of the staff has a major importance for an educational institution efficiency. Starting from the highlighted data, the respondents in the educational organisations with a limit of 19 employees appreciate that the attained level of the criterion related to "learning, education and improvement" is very low, when compared with the results obtained in bigger organisations, which depicts a higher level of attaining education (16%, 38% respectively). Analysing this situation it is clear that large institutions invest much more in learning and improvement of employees. This fact is possible due to the fact that a lot of institutions have specialized trainers and this type of organisations allocate much more funds for the staff improvement and education, granting a great importance to the institution efficiency. According to the results, the organisations having over 30 employees appreciate that the percent of the competent employees with a satisfactory experience is of 57%, while in smaller institutions this figure is equal with 71%. This fact can be explained due to the reality that in large institutions with over 30 employees is a lot more difficult to have an evidence of all the staff and their level of competency, even if the staff selection is realized after well-defined parameters. Thus, the less staff the institution has got, the better the above established criterion is highlighted.

In connection with the criterion of "innovation and creativity", the organisations with a limit of 19 employees appreciate that the attained level of this criterion is pretty low, but very near to the organisations with a limit of 29, when compared with the results obtained in large organisations, which shows a bigger level of innovative realization (24%, 29%, 37% respectively).

The results obtained with this criterion are very much alike with the results from the first criterion related to "learning, education, improvement". This is possible because in the first case it is about investments, and not any type of investments, but some very serious and very costing. Large educational institutions invest pretty much in technology modernization and the creating of new products, which could cope with the competitors. These institutions address the large public and generally detain a various range of services. However, we consider that small institutions should invest much more in innovation, because it is more and more difficult to resist the pressure from large institutions, in the first turn. Secondly, this fact would be useful for the continual growth and development.

V. Conclusions

Analysing the presented facts, we can conclude that at present, the human capital is the most important part in the intellectual capital structure. Moreover, without this part the other two parts of the intellectual capital cannot exist.

The created image shows that the analysed town experiences a transition period at present, from a post industrial town which wants to be based on knowledge, but it still has a long way. Here we can debate two opposed facts, but also very important. First, Marghita is a town with a medium

level of living conditions or we could say it is low when compared with the developed towns in Romania. Under these conditions the most part of the population from here aims at surviving and this fact prevents them from thinking of developing the intellectual capital. On the other hand, without development, investments in education, learning and staff improvement, innovation, creation, we cannot pass to the level of a town with an economy and a society based on Knowledge.

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VII. Appendix A

Dear participant,

By answering the following questionnaire we would like to find out your opinion on intellectual capital. Therefore, your contribution is considered very important for the successful completion of this study. Your answers will be treated with strict confidentiality.

Thank you in advance for your time and effort.

Kind Regards,

The Questionnaire Questions

Section 1: Introductory Questions

Gender

- Male Female

Age

- 18-29 30-39 40-49 50-59 +60

Educational background

- High School University Postgraduate (MSc) Doctoral (PhD)

Institution employees

- Category 1: 10-14 employees
 Category 2: 15-24 employees
 Category 3: over 25 employees.

Section 2: Elements of the questionnaire:

HUMAN CAPITAL

1	The competence of the employees meets their responsibilities and job requirements?	1	2	3	4	5
2	Does the institution value employees' team work?	1	2	3	4	5
3	Do the employees benefit of continuous learning and training programs?	1	2	3	4	5
4	Does the institution make efforts for developing knowledge and competences of their employees?	1	2	3	4	5
5	Training costs per employee are effective?	1	2	3	4	5
6	Employees learning determine the profitability of the institution?	1	2	3	4	5
7	Does the employees' learning affect the profitability of the institution?	1	2	3	4	5
8	Institution's employees are motivated enough?	1	2	3	4	5
9	Does management quality positively influence the development of the institution?	1	2	3	4	5
10	Lately, the market share of the institution was in a continuous growth?	1	2	3	4	5
11	Institution's employees are professionals in their field?	1	2	3	4	5
12	Institution's employees have been working for a long time in it?	1	2	3	4	5
13	Employees contribute to the effectiveness of the institution?	1	2	3	4	5

14	The managers of the institution are constantly on track with new ideas for the institution development?	1	2	3	4	5
15	Institution's employees contribute with innovative ideas?	1	2	3	4	5
16	Does the organization constantly propel new ideas coming from employees?	1	2	3	4	5
17	The institution develops more ideas, services and products than any other institution in the education system in the town?	1	2	3	4	5
18	Institution's employees are encouraged to bring knowledge and ideas and to share knowledge with colleagues?	1	2	3	4	5
19	Institution's employees are satisfied and happy with innovation policies and programs of their institution?	1	2	3	4	5

CORPORATE SOCIAL RESPONSIBILITY VERSUS TAX AVOIDANCE PRACTICES

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Worldwide crisis has made multinational companies that are engaged in corporate social responsibility actions to manage their businesses through the lens of various tax avoidance practices. The content of this paper is important due to the fact that tries to identify the impact in case of companies active in corporate social responsibility actions versus their tax structures orientation.

Corporate social responsibility literature did not paid enough attention on the impact of the tax avoidance practices of companies. Tax, as a concept, brings in itself an important corporate financial impact with subsequent effects for the life of multiple citizens in countries where private entities are operating.

Even though companies are usually expressing their ethical and responsible conduct in respect of the social environment, there are many cases when the business practices were not aligned with the declared corporate behaviour. This paper seeks firstly to examine whether companies engaged in tax avoidance practices (ex. offshore tax havens) consider that continue to act socially responsible. Secondly, the paper examines the influence on attending the stakeholders' goals for those companies practicing tax avoidance and its implications on corporate social responsibility actions. Moreover, the paper focuses also on the aspects described before from the perspective of the corporate entities operating in Romania.

This paper's intention is to use and to develop the results of previous research carried out by Lutz Preus (University of London) and, subsequently, by Senators Levin, Coleman and Obama in their "Stop Tax Haven Abuse Bill".

The implications and the objectives of this material are to highlight, to identify and to spot clearly the relations and the influences of the tax haven practices of corporations versus their undertaken social responsibility actions. Moreover, this paper brings a fresh perspective of this topic from the Romanian market.

I consider that this paper triggers in itself a good presence in nowadays business environment, due to the fact that stakeholders are becoming more and more aware on both corporate actions versus their tax efficient structures. Many of the aspects described were already "tasted" in practice by various stakeholders, while many multinational corporations started to become realistic about the risk of being "socially responsible" through tax schemes.

Keywords Corporate social responsibility, Tax haven, Tax avoidance, corporate financial implications, Investments

M14

1. Introduction

One of the most important elements when referring to corporate social responsibility (CSR) is the notion of legitimacy of the actions. It is all related to the fact that a potential failure in disposing valuable services of private entities to the stakeholders may trigger the permission of private entities to exist. In this respect, companies involved in CSR actions should pay more attention on all their business activities. One aspect of their corporate activity relies on taxes that should be paid based on domestic or multi-national legislations. As a part of the taxes structure, the concept of tax avoidance may be seen as a controversial business factor in relation with CSR policy of each company.

The paper brings up the evidence of how companies involved in tax avoidance practices still consider being socially responsible.

Moreover, the relation between tax avoidance practices, CSR image and actions is in the scope of this paper. It is relevant to understand if both, the stakeholders' and shareholders' objectives were influenced by the decision of corporations to be based offshore and to apply various tax avoidance structures.

Even though in Romania the concept of CSR is still an on-going process, some previous steps have been undertaken in this respect. Thus, there may be followed some particular cases in order to assess whether the tax avoidance practices have influenced in different manners both the stakeholders and shareholders of the entities.

2. CSR and tax avoidance practices

Tax avoidance practices (TAP) are, in most of the cases, the business structures pursued by companies in order to obtain a more convenient tax position. In practice, TAP is related to the fact that corporations are moving their headquarters in more tax convenient locations, especially offshore (in places so called tax havens).

Tax havens typically offer secrecy to protect investors against scrutiny by outside authorities, thus preventing the effective exchange of information on tax payers. Furthermore, many tax havens do not require substantial corporate activities within their borders for a company to benefit from the preferential tax treatment. In many cases, this may actually apply only to corporate activities that are undertaken beyond their borders.

2.1. Companies involved in TAP (offshore in tax havens) - are still CSR aware?

In order to assess whether companies involved in TAP consider that are continuing their CSR policies without any effect on their corporate behaviour, Lutz Preus, from University of London, considered in the paper "Tax avoidance and corporate social responsibility: you can't do both, or can you?" a research study in this respect. The research was pursued by using the Stop Tax Haven Abuse Bill tabled by Senators Levin, Coleman and Obama in 2007, as a starting point for identifying tax havens from US. Moreover, the list with tax havens was compared by the factors from the OECD model. As a result, a final list with tax havens was identified. Then, by using the Forbes Global 2000 list of 2008 companies, a list containing 24 companies for Bermuda, four for the Cayman Island, two for Panama and one for the Channel Islands was identified. Thus, the paper analyzed a combined list of 27 companies from Bermuda and the Cayman Islands.

The smallest of these – Bermuda insurance company Allied World Assurance – still had an annual turnover of US\$ 1.45 billion in 2008. The study analyzed codes of conduct as displayed on the web sites of the 27 companies, which were checked during autumn 2008 for a presence of a code of conduct. For the purposes of comparison, a sample of US companies was also checked for codes of conduct.

The result of the study into the position on corporate social responsibility by companies that are based in tax havens found that such companies indeed make claims that they engage in socially responsible business practices. It was also surprising to find that 38 per cent of the sample firms operating offshore claimed to obey both the legislation in the offshore and domestic locations. Also, the study identified that companies have made significant efforts to design codes of conduct and mentioned the commitments of the TAP companies to provide shareholders with a satisfactory return for their investment and commitments to employees to avoid harassment, to promote diversity and to safeguard health and safety at work.

In respect to organizational legitimacy, the findings of the study point to a complex picture where companies based offshore engage in acts of strategic legitimacy to be seen as socially responsible (communicating CSR commitments through codes of conduct).

As a result of the study, the most important companies (part of the study) operating offshore consider that are continuously looking at their CSR status and in order to act responsible, even though the TAP are being used in their business frame.

2.2. CSR hypocrisy – reports and facts

As a follow-up related to the study presented above, Prem Sikka, from University of Essex, United Kingdom, observed the hypocrisy of companies in respect of CSR. Why hypocrisy? Very simple because, generally, companies are labelling all their activities (including tax positions) as very responsible, transparent to all stakeholders and with good financial results for the shareholders.

Related on taxes, in the real conditions, few companies make any direct reference to payment of taxes in their social responsibility reports, but their claims of ethics, integrity, honesty, transparency and responsibility are meant to apply to all aspect of their operations. Since the payment of democratically agreed taxes in an important part of corporate citizenship, this assumed that the declared standards also applied to taxes. The researches conducted in this field presented that there is a considerable difference between corporate discussion, corporate decisions and action. All these aspects are conferring a so-called corporate hypocrisy. In this respect, it can be considered that in the real business environment corporations have developed two cultures:

to promise ethical conduct to external audiences and
to improve profits by avoiding and even evading taxes.

Developed companies elaborate practices to appropriate returns due to society on its investment of social capital. In order to do that, companies are nowadays using various methods, such as: transfer pricing, royalties, offshore tax havens and planning structures just to avoid taxes. Behind of the very popular CSR reports, interviews and other PR materials, there is a general problem related to the fact that corporations did not communicate their TAP to stakeholders and did not explain the possible social consequences of avoiding taxes.

In a formal manner, real and used TAP are considered to have a legal character. By aligning together CSR policies and TAP, it is true that there is no legal or moral link between them. Managers are pursuing tax avoidance for reaching higher profits, remuneration, status and media accolades. The contradictions between reports and facts have been exposed by so-called whistleblowers, other investigators and law enforcement agencies. The implosion of this hypocrisy has resulted in fines, imprisonment for some company executives and hostile press coverage. The negative outcomes may have persuaded some to take steps to align corporate culture with publicly espoused claims, but the systemic pressures to maximize profits, share prices and executive financial rewards present considerable barriers to securing long-term cultural change.

The exposure of organized hypocrisy challenges corporate claims of social responsibility. There is a need to go beyond the carefully cultivated corporate image and engage with actual corporate practices and consider their impact on the lives of people. In many cases, this tax avoidance evidence has real human consequences even though corporate CSR reports remain silent. Tax revenues provide the most durable resource for any country, in order to finance social infrastructure and to provide much needed economic and social development to improve the quality of life of millions of people.

Moreover, the consequences of organized tax avoidance affect developed countries too and limit the support that the state can provide to the less well-off, the elderly and the vulnerable. In this respect, it should be mentioned the fact that the UK state manages poverty through the provision of a variety of tax credits and social security.

The UK state pension is a major source of income for retired citizens, but it is almost the lowest in Europe. Each state can provide support if it in position to collect sufficient tax revenues and

corporations live up to their promises of responsible and ethical conduct. The possibilities of social responsibility rest on the alignment of corporate culture with the social expectations that companies will put in practice their espoused goals. In principle, the state could be mobilized to exert pressure on companies by requiring greater disclosures about corporate strategies for avoiding taxes and changing the nature of corporations

so that diverse social groups are represented on company boards. This element may be considered as a source of tendency to avoid taxes, nor make the tax avoidance industry go away. In any case, the states compete to attract capital and in that process offer tax holidays, inducements and concession to encourage mobility of capital, which in turn fuels schemes for avoiding taxes.

It is a beginning of a long and complicated process that should begin from stakeholders - the most affected part of these TAP. It seems that there are few signs that stakeholders are to take some measures, in a way that to become more aware about the well labeled reports of companies and the real fact behind these reports. Even though from a legal perspective and in many cases there is nothing to do in respect of tax avoidance, there should be addressed more attention on how these tax avoidance practices may be in a way or other reflected.

An interesting idea would be that companies to publish in their CSR report a special form related entirely to tax avoidance practices linked with CSR principles. In this way, an initial image of this process can be obtained and it may be seen as a starting point in order to develop more complex methods. Also, international organizations should consider these tax practices related to CSR policies and should develop them in further recommendations.

Another form of gaining advantage in front of this issue may result in developing a rating for each company operating CSR projects. It may be granted an inferior evaluation score for companies established offshore or TAP companies.

There is a lot of work to do in order to start presenting the disadvantages and incompatibility of TAP with CSR policies and projects.

2.3. Status of the CSR and TAP in Romania

Romania holds an important place, if not absolute record, in respect of the number of duties and taxes, fiscal and non-fiscal. There are almost 500 taxes, as well as the number of hours a taxpayer – economic agent – must spend paying them: 200. This severe taxing situation made the English Consul in the Romanian Principalities, sir Wilkinson, to write almost 200 years ago that: *"there is no person in this world more oppressed by despotism and overwhelmed by duties as the Romanian peasant in Walachia and Moldavia and no one could suffer with the same patience and resignation as he does, even half of the duties burdening him"*.

As a result, many of the foreign experts considered that Romania was not in a position to study and follow a successful tax model, the one of Portugal for example, or to simplify the tax system and reduce the number of duties and taxes due to the tax system, so as to reduce bureaucracy, the costs for tax collection and the time lost with its payment. Also, it was considered that Romania was incapable to offer to the population and to the economic agents a tax system that observes the elementary rules of taxation.

In light of the aspects mentioned, there is no doubt that a lot of companies (in all categories) have started to seriously think about moving their business premises abroad or to find out methods for reducing the tax burden. This was the moment when TAP started to develop in Romania.

Thus, Romanian companies or local subsidiaries of multinational companies had the reasons to look towards the "fiscal paradises" and to register businesses there. And, for them, there was no reason, argument or interdiction that can stop them from the desire to do business in a fiscal paradise, except the lack of courage to intelligently exploit the opportunity that such a business movement offers or the narrow-minded visions of those incapable to understand that the model to be followed is the one that works well and not the one that makes you run from it. And the one

that works with results that attract any investors can only be stopped by taking risks that the states have no interest to assume.

The American writer - Walter H. Diamond (1914-2008), expert in commerce, taxes and economy, author of 81 specialty books did not express his conviction that the offshore investments shall develop fast in the future, but concluded that *“actually, I believe that the 21st century will be known as the century of offshore offices”*.

In the moment when businesses operated in Romania understood the model of TAP and considered that operating business in a “fiscal paradises” represents a great opportunity that cannot be ignored and that the “escape” to the offshore does not imply a fraudulent tax evasion, there were and continue to be a lot of companies that are using the tax planning structures in order to avoid taxes in Romania. Also, by taking into account that CSR is in the development process in Romania and there is no more professional environment developed, the stakeholders in Romania have a minimum “voice” to record their complaints.

In this respect, important companies from Romania that have a clear CSR policy have decided to apply TAP structures, in order to avoid some of the domestic taxes. As a consequence, we can consider that CSR hypocrisy was already accomplished. In the company reports (or special CSR reports, for some companies) there were no mentions related to the fact that operating abroad may result in less taxes to be paid in the domestic countries.

Moreover, the companies considered to act in a transparent, social and trustful manner for the social environment. It is also important that CSR is not a well-known concept in Romania and, based on this, no organized body or NGO may claim this offshore concept of companies in relation with CSR.

As a result, the Romanian corporations may have the possibility to continue their TAP until the social environment from Romania or legal entities from Romania may react and may consider that reports and facts of entities are somehow different from the reality. For a non-professional stakeholder environment from Romania, it is an honor that companies started to invest a part of their profits for the society and, furthermore, links between CSR and TAP were not bring up until now.

3. Conclusions

CSR and TAP are nowadays in the common sense of the worldwide corporate actions of the companies. Even though a company socially responsible is very useful for the social environment, its way of reducing tax burden may impact the average image of the social behaviour. Taxes are an important corporate financial contribution with subsequent effect for the life of multiple citizens in countries where private entities operate. By taxes, a lot of social payments are possible to be made for citizens. Even though companies are usually expressing their ethical and responsible conduct in respect of the social environment, there are many cases when the business practices were not aligned with the declared corporate behaviour – as TAP were put in-force.

This paper sought firstly to examine whether companies engaged in tax avoidance practices (offshore tax havens) consider that are continuing to act socially responsible. In this respect, a study carried out recently pointed out that even though there are clear evidences that companies are somehow hiding their profits into TAP, these companies consider to have a well-known CSR approach and not to mention anything about their profits movements.

Secondly, the paper examined the influence on attending the stakeholders’ goals for those companies practicing tax avoidance and its implications on corporate social responsibility actions. Another study carried out recently presented practically the hypocrisy situation by which many of the companies are engaged to. There are various talks and attitudes of the companies engaged in CSR project but their actions have the result of moving capital outside the domestic countries. The amounts of taxes that are in this way not paid to the local budget have an impact

related to social assistance each country needs to manage. In these situations, stakeholders started to be present and to initiate different dialogues. It is a long on-going process that may produce some results in the near future.

Moreover, the paper focused also on the aspects described before from the perspective of the corporate entities operating in Romania. In Romania, CSR has a more initial approach and companies started to align their policy based on this criteria. It was easier for multinational corporations that, based on globalization, have developed easier steps to rely on CSR policies into each domestic country activity. Romania is known also as a tax burden country. As a result, a lot of companies moved their capital by using TAP and without any kind of reconsideration for social environment. These types of companies are continuing to publish into their annual report the part of the CSR, without mentioning anything about the TAP. In the course of these actions, an important aspect is related to the stakeholders' power – in Romania stakeholders have no previous experience and, as result, it may last a period until something is going to change in this respect. As a result, it is very probable that companies from Romania that operate through TAP to have enough time to re-consider their activities from a social point of view.

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INTEGRATION OF ENVIRONMENTAL MANAGEMENT SYSTEM

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Abstract

The relevance of management as significant factor of business activity can be established on various management systems. These will help to obtain, organise, administrate, evaluate and control particulars: information, quality, environmental protection, health and safety, various resources (time, human, finance, inventory etc).

Environmental management should embrace recent change in the area of environmental protection, and suit the recently regulations of the field -entire legal and economic, as well as perform management systems to meet the requirements of the contemporary model for economic development. These changes are trailed by abandon the conventional approach of environmental protection and it is replaced by sustainable development (SD).

The keys and the aims of Cleaner Productions (CP) are presented being implemented in various companies as a non-formalised environmental management system (EMS). This concept is suggested here as a proper model for practice where possible environmental harmful technologies are used -e.g. Rosia Montana.

Showing the features and the power of CP this paper is a signal oriented to involve the awareness of policy-makers and top management of diverse Romanian companies.

Many companies in European countries are developing corporate environmental strategies to reduce negative impacts on ecosystems. This involves adopting environmental mission statements, conducting audits and monitoring performances. But we have not to forget that the ecosystem is unique for us.

Keywords: Environmental management, quality management system, sustainable development, cleaner production

Cod JEL: M11, Q56.R11

Introduction

The complexity of nowadays days development, forced us to think 'integrated'. Sustainable development principles require that environment management policies and practices are not good in themselves but also integrate with all other environmental objectives, and with social and economic development objectives.

Environmental management concern latest improves in sphere of environmental protection, as well as implemented management systems to should meet the requirements of the new model for economic development. These can be confirmed by leaving the conventional approach to environmental protection, using instead it sustainable development. [1] Shortly, we recall what does it means the Sustainable Development. It consists in a continuous economic growth, despite the fact that keeping integrity of **the triad: economy - society - environment**. Sustainable Development (SD) is significant mainly at macroeconomic level (e.g. national or regional). This paper deals with enterprises as an addressee of Sustainable Development. To implement Sustainable Development at the company's level, it is necessary to understand the enterprise as a system and to integrate it as a unit developing an environmental management too.

The Sustainable Development promotes protective strategies, dealing with the pollution prevention looking to build up environmental quality [2] and to diminish unrestrained use of resources (in particular the non-renewable resources). As a result this strategy is a broad-spectrum balance linking economic growth and the use of natural resources. It provides a new approach to a long-term development, as well as taking into account the environmental requirements, in contrast to restrictive view of economic growth at any price.

On this framework Cleaner Production (CP) assigns the same goals and settles on the indispensable measures to be engaged for sustainable development. It points out the importance of reduction of raw materials, consumption of energy and prevention of production of waste and pollution emissions [1]. The possibility is quite wide and cleaner production has been acclaimed to be one of those topics today that accommodates a significant spectrum of disciplines pull out from engineering, designing, sociologists, economists, politicians, and the civil society.

CP as one of the strategies planning environmentally sustainable development has in its sense seen the development and growing importance of other strategies within itself, such as:

- focus on product design and development based on the life-cycle analysis (LCA);
- focus on safer production (management of hazardous materials);
- recognition of the role management systems in introducing environmentally-sound technological change (EMS);
- focus on creating environment conducive for CP rather than interventions at the enterprise level.

The sphere of the Cleaner Production concept found a good niche in economic development. CP is considered as a means to supplementary dialogue between policy-makers and industry. This movement is comprehensive across global boundaries in addressing global environmental issues. The CP concepts have significant implications into areas such climate change and global warming because of its links to efficiency improvement in energy utilization.

In many countries the responsible companies have discovered that some benefits can be obtained by “going green”. This can be achieved by enhancing the efficiency in production, by new mission adapting ecological, and finally improving company image.

Nowadays days is very usual for the people in charge to find the advantages from follow “green” goals. Actually, the companies must understand the competitive advantage to offer ahead of minimum conformity with regulations. If we analyse the issues that are influencing the companies to improve their environmental performance and adopt the environmental strategies we can note that these differ by level as: product, firm or even sector.

Business activity that can be established on various **management systems**. These will help to obtain, organise, administrate, evaluate and control particulars: information, quality, environmental protection, health and safety, various resources (human, finance etc) [2].

Environmental management systems

It is clear that the concepts regarding the environment has changed from the very beginning when it had conventional and dogmatic meaning related to pure the ecological sphere exonerate of economic development, management topics, technological change, social needs and political arguments. No doubt that the new theme surrounding the environment today is management, and the organisation as system.

The management systems can be carried out either autonomously or as an integrated management system that assume as a whole all the problems linked to the management of an organization, no matter which type.

Afterwards the management systems we can identify as:

- Formalised systems, of course these are based on some reference points as standards (standardised systems) or on laws;
- Non-formalised systems [1].

The previous consist of management systems based on the standards series as ISO 9000, 14000 or 18000, as the second point to Cleaner Production or TQM.

Now in Europe there are being used mostly, two formalised environmental management systems (EMS):

- EMS based on BS 7750:1992 –Environmental Management and Audit Scheme -EMAS;
- EMS based on the ISO 14000 series.

The first one (EMAS) was approved by the Council of the European Union in 1993 (Council Regulation No. 1836/93). As other standards is a deliberate scheme for industry. To join in Environmental Management and Audit Scheme a company must review their own environmental performance on a regular basis, and this means to develop an environmental management system. The goals of EMAS are:

- To initiate cleaner technologies;
- To reduce, avoid and remove all emissions prior to leave the process;
- To diminish the use of natural resources.
- This system presumes that companies are fully responsible for their environmental impact. Consequently the company's main responsibilities include:
 - To assume a favourable direction to has an environmental policy that will promote continuous improvements in its environmental performance;
 - To develop an action plan of environmental area.
 - To acquire efficient training programme to enhance employees' environmental awareness;
 - To do Eco-audits;
 - To put together available, relevant information to the community.

This management system –EMAS- is approachable mainly to the companies that operate industrial fields; still, the method can be accomplished into other economic sectors such as distribution or public services.

Environmental Management System (EMS) is definite:

“An element of general management system that involves organisation chart, planning, responsibilities, codes of practice, procedures, processes and necessary means for developing, implementing, managing, reviewing and maintaining of environmental policy”[4].

For instance management system promotes a continuous improvement in environmental performance by repeating cyclic the subsequent activities:

- To design and implement an environmental policy (environmental planning);
- To achieve the environmental objectives;
- To validate and to prevent (measurement and assessment of effects);
- To scan (permanent evaluation and control);
- To review management activity (continuous improvement of system).

The experience shows clearly that the system requires on-going improvement in comply with environmental performance, thus leading to improvement in environmental management system. Implementation of environmental management system by a company is a value for their positive and truthful environmental approach, as well as for the local communities. This is a reason for which we strive to develop this approach in Romanians enterprises.

Non-formalised environmental management system

Cleaner Production Programme published in 1989 in Paris by the Industry and Environment Programme Activity Centre at the United Nations Environmental Programme (UNEP). In fact Cleaner Production is a preventive environmental strategy based on this program.

UNEP defines Cleaner Production: “The continuous application of continuous integrated preventive environmental strategy to processes, products and services, to increase efficiency of production and services and reduce risks to humans and the environment”.

The key of CP is to promote preventive strategy as opposed to traditional waste reduction approach. Accordingly, it involves in progress pollution prevention for manufacturing processes, as well as products to reduce environmental impacts during production and along the entire life cycle of the product. We stress the strategy of reduction of waste and emissions before they leave the process.

Cleaner Production facilitates the implementation of sustainable development on the company level. It can be also understand as a non-formalised environmental management system. Its aims consist of:

- Improving of environmental quality of manufacturing processes and products;
- Employing cleaner technologies (energy and materials save);
- Accessibility to training programme for employees.
- Cutting off toxic raw materials and products;
- Carrying out technical solutions of high reliability;
- Encouraging efficiency by reducing the generation of waste;
- Implementing closed material cycles along the entire life cycle (design, production, distribution, use and re-used of by-products);
- Supporting environmental products and technologies;
- Nearby recycling industrial waste;
- Decreasing all emissions and waste to the environment.

Cleaner Production can be included in integrated management systems [3]. The CP certification procedure involves four steps procedure:

- 1. Application for Cleaner Production Company's Certificate (after completing the second level training on CP), along with required documentation.
 - 2. Verification of application at the Cleaner Production Centre.
 - 3. Evaluation of applications by the Qualification Committee.
 - 4. Awarding to the company the Cleaner Production Company's Certificate.
- This procedure can be approachable to all companies operating in the industrial and service sectors that want to implement the CP strategy as an environmental non-formalised management system. So far in Romania there is no company reported awarded the Cleaner Production Company's Certificate.
- The companies granted the Cleaner Production Company's Certificate are subject to site audit on a two years basis to check for proper function of environmental management system based on Cleaner Production.

There were reported numerous ecological accidents in Romania last few years. That point out the responsible of the companies must reflect and decide how to avoid the repetition. This allows the communities, as well as the companies to achieve not only considerable environmental benefits but also large profits.

Generally, the programmes endorsed to be implemented as a non-formalised environmental management system.

It must be done an initiative regarding an Romanian Cleaner Production Centre based on an Agreement on Cleaner Production and Sustainable Development for Industry. The Romanian of Engineering Associations (AGIR) and the Technology Agency and the Romanian Centre for Environment (Testing and Certification) must be aware of Cleaner Production Company's Certificates. The companies that implemented Cleaner Production as an environmental management system can benefit of financial funds [1].

We must take in consideration the favourable access to financial funds based on environmental performance this must be a driving force.

Conclusion

Current condition requires that the environmental policy, also the policy-makers of any country, as well as any other stakeholders have to be more aware of environmental and sustainable development. Cleaner Production is a shielding environmental strategy. It can be used as a non-formalised environmental management system in a company. In our opinion is more appropriate for Romanian business environment.

The benefits of the implementation of this system are the subsequent:

- To the environment by reducing environmental impacts;
- To the company by additional savings and reduced operating costs.

Similar to the formalised environmental system, Cleaner Production involves the improvement of company environmental performance. The experience reports that the companies that were involved in the Cleaner Production programmes assume to decrease waste and emissions, utilization of raw materials and consumption of energy in addition to decrease production costs and environmental fees. All these are completed by continuous improvement through implementing the CP projects.

The costs related to operate a Cleaner Production project are paid back within short time (months or years -depending on project).

Many companies in European countries are developing corporate environmental strategies to reduce negative impacts on ecosystems. This involves adopting environmental mission statements, conducting audits and monitoring performances. But we have not to forget that the ecosystem is unique for us.

All of us, individuals and communities, small enterprises and multinational companies, national policy-makers, are responsible of preserving it for the future generations.

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HOW TO IMPROVE EMPLOYEE MOTIVATION AND GROUP PERFORMANCE THROUGH LEADERSHIP – CONCEPTUAL MODEL

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We live times of intense change, due to fast technological development, when information and knowledge are certain factors of power. Organizations today must not underestimate the importance of capable employees, owners of these great factors like information and knowledge. The key to success, as many organizations have shown, is, of course a mix of attributes, but one of much importance stands in the quality of employees and their performance. How to motivate and keep such employees is a real challenge in the actual business world. Employee fluctuation is a big risk, because it brings many losses: loss of expertise, of know-how, of time, it breaks relationships and teams. One solution to this problem is creating a good and attractive environment, so that employees are motivated enough to bring up the best in them and rise their performance to a high level.

The main objective of this study is to present a new approach in motivating employees and raising their performance. In this approach, the leader is the main pawn, the generator and sustainer of a healthy environment. By reviewing the literature and the most recent works in this domain, two styles of leadership come into focus: transformational and servant leadership. Both are relatively new concepts, with common but also different attributes, and both having the same final goal: performance, but through a different approach.

Based on a vast literature research, the conceptual model was built, considering the main attributes of the two leadership styles, their impact on motivational factors, their influence on job satisfaction and ultimately on team performance.

The intermediary results of the research sustain the conceptual framework and main hypothesis of the study.

One important contribution of this research is introducing elements of servant leadership together with transformational leadership in the empirical research and also creating an overall conceptual framework which can be applied into practical context, in order to help organizations improve their performance through nonconventional methods.

Keywords. servant leadership, transformational leadership, motivation, team performance, job satisfaction.

Code JEL. M 10

Introduction

Any organization that aims at staying on the market in the current environment should not underestimate the importance of capable, well- trained staff with proven skills and capabilities. The first element of the present study is the leadership and its influence on employees: how different leadership styles can influence employee behaviour.

The leadership has seen many dimensions over time, theories have complemented each other, reality and practice have brought about new elements and opened new lines of research. Perhaps a clear and unanimous definition, a method or theory will never be widely accepted. Nowadays leadership must value teamwork, recognize the importance of diversity, know how to share power, knowledge, success and failure with subordinates. Power is an ingredient of leadership, which skillfully used and shared with subordinates may bring about unexpectedly good results. Employees feel valued and important, self-confidence may increase as a result, individual and group performance levels may be higher. Motivation through leadership may be the ace in the sleeve, now that studies have shown that people are essentially different and traditional methods of motivation do not work the same in each individual. The present study advances an approach

that makes the link between the leadership, as a pawn generating and supporting a high level of employee job satisfaction, and the application of a continuous motivational model. Consequently, the present study aims at analysing the influence that a leadership style that is appropriate for the organizational cultural environment may have in solving, or at least in improving the above mentioned issues. The leaders' involvement in the implementation and support of the motivational model proposed in the present research may lead to increased job satisfaction of employees. Starting from the assumption that there is a bidirectional link between job satisfaction and the performance achieved, the present study focuses on increasing performance at the level of the group as a final result.

Literature review

Transformational Leadership

As Bass call it, transformational leadership is a "new paradigm" (Bass, 1998 in Zlate 2007:234). It is 'a new approach to management', and the roots of this new concept date back to 1978, when Burns used the term for the first time: Leadership. Unlike transactional leadership, which was based on the exchange between leader and subordinate, transformational leadership goes one step further, turning that profitable exchange into one with a strong emotional connotation. Special attention is paid to the subordinates' emotional attachment to the organization, to their identification with their leaders, to increasing motivational resources, to sharing the vision of the leader and the organization as a whole. Emotional involvement is the key factor in choosing this type of leadership in order to build the model of "management" of the work team, but not the only one, as it will result from the following paragraphs.

Transformational leadership, as initiated and developed by MacGregor Burns (1978) and Bernard M. Bass (1985), becomes more and more useful within the organizational framework. Researcher Yukl (1998) stated that transformational leadership is first and foremost a process of engagement in achieving joint objectives of the organization and only secondly a process of encouraging the disciples to meet them (Stone, Russell Patterson, 2004: 350). In his book "Leadership and Performance Beyond Expectations", Bass (1985) transferred the concept of transformational leadership into the organizational context and examined the characteristics of transformational leadership, both public and private organizations and emphasised four transformational leadership factors: charisma or idealized influence, inspirational motivation, intellectual stimulation, individualized consideration towards disciples. (Avolio, 1991 in Stone, Russell Patterson, 2004 p.350)

Servant Leadership

Majoritatea studiilor recente se opresc la leadership-ul transformațional, ca fiind cel mai complex. O nouă concepție cunoaște avânt, prin care lucrurile capătă o nouă viziune: cine este de fapt conducătorul? Cine pe cine servește? La aceste întrebări Greenleaf a dat un răspuns prin modelul său asupra leadership-ului.

Între leadership-ul transformațional și servant leadership au fost identificate o serie de similarități pornind chiar de la conceptele de bază: *viziune, influență, credibilitate, încredere, suport, servire*. Dar în ceea ce privește servant leadership, se poate argumenta, din studiile teoretice că acesta depășește dimensiunea leadership-ului transformațional prin simpla aliniere a motivelor ce îi animă pe lideri cu motivele care îi însuflețesc pe discipolii acestora. Conceptul de bază al leadership-ului în cadrul echipei este 'primul între egali' ("primus inter pares").

În 2002, Barbuto și Wheeler au descris Servant Leadership prin unsprezece caracteristici. Această imagine, bazată pe cele mai influente lucrări în domeniu este fundamentală pentru cercetările ulterioare, deoarece respectă ideea originală a lui Greenleaf. Tot în 2002, Russel și Stone restrângeau numărul atributelor la nouă, atribute pe care autorii le-au numit în lucrarea lor atribute funcționale datorită repetitivității acestora în lucrările de specialitate: Viziunea,

Onestitatea, Integritatea, Încrederea, Servirea, Formarea, Pionieratul, Aprecierea celorlalți, Împuternicirea.

Motivational model of team performance

The "motivational capital" of an individual has had impressive dynamics over time, therefore, organizational-managerial psychology must be concerned with getting to know the individual as much as possible (...) and with refuting a series of misconceptions existing in organizational environments. (Zlate, 2007 :389).

In their article published in the *Haward Business Review*, 2008, Nitin Nohria, Boris Groysberg and Linda Lee-eling put forth a new model of employee motivation starting from Maslow's principles and valuing new discoveries in the neuropsychological fields.

Having the advantage of knowledge and technology, nowadays researchers may ground their studies on concrete results, scientifically proven, and not only on objective observation, no matter how documented it may be.

The four drives or needs identified by Nitin Nohria, Boris Groysberg and Linda Lee-eling are interconnected at the brain level, and the level of fulfilment of each of them directly influences emotions, therefore behaviour as well.

It is scientifically proven that transformational leadership coordinates organization members in order to accomplish the vision, beliefs, values and skills through team goals and a positive performance. Podsakoff et al. (1990) (in Chen-Tsang (Simon) Tsai, Ching-Shu Su, 2011, p.1918) have identified the following dimensions of transformational leadership as the most representative in terms of employee satisfaction: "identification and accentuation of vision", "providing an appropriate model", "encouraging and accepting team goals", "high levels of performance", "individualized support", "intellectual stimulation".

In 2008, Mayer, Bardes and Piccolo conducted a study that would reveal the influence that servant leadership may have on job satisfaction as a consequence of meeting the employees' needs and perceptions concerning the fairness of organizational systems. Drawing on theories of satisfaction, such as those of Herzberg (1959), Hackman and Oldham (1976), the authors identify three essential needs: "autonomy", "competence", "networking". Because of the fact that organizational performance is achieved by obtaining the advantages of each member, job satisfaction is also achieved. (Chen-Tsang (Simon) Tsai, Ching-Shu Su, 2011, p.1918).

It may be concluded from the discussion above that the more satisfied a team member is, the more likely is that he will exceed the previously set performance standards and the better he performs, the more professionally satisfied he will be.

Metodology

The conceptual model of scientific research and research hypotheses

Literature review and identification of the real problems were the basis for addressing research hypotheses and for building the conceptual model, listed below.

- The leadership style has a direct, positive and statistically significant effect on the subordinates' motivation.
- There is a direct, positive and statistically significant relationship between the motivational model and job satisfaction at the individual level.
- There is a bidirectional and statistically significant relationship between job satisfaction at the individual level, and group performance.
- There is a direct, positive and statistically significant relationship between the subordinates' satisfaction and 'hard' performance.
- Job satisfaction at the level of the individual mediates the relationship the subordinates' motivation – 'soft' group performance .

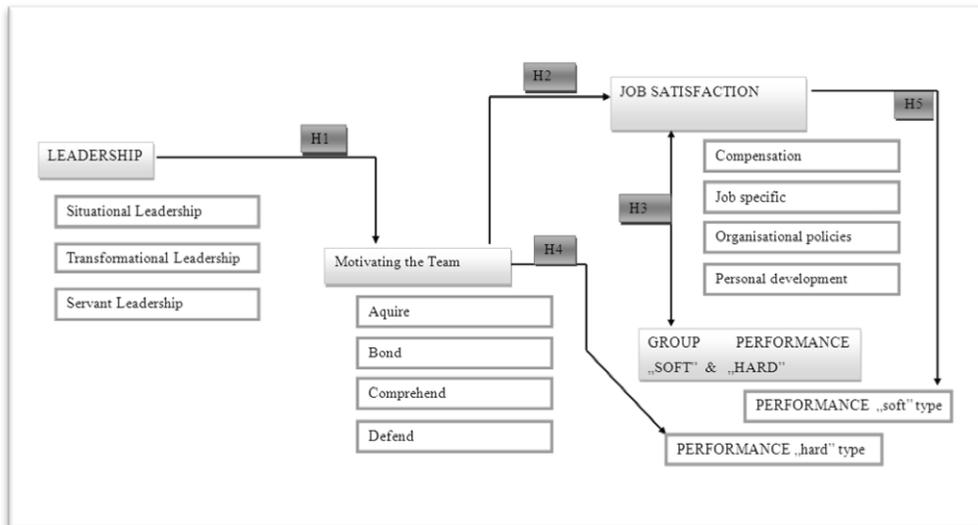


Fig. no. 1. Leadership styles and group performance-conceptual model (made by author)

The present study aims at analysing the influence that a leadership style that is appropriate for the organizational cultural environment may have on group performance. In order for the study to reach an empirical level, the present scientific approach started from the already existing theoretical framework by systematically and critically analysing specialized literature. Quantitative research is used due to the distinctiveness of the objectives and methods. Qualitative research focuses on in-depth research rather than on an in-width one. It is rather intensive than extensive – the generalization problem. (Anne-Marie Ambert in Chelcea, 2007:79). As a measuring method, quantitative research calls for methodological monism, which involves explaining phenomena / events in relation to their causes, and individual causes conform to general laws.

In order to have a comprehensive overview, starting from the identification of the research scope - increasing group performance and reducing turnover- theoretical investigations have been conducted, analysing possible factors of influence. Therefore the documentary study helped narrow down the area of analysis to the following main factors: leadership, ways of motivating employees, job satisfaction and group performance. After having defined and clarified the concepts under discussion, the exploratory research supported pursuing the stated objectives and research hypotheses in order to build a conceptual model subject to further analysis using quantitative research and using the sample survey.

Results – pilot study

What was aimed at along the whole scientific approach was the continuity of ideas and the identification of those variables that bear relevant implications on the research issues. When speaking of leadership, at the empirical level, one may not consider a pure style based on only one concept defined theoretically, and especially when considering a larger number of leaders for the analytical approach. For this reason, and adding the characteristics defined theoretically, three similar but with distinguishing characteristics leadership styles have been selected in order to characterize current management styles in multinational companies in Romania. A questionnaire was submitted to twenty employees of a multinational company, out of which only fourteen were validated.

The preliminary data that were obtained come in support of the theoretical aspects that had already been highlighted, the two similar leadership styles (Servant leadership and transformational leadership). Hence one may draw the conclusion that either the item needs further explaining because it may not have been fully understood by respondents, or that the

preliminary results are not representative in terms of positioning the servant leadership style in a centralizing scale.

A drawback of the research approach is the lack of an analysis of the Romanian cultural environment. Studies such as those of Hofstede, Trompenaars and Globe are seen as losing relevance when applying the instrument within multinational companies in a period of great economic change with a globalization effect that cannot be neglected. Obviously one may not speak anymore about a pure national or organizational culture. According to the statistical interpretation one may notice that, concerning the motivation construct, the highest percentage was held by "networking" - 80% and the lowest by "having" - 72%. Consequently, one may draw the conclusion that in order to achieve a higher degree of employee motivation, leaders must pay more attention to this stimulus. Promotion opportunities represent the weak element concerning "job satisfaction". The highest score was held by "the workplace in general" - 88% of the respondents being satisfied with their workplace. The last element analysed with the help of the questionnaire is group performance, subjectively identified as the level of cohesion or the intent to leave the group. It highlighted the prevalence of a strong sense of belonging to the group, only 23% of respondents declared themselves neutral in this respect. Together with the feeling of belonging to the group as a factor of cohesion, the intent to leave the group was also analysed. As it can be seen from the charts below, whenever there was a very strong feeling of belonging to the group (31% of respondents), the intent to leave the team is totally absent. 100% of the 31% of respondents with a very strong feeling of belonging to the group also represent a 31% of the sample.

One may notice that as the intensity of feeling of belonging to the group decreases, the percentage of those willing to leave the team is rising.

Conclusion

In order for the leadership theory to continue to exist, it must be admitted and accepted that the leadership is a complex process that interacts with behavioral, relational and situational elements. The leadership does not concern only the individual but also resides at the individual, dyadic, group and organizational levels. The leadership is promoted at the top of the hierarchical pyramid of the organization and from the bottom towards the top. The leadership motivates both intrinsically by improving expectations, and extrinsically by improving reward systems. (D. Van Seters, R. Field: 2007). Motivating employees is an extensively researched topic. If the first studies were based on the mere observation of the human behavior, the evolution of science in the field reveals new facets that are worth of consideration and application. Job satisfaction is brought about by the attitude that employees have towards work as such and by the rest of the elements involved in everyday life. There is an obviously close interdependence between the degree of satisfaction and the motivation of the employees, the two having a bidirectional connection between them. Group/team performance is the expected outcome in any organization, irrespective of specificity of the activity.

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MAIN MILESTONES OF LABOUR MOBILITY STRATEGIC MANAGEMENT

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The development of migration flows for the last decades and the emphasis laid on labour force circulation shifted the interest focus from managing crises generated by conjectural migration flows to inter-country cooperation for coordinating policies regarding labour migration.

Labour migration as multinational process can be dealt with by efficient management at international, national and local level that would aim maximising the advantages of all involved actors, taking into account its fluid character and dynamics, its permanently changing features.

The complexity of the labour migration phenomenon and the lack of a coherent and sufficiently comprehensive data base hindered the development of some management models, and the recommendations of local/national/regional policies took into account particularities of labour market, labour force location and difficulties of covering labour force deficits, but also socio-professional particularities of potential migrants, as well.

Labour force migration management gains importance also from the perspective of increased demographic aging both in EU developed countries and in the new member-states where the aging dynamic on labour market is marked also by the labour mobility to western and northern European countries.

The paper intends to present the main milestones defining migration management, and the policies in the field. General coordinates of labour migration strategic management are analysed at European level, the policies in the field of workers' mobility, and elements of immigration management as well, during the period of the crisis.

For Romania, labour migration management on exit flows must represent a strategic concern of putting to good use the national labour potential and ensuring return incomes, the effective value added of the national education system. Within this context, the paper is a succinct analysis of policies promoted for the employment of graduates in attractive jobs that would allow for career development and, implicitly, remaining in the country, as well as of the measures adopted for returning into the country after pursuing improvement or temporary migration.

Key words: migration management, policies, migration flows

JEL Classification: E24, E61, F22, J24, J62, J68

Introduction

Migration for labour, as multinational process, can be dealt with by efficient and correlated management at international, national and local level by which is aimed to maximise the advantages of all involved stakeholders and to take into account the its fluid character and dynamics, the permanently changing features. The policies in the field should be, hence, flexible, strongly influenced by the evolutions of world economy, of the political situations, and subject to the influence of different factors, such as natural and social ones, etc.

Individuals' mobility in the last decades was based on creating some migrant workers' networks in association with or independently of the Diaspora present in the respective regions. These networks of migrant workers have influenced increasingly more the political decisions in the field and have supported also the development of some cooperation and economic assistance systems for the countries of origin. Additionally, the development and modernisation of communications and transport networks have eased the spatial connections between individuals, generating the "transnational migration space". This has substantially increased the mobility area of workers who could commute between several locations.

1. The requirement of labour mobility management

Migratory developments in the last decades and the emphasis laid on labour force migration have shifted the interest focus from managing crises generated by conjectural migration flows to inter-countries cooperation for coordinating policies regarding migration for labour, in order to be able to ensure the balancing of migrant labour force supply with local deficits of employment by facilitating *legal mobility channels* that ensure compliance with migrant workers rights and social and political acceptance of migratory flows and of the migrant contingent.

Both experts in labour migration study, and real economy represented by the governing authorities and the business environment have acknowledged the need of an efficient global labour market, taking into account the projections regarding the imbalances between labour force demand and supply in the following years which indicate an intensifying in this respect on the background of demographic ageing and population decline in developed countries in parallel with its increase in developing countries. It should be mentioned, in this context, also the maintenance and even more marked disparities with respect to wages' level and opportunities in finding a job between and within the developed countries and for the developing ones, fact that will generate new triggers for mobility and migration (Appave and Cholewinski, 2007).

Europe was and shall continue to be a geographic area with strong migration flows in various directions, but it shall represent particularly an area of destination for the future. In the last 30 years, *the European policies* in the field of migration had a more strongly restrictive character, these changing after 1990 when a better opening and acceptance degree for immigrants from third countries were attempted. Demographic decline associated with qualifications' decline at European level shall determine a decrease in the working-age population of Europe in the future. Hence, emerges the necessity of identifying some solutions for eliminating the negative effects of demographic decline. In this context takes place the opening of the European Union towards migrant workers from third countries. Thus, legal immigration is regarded currently as a way of counterbalancing the working-age population decrease in Europe. It is considered that a controlled migration at the level of the Community area is more beneficial than leaving the migration policy at the latitude of each Member-State. Consequently, a common immigration policy was formulated at Community level which shows openness towards labour force from third countries (Constantin DL, 2008).

The most used solution in the period after 1990 was represented by the bilateral agreements for facilitating mobility, as in some cases migration routes on medium- and long-term were built up, the agreements defining the nature, content and profile of the migrant worker adequate to labour demand in the host-country (for instance, the agreements Romania-Germany during the transition period, in the pre-accession period). Additionally, the programmes developed according to the bilateral agreements can be particularised as policies corresponding to the economic profile/particularities of labour migration. In order to avoid pressures of the de-structured labour supply, and for facilitating return or circular migration advantages/incentives were developed, etc. which were guaranteed by the concluded labour contracts. The programmes developing circular migration have represented an important qualitative step in labour migration management representing a socially acceptable solution to definitive migration (including) of the unskilled workforce to European developed countries in full demographic decline where the ageing dynamics on labour market affects directly and intensively sustaining the technological renewal processes as competitiveness support on the market for the products and services from these countries.

Circular migration as form of sustaining economic growth is more profitable for the host-country and contributes to developing the human capital by facilitating the international transfer of competencies, trade and transnational investments' development, and prevents the separation of families for long periods.

The complexity of the labour migration phenomenon and the lack of a coherent and sufficiently comprising data bank did not facilitate the development of some management models and the local/national/regional policy recommendations have taken into account especially the particularities of the labour market, the location and difficulties in ensuring the labour force considering the deficit and the socio-professional particularities of potential migrants. Moreover, the national/international policies mix required for balancing demand and supply of labour force differ to a significant extent and depending on the demographic characteristics, and on the level and development model of the host-country. A stable and equitable business and social climate, as well as good governance at local/national level for economic growth and poverty alleviation shall improve the quality of migration flows.

Labour force migration management gains in importance from the perspective of marked demographic ageing not only in developed countries of the EU but also in the New Member-States, where the dynamic ageing on labour market is more noticeable also due to the labour mobility to western and northern European countries.

Migration flows during the first transition period and during pre-accession were defined as dimensions and intensity as outcomes of the (in)efficient political and economic reform and knew two important development channels: on one hand, by the facilities ensured based on bilateral agreements regarding labour migration and, on the other hand, by the informal migration routes that fed the illegal migrant population stock.

An aggravating factor of illegal migration was represented, in the first transition stage, by the lacking or weak official information about labour migration with respect to conditions, criteria, restrictions and opportunities.

As result, the importance of regulating and defining a legal and institutional national and regional framework for labour migration has generated the development of *acquis communautaire* regarding the free movement of persons, in the context of general liberalisation of capitals' movement (implicitly of human capital). Pertaining to the sphere of "soft" *acquis*, the regulations in the field have supported the development of a migration management from the perspective of risks and strategic approach, based on quantifying the economic and social effects.

The viability of such an approach, even though difficult to accept in many EU member countries has been proved right especially after the accession waves of 2004 and 2007 which shaped the myth of massive workers' flows and reconsidered the importance and role on medium- and long-term of the legal and illegal migrant population stock. Thus, the management of the migrant population stock and legalising to the largest extent possible the illegal migrant workers staying on local labour markets in the developed EU countries have turned into priorities within national policies. At the same time, the importance of migration management increased also in the origin countries from the extended EU area, as result of the new status as transit immigration countries for workers' flows from countries outside the EU area.

Knowing the stock sizes and the migration flows on qualitative structures/attributes (gender, age, education level, profession, etc.) shall allow for diminishing the de-structuring between labour force supply and demand at local/national/regional level.

Due to the complexity of the labour migration phenomenon, no "standard" policies can be developed for balancing the international supply and demand for labour. Bilateral regulations between countries represent an important step in regulating migration routes. The second important step is defining the duration and form of migration, depending on which emerges the need for complementary support policies, both in the origin and in the host country.

2. Main milestones of labour mobility strategic management

In the field of labour mobility, by the den Hague Programme for strengthening freedom, security and justice in the European Union, and thereafter by the Solidarity and Migration Flows Management Programme for the period 2007-2013 (2006) were defined 10 priorities of the EU

for strengthening the freedom, justice and security area many of these having direct incidence on workers' mobility. To this end is promoted a balanced approach of legal and illegal migration, concrete implementation plans being set up, such as: a) the Plan regarding legal migration and migrants' integration pursuing particularly immigration from third countries; b) the European Action Plan regarding jobs' mobility for 2007-2010 by which is envisaged geographic mobility and the mobility on professions within the European Union. If we refer to legal migration which makes the object of the present paper, the fields of maximum interest of the policies pursue: a) better regulation (improving current legislation and administrative practices regarding workers' mobility); b) facilitating access to information (strengthening the EURES role as sole instrument for facilitating workers' and their families' mobility); c) migrant workers' integration (determining a better adaptability of the education and vocational training systems to the labour market and training individuals for mobility by foreign languages learning; eliminating legal and administrative obstacles and promoting the transnational recognition of qualifications) and d) cooperation with origin countries (guaranteeing the fact that authorities at all levels support policies regarding mobility).

For a better management of migrant workers' flows on the EU territory were introduced *Blue Card* visas after the US Green Card model in order to attract top professionals and for remediating the low birth rate and increasing the number of pensioners. Through this instrument is clearly defined the position towards migrant workers and their profile. – “We send a rather clear signal with the aid of the Blue Card visas. Highly skilled workers are welcome in the EU”. (Barosso, J.M. EC President, 2008). The Blue Card programmes open a new way to the EU, but the 27 immigration systems shall continue to exist. The EU Member-States have now available the most advantageous system for gaining highly-skilled foreign workers. The Blue Card holders have total rights on the labour force market, but the access to the social system is restricted by the national policies in the field (the right to social houses, social assistance, minimum wage, etc.).

The blue card: a) is valid for two years and can be renewed; b) allows circulation freedom within the EU for the holder and his/her family (after the two years); c) after five years, the holder has the status of long-term resident; d) does not allow for permanent residence. By this measure is aimed to institutionalise an easy and possible instrument for statistical management by which a more efficient allotment of skilled labour force could be achieved on areas and geographic regions with deficits within the EU. In fact, it is an answer to the increasing demand of skilled workers in certain fields such as information technology and engineering. By adopting the Klamt Report, the European deputies have insisted on some more clear definitions and have ensured a system that provides certain flexibility to Member-States by reaffirming the principle of “community preference” which is also in the interest of Romanian citizens. But, the main reason for which this system was called on is represented by the higher propensity of highly-skilled workers to choose other mobility routes outside the EU: “50% of the highly-skilled immigrants head to the USA or Canada and only 5,5% come to the EU” (Klamt E, 2008). The directive is not applicable to asylum applicants, to self-employed or seasonal workers, and pursues two objectives: introducing a special procedure based on common criteria for EU admittance of citizens from third countries, with the purpose of developing labour requiring high-skills for a period longer than three months; issuance for those admitted of a residence permit, the so-called EU Blue Card, as well as ensuring a number of rights for them and their families and the possibility of working, under certain conditions, in another Member-State after a legal stay of at least two years in the first EU Member-State. Moreover, it is provided for establishing some wage criteria, respectively the compulsory minimum wage related to the average wage from the respective Member-State. By virtue of the right to promote own immigration policies, the Member-States can establish certain immigration quotas for the number of highly-skilled immigrants. Before passing a decision about a EU Blue Card, the Member-States can analyse the situation on their own labour markets and can apply national and community procedures with

respect to employment conditions for vacancies, considering the labour force demand at national and regional level.

2.2. Policies in the field of workers' mobility in Romania

In Romania, the policies regarding migration have been strongly influenced in the last years by the European Union accession of the country, respectively by the requirement of harmonising national legislation to the *acquis communautaire* in the field of migration, of improving the institutional framework and of inter-institutional coordination for both legal and illegal migration management.

The main milestones defining migration management and the policies in the field refer to: the National Strategy on Migration (GR 616/2004) and the National Strategy on Immigration for the period 2007-2010 (GR 1122/2007). The main arguments substantiating the two strategies are: individuals' mobility for labour is a normal phenomenon of the modern economies which must be managed; this phenomenon triggers both positive and negative externalities for all stakeholders/participants and therefore it is necessary to potentiate positive externalities and diminish or internalise negative externalities.

In view of establishing a unitary concept on immigration management at national level, in 2004 were approved the National Strategy on Migration and the Inter-institutional Mechanism for its implementation, a fact which led for the first time to bringing together around the same table for discussions all institutions with attributions in the migration field. The strategy was implemented by annual action plans which ensured the realisation of some objectives by means of coordinated efforts of the institutions in the field of controlled migration, preventing and combating illegal migration, asylum, social integration and voluntary return/repatriation of foreigners residing illegally.

After the EU-accession, the main objective of Romanian authorities was to maximise the positive effects and limit the negative effects of immigration for our country and, implicitly, for Romanian citizens, elaborating for this purpose the national strategy regarding immigration for the period 2007-2010 which, just as the strategy on migration, is implemented by Annual Plans of Action. By this strategy, was pursued the modernisation of the immigration management process on the national territory, for a better approach of the phenomenon in the interest of the Romanian society. At the beginning of 2011 was submitted to public debate the Draft National Strategy on Immigration for the period 2011-2014. The labour emigration phenomenon is regulated by Regulation no. 1612/68 regarding free movement of workers within the Community as a strategy regarding the circulation management of Romanian workers was not realised. In the case of Member-States of destination that do not enforce transitory measures regarding free movement of workers, is applicable the Community law in the matter, so that Romanian citizens may work in these states without requiring a labour permit. *The countries that imposed restrictions to the free movement of Romanian labour are Germany, Great Britain, Ireland, France, Austria, Belgium, Italy, the Netherlands and Malta.* In order to be able to work in these countries, Romanian workers require a labour permit. The access is realised based on the measures of domestic law applicable in the country of destination or based on bilateral agreements in the field of free movement of labour concluded by Romania with these states. The circulation of Romanian labour force in the states pertaining to the European Economic Area (Lichtenstein, Island and Norway) and in Switzerland is restricted, meaning that there is the obligation of obtaining the work and stay permit.

As result, emigration is left to the free choice of the individual and in compliance with the Community provisions in the field and the regulations regarding immigration in the host-country. Consequently, the employment policy and, respectively attractiveness and efficiency of the national labour market are the only instruments for a policy of retaining and performance employment on the national labour market. Thereby, the practice regarding Romanian labour

mobility within the EU area and in other host-countries is resumed to, possibly, bilateral agreements and communication and information instruments of the potential migrant workers about the employment and admittance conditions of immigrant workers on the labour market of the host-country.

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MARKETING

ANALYSIS OF MARKETING TOOLS AND ACTIVITIES WITHIN EDUCATIONAL SERVICES ORGANIZATIONS, IN ORDER TO INCREASE THEIR EFFICIENCY

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Romanian education, which is an important pillar for human resource forming process and the basis for economic development, suffered a lot of changes in the last decades. The main factors that have influenced the undergraduate and university training programs are the political and social-cultural ones. Educational services organizations are facing various challenges as: creating and maintaining a good institutional image, managing all types of resources efficiently, motivating the academic personnel, satisfying the community needs and supporting the public policy. The marketing tools and activities help these entities to improve the educational programs and adapt them to the individual needs of the clients, to keep under control the production costs, which are limited by the small public budget and to perform and promote these services efficiently, leading to an increased organizational performance.

The paper begins by presenting the current situation of higher education in Romania, underlining the fierce competition among the universities, the increased market potential and the financing sources. It continues by mentioning the advantages of strategic marketing planning for universities, as superior results and effectiveness, improved decision making and multiple benefits for the people involved. The paper reveals also the characteristics of segmenting and positioning on higher education market and the specific of marketing mix. Thereby, educational product is more easily adapted to customer needs when it is designed in collaboration with existing and future students, their parents, with other universities in the field or even with graduates. Students themselves can contribute to the increase the quality of their education. Price may be a factor of choice when future student chooses to pursue a university course, especially in those situations where the price does not include only the payment of annual fees for education. Distribution takes into account school location, or method of providing educational services. The educational institution can achieve a corporate identity on the market through the undertaken promotional activities.

Keywords: educational services, marketing tools, marketing activities, marketing mix, efficiency

JEL classification: M31

1. Introduction

At the beginning of the last century, higher education was considered a symbol of the privileged high-class society, but over time increasingly more young people have been able to enjoy both social and financial benefits derived from specialization in a higher education institution. The measures implemented within each state, at the central administration, regarding grants, budgets, and investment, led to the expansion of university education.

Nowadays, in Romania, within state universities, there are more than 230,000 students that study in the budgeted programs and over 250,000 students that pay for their studies, while in private universities there is learning over 350,000 students. (www.agenda.ro 2011)

On the other hand, the number of higher education institutions – according to HG 676/2007 – enrolled in an uptrend, currently acting nationally: 56 state institutions, 27 accredited private institutions, 21 private institutions authorized to function temporarily and 5 private institutions authorized to work temporarily in the accreditation process (Romanian Ministry of Education, Research, Youth and Sport). The number of universities is currently much higher than the existing higher education institutions in the year 1989 (46 universities, most of them were institutes of technology in the field of mining, oil, mechanics).

This significant increase of the students' market potential over the past 20 years, and the increasing competition among universities, will cause educational service providers to use effective measures to attract more students. A further reason is related to Romanian higher education funding, which is made from the budget of the Ministry of Education, Research, Youth and Sports, at the proposal of National Council on Higher Education Funding. The two components of funding are core funding (faculty expenses paid on the principle of student numbers, forms of education within a profile and quality of education) and additional funding (for social spending). Other fundamental principles underlying the formulation of proposals for funding are: the strategic development priorities of higher education and the basic principle that "resources should follow students". (Romanian National Council for Higher Education Financing)

Challenging the fierce competition, expressed by other public or private universities, attracting a certain segment of students (large or select), and obtaining substantial funds from the state budget and other private sector sources are goals of the higher education institution. These goals are met successfully only by understanding the marketing concept and the need to adopt it within educational services units.

As noted in the specialty literature, marketing is needed in public service organizations, because it leads not only to more efficient public services, but also to customer focused services (Mitchell 2005). In addition, market orientation can lead also to an increased performance and there are studies whose results confirm a positive relationship between market orientation and overall performance of public services organizations (Caruana et al. 1998; Cervera et al. 2001; Kara et al. 2004).

2. Advantages of strategic marketing planning for universities

First of all, in order to be market-oriented, the universities should analyze their past and current actions, review their mission and decide what activities should be conducted in the future. To achieve this goal is necessary to identify the strengths and weaknesses of their own demarches, as well as opportunities and threats that educational organizations may face at a time. Given the mission of the university, individual customer needs and the experience of other competitors, the next step is regarding the decision on developing various activities, reducing or eliminating certain services representing parts of its educational offer.

After completing these steps, there should be a formulation of action strategies. Implementing marketing strategies in universities should consider the image and position of the organization among the target audience, identifying the best ways to communicate with different market segments (especially potential clients) and a realignment of marketing mix components.

Following these steps consciously, consistently and continuously leads to an efficient implementation of a classic tool of the management-marketing literature, namely strategic marketing plan.

The stages of marketing plan can be found in a precarious form even in the writings of Sun Tzu, who says: "To evaluate the outcome of a war, there should be compared the conditions of the opposing armies in the light of five constant factors - moral influence, weather, terrain, commander and the doctrine. These five constant factors should be familiar to any general. Who owns them, wins, who does not master them is defeated." (Michaelson 2007: 22). It can be made an analogy between the five factors listed above and the company's mission, external marketing environment, market, marketing manager and guiding principles.

Currently, the strategic marketing plan has the following stages established: a mission, the financial summary, a market overview, SWOT analysis, assumptions established, marketing goals and optimal strategies, resources allocation, with details of time, responsibilities and costs, but also forecasts and budgets .(McDonald 2002)

There are studies that examine the relationship between strategic marketing planning and financial non-financial, or corporate performance, (Rudd, Greenley, Beatson and Lings 2008; Andersen 2000), and marketing capabilities that are necessary to increase the performance (Phillips, Davies and Moutinho 2001).

Also, research shows a direct correlation between qualitative strategic planning and superior institutional performance (Oliver 2007: 16). Decisive and significant evidence confirm that firms, which have assimilated marketing planning gain superior results compared to those, which haven't been oriented towards this kind of planning (Pop 2000: 191).

Moreover, according to Bryson (2004), strategic planning has taken off within the public sector, bringing numerous benefits, including: (1) promotion of strategic thinking, acting, and learning; (2) improved decision making; (3) enhanced organizational effectiveness; (4) enhanced effectiveness of broader societal systems; (5) benefit the people involved.

3. Segmenting and positioning on higher education market

In higher education field, as in private sector, the identification of market segments, whose needs must be satisfied, is a basic step, specific to any marketing activity. The argument that supports the process of segmentation is a simple one. More precisely, people are different one from another and they also have different needs, and any university in the private or public sector should consider this.

In Romania, there is still a mass marketing in educational field that is characterized by lower costs, easiness in implementation, but neglect the differences between consumers' needs and preferences. It is therefore recommended that universities identify both the relevant segmentation criteria such as customer preferences for an education form (in campus or distance learning), customers' income or education level, and those viable market segments, which are homogeneous groups of consumers whose needs are to meet. The segmentation is followed by targeting, positioning and marketing mix development for each target market concerned.

An efficient positioning will lead to the formation of a favorable image.

Future students, as potential consumers can choose an educational institution taking into account only the image. The image can be changed or enhanced by creating a distinct identity. Positioning regards the differentiation of an educational institution's offer from other possible alternatives on the market. By determining the causes of attraction or rejection of an institution by its clients, can be determined its position in the market, can be explored and identified the best positioning methods and can be outlined several strategies in order to reach this position.

If the university is characterized by well-trained teachers or exclusive study conditions, it is possible that some private companies to propose their association with the image of the educational institution concerned. The consequences of this combination can be advantageous for both partners. Thus, the university can attract sponsorships and can provide attractive practical stages for students, while the private company has a positive image, differentiating from its competitors, due to involvement in the community life and in the professional education of youth. In fact, according to research conducted in 2007, most Romanian considers that among the most important things for an educational service unit to be considered good are: good teachers (72.1%), school facilities (37.0%), prestige, reputation, tradition (16.9%), and quality of school management (16.9%). And for a professor to be considered good, the most important is to be well prepared (68.6% of respondents) and a good teacher (39.2%), but also have moral qualities (25.6%), and to maintain good relations with students (23.3%). (Direction for Governmental Strategies 2007)

In addition, results of research conducted among students or doctoral students may be a factor influencing the decisions made in schools and universities, in the public or private sector. For example, only 13% of the 1,101 students of state universities in Romania, respectively 13.4% of the 1102 students of private universities in Romania consider that the Romanian education is

better than the West one and only 12.5% of the first sample, and 16.7% of the second believe that what is taught in Romanian universities is useful for them in life. (Direction for Governmental Strategies 2008)

4. Higher education marketing mix

Marketing mix consists of four components: product, price, distribution and promotion. If the mission was clearly defined, then this will influence the marketing mix elements. Also it will help create a balance between all four components and a course of development for each. The development of an effective marketing mix is basing on a market research. The need for a marketing research is justified by the rapid changes that are recorded in the demographic and economic environment in Romania.

a) Product

Educational product is more easily adapted to customer needs when it is designed in collaboration with existing and future students, their parents, with other universities in the field or even with graduates. Students themselves can contribute to the increase the quality of their education.

Higher education offer, as other types of services, includes three elements. Basic services are those that assure the transfer of information from its owner (the teacher) to the customer (the student) and are conducted during classes and seminars. Secretarial services, which involve the enrollment of students in the academic year, establishment of program and working groups and the release of diplomas and certificates are auxiliary services, while accommodation and catering services provided by the university are supplementary services.

In order to sustain and adopt a product strategy, universities, as tangible goods providers, take into account three essential strategic elements: (1) the quality of the educational program, (2) the degree of renewal of the education service and (3) range size and structure.

Universities' strategic decisions can be affected by limited financial resources whose use must be reflected in tangible results, as the performance indicators. Thus, a state university whose offer is no longer found in the preferences of high school graduates or among employers' requirements can not allow funding marketing research to identify the main customer segments and their psychosocial characteristics. Moreover, if the manager lacks the marketing vision, he will consider these costs unnecessary, because from his point of view there are other pressing responsibilities to be carried out successfully, such as providing the academics standards and a modern and pleasant working environment.

Therefore, due to these considerations, there is likely that the educational offer to include within undergraduate or master programs some disciplines that can be overcome in terms of information value, without assuring graduates a good training in a specific field, or a well-paid job. This is why the universities can lose their clients or damage the organizational image.

There can be noticed that the four causes of a poor-quality service (Zeithaml, Parasuraman and Berry 1990) can be found in the field of education, too: (a) poor knowledge of customers' needs and aspirations, (b) establishment of inappropriate quality standards, (c) employees' insufficient training and/or lack of motivation, (d) the difference between organization's promises on the service provision and what it really offers.

b) Price

Price may be a factor of choice when future student chooses to pursue a university course. The price includes not only the payment of annual fees for education, but also includes accommodation and food costs, especially if students come from another city than where is located the faculty, but also costs related to transportation or telephone conversations with parents. There should not be neglected the emotional and psychological costs, as the price paid by a student for being away from home and family, nor the constant effort required to achieve satisfactory academic results.

The total price can be reduced by obtaining financial aid as scholarships, sponsorships, potential earnings during internships or by reducing the courses length, as these take place intensively.

c) Distribution

Distribution takes into account school location, or method of providing educational services. In light of demographic change, the educational institution must adapt their offer on the continuously changing needs of clients. Sometimes there are necessary the distance-learning programs that offer two advantages: students can deepen the information at their own pace and in addition, they have sufficient time to enable them to carry other activities.

Also, regional education centers meet the needs of those customers who would like to attend a university, but are restricted by the inability to leave their current job in another city, because this can be their main source of income.

d) Promotion

The educational institution can achieve a corporate identity on the market through the undertaken promotional activities. The organization must inform its customers about all the activities it carries and the portfolio of goods and services it offers. This communication consists both of promotional and continuous demarches. At a high level of importance stand the university's logo and architecture, which can create for the educational provider an exclusive image and help it to differentiate from its competitors.

Information that institution wishes to transmit to its future students may take the form of brochures or leaflets distributed in schools and high schools, posters placed on campus, high-traffic spaces, or can be shared on the official website of the institution. The public relations can not be neglected, taking into account that this technique is recording an upward trend in all marketing communication. Alumni organizations can be effective also, but their influence on the university image shows on long term.

All elements of the marketing mix are interrelated. The quality of an educational program that is effectively promoted can attract a larger number of customers. The university's location and quality of educational services influence the price level. It is very important for a university to establish the price level low enough to attract a large number of students, but high enough not to sacrifice the quality of the product, or give rise to a negative image of the institution. It is also essential to know the needs of current students, but also of the future ones, so the university to adjust its marketing-mix in order to provide them an attractive educational package.

5. Conclusions

Addressing a proper marketing orientation, higher education institutions will seek to better understand the needs and wishes of the people they serve and also seek to develop services to suit their needs best. In addition, it should be noted that actions of these organizations have an impact on their image, on their ability to attract new customers and at least to maintain if not to improve the existing customers' satisfaction level, on building loyalty and attracting the volunteer donors.

Moreover, it can be said that the role of marketing is to create a link between communities and educational units through a system of mutually advantageous relations. To maintain these advantages, the universities must use instruments to collect and analyze data, so to conduct marketing research, to follow the right steps in choosing the target market, and through marketing strategies to adapt the educational offer according to potential students' needs and preferences.

Efficient training means the greatest amount of learning for the least expenditure of time, money and effort (Waheed, Mansor and Ismail 2011: 37). This is why the universities in Romania need to control the budget, to coordinate all marketing activities and to be coherent and consistent in all their actions. Thus, they can integrate all efforts in a strategic marketing planning process, and ultimately achieving economic efficiency and organizational performance.

A future research direction may result in a comparison of universities in Romania, in terms of efficiency using Data Envelopment Analysis.

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PREPAID TELECOM CUSTOMERS SEGMENTATION USING THE K-MEAN ALGORITHM

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The scope of relationship marketing is to retain customers and win their loyalty. This can be achieved if the companies' products and services are developed and sold considering customers' demands. Fulfilling customers' demands, taken as the starting point of relationship marketing, can be obtained by acknowledging that the customers' needs and wishes are heterogeneous. The segmentation of the customers' base allows operators to overcome this because it illustrates the whole heterogeneous market as the sum of smaller homogeneous markets. The concept of segmentation relies on the high probability of persons grouped into segments based on common demands and behaviours to have a similar response to marketing strategies. This article focuses on the segmentation of a telecom customer base according to specific and noticeable criteria of a certain service. Although the segmentation concept is widely approached in professional literature, articles on the segmentation of a telecom customer base are very scarce, due to the strategic nature of this information. Market segmentation is carried out based on how customers spent their money on credit recharging, on making calls, on sending SMS and on Internet navigation. The method used for customer segmentation is the K-mean cluster analysis. To assess the internal cohesion of the clusters we employed the average sum of squares error indicator, and to determine the differences among the clusters we used the ANOVA and the post-hoc Tukey tests. The analyses revealed seven customer segments with different features and behaviours. The results enable the telecom company to conceive marketing strategies and planning which lead to better understanding of its customers' needs and ultimately to a more efficient relationship with the subscribers and enhanced customer satisfaction. At the same time, the results enable the description and characterization of expenditure patterns for services that are continuously growing. Also, the study demonstrates this analysis model is efficient for a large customer base. Keywords: market segmentation, profiling segments, telecommunication services, k-mean cluster, relationship marketing.

Cod JEL: M31

1. Introduction

Companies now face severe competition in a highly dynamic and unstable marketing environment. In order to be successful and hold a leading place on the market, they have to provide quality service and respond to changes in their customers' needs, wishes, characteristics and behaviours. Thus, instead of looking at the customer base as homogenous and engage all customers in the same campaigns or marketing incentives, companies should approach customers differently, depending on their needs, characteristics and behaviours (Bose& Chen, 2010:197).

Given the severe competition and the highly dynamic environment, companies can no longer afford to simply attract new customers. They must place the same importance on strategies focused on retaining customers and bringing back former subscribers, rather than focusing on increasing their market share. Most of the times, retention and increasing the clients' profitability rates are equally important and easier to achieve than attracting new customers from the competition (Tsiptsis& Chorianopoulos, 2009: 291). To develop a proper relationship with the

subscribers, telecom operators need to implement and apply the principles of customer relationship management.

Introducing CRM enables operators to customize products, services and communication, to create and offer higher customer value, increase customer loyalty, improve business stability with higher customer retention rates and create value, boost sales and reduce the number of dissatisfied clients (Diller, 2000: 32; Bruhn, 2001: 117).

Relationship marketing focuses on identifying the customers most suitable and profitable for developing long term, mutually beneficial relationships (Niarn and Bottomley, 2003:243). Segmentation is an extremely important marketing concept because it is needed, together with better understanding of customers' needs, in order to improve the relationship with existing customers (Storbacka, 1997:480).

2. Literature review

Mobile operators' activity consists of gathering and managing a large amount of information and data. Thus, millions of people, in millions of places can perform tens or hundreds of transactions in a short period resulting in billions of events to be recorded. In order to handle such an enormous quantity of data, special analyses methods need to be involved. These have appeared and grown at the same pace with the information technology (Foss and Stone, 2001: 67).

Market segmentation is a fundamental component in the companies' strategic marketing planning in industrialized countries because goods and services can no longer be produced and retailed without taking into consideration the customers' needs and wishes and the fact that they differ (Wedel and Kamacura, 2000:3). The segmentation concept relies on the fact that it is more likely for persons grouped according to common behaviours and needs to have a homogenous response to marketing actions (Dibb 1999:108).

Market segmentation refers to the process of splitting current or potential customers into several groups both as homogenous as possible and as heterogeneous among themselves (McDonalds & Dunbar, 2004: 34; Paina & Pop, 1998: 103; Wedel and Kamacura 2000:3). The perspective of segmentation being just an organizational tool is shallow because it bears both strategic and tactical marketing implications. Strategically speaking, segmentation allows the identification of profitable customers, the stabilization of market decisions and market segments and placing the product or service on the market. At operational level it drives the companies to lay more stress on enhanced customer understanding to develop more efficient relations with them (Dibb, 2001:195; Storbacka, 1997:485).

The benefits of market segmentation for a company include: better customer understanding, identification of the most attractive consumer segments, efficient prioritisation of resources, proper positioning of product and market services both for the customer and against the competition, conception of personalised campaigns and incentives, selection of the best performing distribution channels, winning competitive edges after customization of products and services and creating value offers and making the most of market opportunities (Dibb&Simkin, 2010: 113; Kiang et al., 2006: 36; Feldman, 2006: 24; Tsiptsis&Chorianopoulos, 2009: 190).

The studies (Young, Oti and Feigin 1978:411, Dibb 2001:196; McDonalds and Dumbar 2004:431) prove that although segmentation brings benefits, marketers can also face difficulties when putting theory into practice: increased costs for marketing actions as compared to the previous market approach, obtaining reduced segments or mobile segments, segments that against their common features have different consumption behaviours, difficult implementation of marketing actions.

CRM segmentation has become more efficient in the recent years due to the development of database marketing techniques. Profiling techniques provide marketers with superior tools for customer segmentation and adaptation of marketing strategies to the specific needs of each consumer segment (McCarty&Hastak, 2007: 656).

In general, in order to perform customer segmentation, companies use criteria that relate to geographical, demographical, psycho-graphical, socio-economic, behavioural characteristics and psychological attitudes toward the respective product or service (McDonalds and Dunbar 2004:35-37, Kotler and Keller 2006:247; Tsipsis and Corianopoulos 2009:191-193). Most companies use segmentation based on demographics. In the case of markets that feature high competition, such as the telecom market, this approach is not enough. These companies also need to consider the information related to the customers' needs, consumer behaviour, service or payment preferences, perception of product, probability of leaving the network, growth potential and customer migration. To become subject to segmentation, a market needs to be heterogeneous (Dibb and Simkin 2010:115). Segmentation criteria need to fulfil the following conditions (Paina and Pop, 1998:106; Dibb 1999:108; Kotler and Keller 2006:248; Tonks 2009:345):

- Segments will be measurable so that the size, buying power and other characteristics can be quantified and determined;
- Segments will be substantial and have a potential for profit so that they justify the creation of special later created marketing programs;
- Segments are homogenous, each being distinct in terms of clients' profiles and needs;
- Segments are accessible and differentiable so that they can be differently approached marketing-wise;
- Segments enable action, namely they allow the formulation of efficient programs to attract and serve customers;
- Market segments are stable; they preserve their characteristics for a longer period;
- Market segments are compatible with the organisation's mission, culture and structure, with the marketing strategy, with the existing resources.

According to Bayer (2010: 248) mobile operators use basically the following segmentation types: subscriber value-based segmentation, subscriber behaviour-based segmentation, subscriber lifecycle-based segmentation and subscriber (possible) migration-based segmentation. They are used for different situations and focus on different aspects.

3. Consumption-based segmentation

This study was carried out on natural persons who are prepaid subscribers. These people do not have a contractual relation with the telecom carrier and they buy credit in advance. They receive no bill and pay for services before actually using them. This survey was carried out on 76,753 prepaid subscribers. Usage data refers to last year's second semester. The analysis excluded the people who failed to recharge within the past three months of 2011 and did not spend anything on calls, SMS or Internet in three months.

This analysis will identify the subscribers' profiles in the overall population and determine the efficiency of the K-mean cluster analysis in the case of high data volumes. Since extracting the profiles within a population presupposes learning unknown information, the definition of hypotheses is not possible (Foss and Stone 2001:84).

We continue by presenting the classification of subscribers into several categories using the following variables: the sum of the amounts recharged in 6 months, the value of the SMS sent within the 6 months, the Internet traffic value in the 6 months and the value of calls made in the 6 months.

To group subscribers into segments we used SPSS, the K-Mean Cluster non-hierarchical method. This algorithm follows the segmentation of the populations so that the variation inside the clusters will be down to a minimum. This analysis pursues the grouping of subscribers into various segments based on their behavioural values (recharge values, call values, SMS expenditure and Internet expenditure). The ANOVA analysis revealed the following order in the case of the factors' contribution to the splitting of the population into groups: recharge value, call

value, Internet expenditure and sent SMS value. The value of Sig. is smaller than 0.05 thereby results are significant.

The data was submitted to the logarithm to reduce the differences among values, and the values were standardised.

To examine and assess the solution of the segmentation analysis we took the following aspects into account: the number of segments and the size of each segment, the clusters' cohesion and the differences among clusters (Tsiptsis and Chorianopoulos, 2009). After the analysis (the internal homogeneity of the groups resulted and the distances among the groups) and considering the practical aspects (increasing the size of the segments, so they can be substantial, and the number of consumer groups that can be managed by the mobile operator) we concluded that the analysed population should be split into seven segments. The analyses revealed the absence of a dominant segment which would require the analysis of another segmentation of the population. In addition, no segment is too small, so no separate analysis is required.

To assess the quality of the cohesion of the clusters we analysed, for each cluster, the maximum (Euclidean) distance to the central values begot the first reduced values. Moreover, to determine the distance between the members of every cluster and the cluster's central value, we calculated the Average sum of squares error indicator, obtaining a value of 0.9820 which indicates high cohesion.

To determine the differences between the clusters we used the ANOVA test, which indicated the significant differences (at a 0.000 significance level) among groups in the case of each variable taken into consideration. The Tukey post-hoc test confirmed (at a 0.000 significance level) that the averages of the four variables differ significantly in the case of the seven clusters.

The following segments were identified inside the population:

Cluster 1. This cluster consists of 12,366 people and includes subscribers with a small recharge value. On average, these subscribers recharged by 92.06 monetary units (m.u.) in the past 6 months. These subscribers feature credit used for making calls, then to connect to the Internet and then to send SMS. In absolute value, they used 38.76 m.u. for calls, 26.87 m.u. for Internet and 4.31 m.u. for SMS. In percentage, of the spent (recharged) value, they spent 55.42 % (42.10%) on calls, 38.42% (29.19%) on data and 6.16 % (4.68%) on SMS.

Compared to the entire population's average values, subscribers in this cluster spent 25.62% less on calls, 43.68% less on SMS and 54.48% less on their Internet connection. These consumers are comfortable surfing the web and communicating at ease. Against the population's average, they consume (recharge) by 43.67% (50.26%) less. These subscribers used 75.98% of the recharge on the three services.

Cluster 2. This cluster consists of 8,209 people and includes subscribers with small to average recharge values. On average, these subscribers recharged 123.14 monetary units in the past 6 months. They use the credit to make calls and send SMS, and have no interest in Internet. In absolute value, they spent 67.32 m.u. on calls, 17.22 m.u. on SMS and 0.59 m.u. on Internet. Percentage-wise, of the recharge value they spent 79.08% (67.32%) on calls, 20.23% (13.99%) on SMS and 0.69% (0.47%) on the Internet.

Compared to the average values for the entire population, subscribers in this cluster spend 29.19% more on calls, 41.55% less on SMS and 99% less on Internet surfing. These clusters indicate the subscribers' preference for traditional phone services and reluctance to use the handset to surf the web. Compared to the population's average, their recharge value is 39.46% (24.65%) smaller. These subscribers used 69.14% of the recharge on the three services.

Cluster 3. This cluster consists of 11,389 people and includes subscribers with the greatest recharge value. On average, these subscribers' recharge value in the past six months is 403.24 m.u. They use the credit on all mobile phone services. In absolute value, they consumed 165.86 m.u. on calls, 83.89 m.u. on SMS and 107.31 m.u. on Internet. Namely, of the entire recharge the calls took 46.45% (41.13%), the SMS 23.49% (20.80%) and the Internet 30.06% (26.61%).

Compared to the average values for the entire population, subscribers in this cluster spend 218.29% more on calls, 184.74% more on SMS and 81.77% more on Internet. Referring to the structure of the population, although the subscribers in this cluster use all services, they tend to employ traditional services: voice and SMS. Compared to the population's average, they recharge 153.94% (146.75%) more. These subscribers spent 88.54% of the recharge value.

Cluster 4. This cluster consists of 20,816 people and includes subscribers with an average recharge value. On average, these subscribers' recharge value in the past 6 months was 166.14 monetary units. These subscribers use the credit to connect to the Internet, then to talk and then to send SMS. In absolute value, they spent 61.30 m.u. on Internet, 44.87 m.u. on calls and 38.28 m.u. on SMS. Percentage-wise, they allotted 42.44% (36.90%) of the recharge value on the internet, 31.07% (27.01%) on calls and 26.50% (23.04%) on SMS.

Compared to the average values for the entire population, subscribers in this cluster spend 13.88% less on calls, 29.90% more on SMS and 3.83% more on connecting to the Internet. This cluster indicates the subscribers' high preference for voice communication. They recharge 2.73% (1.67%) more than the average population. These subscribers only spent 86.94% of the recharge value.

Cluster 5. This cluster consists of 13,227 people and includes subscribers with small to medium recharge value. On average, these subscribers' recharge in the past 6 months reached 134.51 monetary units. They use their credit to surf the web, then to send SMS and only last to initiate calls. In absolute value, they used 97.62 m.u. on Internet, 22.30 m.u. on SMS and 8.50 m.u. on calls. In per cent, the Internet used 76.03% (72.57%) of their recharge value, SMS used 17.37% (16.58%) and calls 6.60% (6.30%).

Compared to the average values for the entire population, subscribers in this cluster spend 83.73% less on calls, 24.31% less on SMS and 65.34% more on the Internet. This cluster indicates higher preference on written rather than verbal communication. Compared to the population average, their recharge value is 8.69% (17.69%) smaller. These subscribers spent 95.46% of the recharge value.

Cluster 6. This cluster consists of 4,864 people and includes subscribers with the smallest recharge value. On average, these subscribers' recharge value was 18.38 monetary units in 6 months. These subscribers use their credit to connect to the Internet, then on voice services and ultimately for SMS. In absolute value, they used 4.72 m.u. on Internet, 4.33 m.u. on calls and 1.64 m.u. on SMS. Of the recharge value, they used 40.5% (25.68%) on internet, 44.13% (23.56%) on calls and 15.37% (8.94%) on SMS.

Compared to the average values for the entire population, subscribers in this cluster spend 91.69% less on calls, 94.42% less on SMS and 92.01% less on the Internet. This segment is the least attractive for the company since it includes people who spend little money on mobile services and are careful not to exceed their recharge value. Compared to the population average, their recharge value is 92.40% (88.75%) less. These subscribers only spent 58.18% of the recharge value.

Cluster 7. It consists of 5,882 people and includes subscribers with a small recharge value. On average, these subscribers recharged 80.61 monetary units in the past 6 months. These subscribers use the credit for Internet and show a complete lack of interest for other services. In absolute value, they used 64.93 m.u. on Internet, 1.98 m.u. on SMS and 1.92 m.u. on calls. In per cent, the Internet consumed 94.33% (80.55%) of their credit, SMS 2.87% (2.45%) and calls 2.80% (2.38%).

Compared to the average values for the entire population, subscribers in this cluster spend 96.31% less on calls, 93.3% less on SMS and 9.97% more on connecting to the Internet. This cluster indicates very high preference for the Internet. Compared to the population average, their recharge value is 51.05% (50.67%) less. These subscribers spent 85.38% of the recharge.

4. Conclusions

The study pursued the applicability of the K-mean cluster method to provide business intelligence. The method employed proved its efficiency in processing large data volumes leading to obtaining consumer segments featuring high internal homogeneity of the segments and high heterogeneity among segments.

The hereby study also has several managerial implications. An obvious conclusion of the segmentation analysis is the fact that most subscribers use their credit for certain purposes. The fact that most prepaid cards owners focus on certain types of services only indicates that the respective market is not mature. Only subscribers in the 3rd and 4th clusters use their credit for all types of services. Analyses indicate that in six months 19.9% of the subscribers spent less than six monetary units on calls, 33.3% spent less than 6 monetary for SMS and 23.6% spent below 3 monetary units to connect to the Internet. Therefore, marketing activities must be conceived to encourage subscribers in the rest of the segments to use their handsets for all types of services provided by the mobile network operator.

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ATTENDING LIVE PERFORMING ARTS EXPERIENCES. WHY AND HOW IS THE DECISION TAKEN?

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Across the last years, researchers around the world have shown a greater inclination towards the arts marketing, acknowledging its importance for the well being of arts organizations. Researches have been conducted for all kind of subjects trying to understand better both phenomena: the audience and the provider. However, these studies have their own particularities as they refer to certain cultures. Therefore, we need to look into our own yard and see whether or not such interests have been raised. Unfortunately, researches conducted in this area, in Romania, are very few. That is why the knowledge regarding the live performing arts audience is actually non-existent and from this fact comes the need of discovering more about this unknown. This paper attempts to make one of the first steps in this direction by exploring the audience's motivations to attend live performing arts events and, moreover, the buying decision process. Why do audiences choose to attend live performing arts events? How they decide for it? Which are the sources of information they use? What makes a live performing arts event be a pleasant experience? Or rather an unpleasant one? These are all questions to which this paper provides answers. The way the author have chosen to answer these matters is by conducting a qualitative research that has the aim to explore the universe of this subject and to denote insights for a better understanding. The best method was considered to be the focus group for its advantage of bringing together people who have something in common – namely their frequency in live performing arts events, and facilitate communication between them in order to discover the needed information. Thus, it has been discovered that audiences' motivations are mainly related to social and esteem needs, that is to say people attend these kind of events from their desire to spend their time in a pleasant manner with the people they like or because attending is „trendy” and makes one look more like a cultivated person. However, their motivations are second by the sources of information they use, namely personal sources (e.g. family or friends) because they seem to be more trustful than others, as well as experiential sources, meaning consumer's own experience that makes him a true expert in choosing. Whatever they have chosen, the live performing arts event may or may not raise their expectations. The reasons for this stand both in the performance itself and the audiences' behavior. In conclusion, this paper aims to encourage the further discovery of the performing arts sector from the marketing perspective.

Keywords: arts marketing, arts consumer, motivation, buying decision process

JEL Classification: M31

I. Introduction

Marketing is a social and managerial process through which individuals and groups obtain the things they need and want, by creating and trading products and value with other groups or individuals (Kotler and Armstrong 2005: 6). Unlike the general perception, marketing can be and is, indeed, applied in a variety of sectors, including the arts; although, at a first view, there seems to be an incompatibility between the two concepts.

Marketing, as it relates to the arts, is not about intimidation or coercion or abandoning an artistic vision. It is not hard selling or deceptive advertising. It is a sound, effective technology for creating exchanges and influencing behavior that, when properly applied, must be beneficial to both parties involved in the exchange (Kotler and Scheff 1997: 30). Therefore, it is common sense to assume that the arts sector is subject to market research. And this is the premise from which this paper starts.

The paper attempts to demonstrate the importance of studying audiences' behavior in the arts sector, namely live performing arts. According to the Ministry of Culture and National Patrimony and National Institute of Statistics, live performing arts category consists of: drama theatres, opera houses, musical comedy and variety theatres, philharmonic and symphonic orchestras, ballet and contemporary dance. The importance of studying the audience of these arts resides in the arts organizations' need of knowing to whom they address to and how should they do this. Moreover, the paper attempts to explore the universe of such an audience and reveal profound insights regarding it.

The main goal of the conducted research is to uncover the in-depth motivations that drive the audience to attend live performing arts events and zoom the entire buying decision process. Therefore, the research aims to answer to questions such as: Where does the audience get the information regarding live performing arts shows? How do they choose it? Which are the aspects taken into consideration when choosing? What makes a live performance be great? What makes a live performance be the worst ever seen?

II. Literature review

Research on audience participation in the arts can be traced back to 1966 in the field of cultural economics. Since that time, many researchers have sought to identify various reasons for participation in the arts, in an attempt to inform arts management and education (Turrini 2006: 44).

Nowadays, this range of reasons is as complex as the definition of „audience” is. The term „audience” can take on a variety of meanings in a variety of contexts – audiences as arts receptors, as stakeholders or as customers (Hill, O’Sullivan and O’Sullivan 2008: 36).

From the „arts receptors” point of view, an audience consists simply of those who experience art. However, from a marketing perspective, this definition is of limited value as it excludes the notion of intention. Still, it may be useful in considering the audience for public art. Public art, such as a sculpture in the centre of the city, may or may not be actively sought by those who see it. It may simply be an expression by the artist which exists in people’s lives, therefore making them members of its audience even in the absence of any intention on their part to view it (Hill, O’Sullivan and O’Sullivan 2008: 37). An audience can also be thought of as comprising all those with whom an individual or organization has some form of communication (audiences as stakeholders). For an arts organization, this may include all those who support the arts in any way or who have an interest in their development (Hill, O’Sullivan and O’Sullivan 2008: 37). However, it is the audience as customers that please best the marketers. According to this approach, the audience is seen as being involved in a transaction with an artist or arts organization. This means that people make choices about the art forms and events that they wish to be involved with and are willing to offer something in return for that participation (Hill, O’Sullivan and O’Sullivan 2008: 37).

So, how people make choices and what are they influenced by?

First of all, audience’s behavior is influenced by five major factors: macroenvironmental trends, cultural factors, social factors, psychological factors and personal factors (Kotler and Scheff 1997: 68). Macroenvironmental trends including social, political, economic and technological forces influence our attitudes, our values, our important decisions (education, career and job choices, investment decisions), and our day-to-day decisions (including how to spend our leisure time). Of the several groups of factors that affect audience behavior, it is the cultural factors – from national identity to membership in small social groups – that exert the broadest and deepest influence. A growing child acquires a set of values, perceptions, preferences and behaviors through the process of socialization into his/her culture(s). Social factors such as reference groups, family, social roles and status affect a consumer’s mind-set and behavior. For instance, reference groups refer to informal primary groups such as family, friends, neighbors, but also to

more formal secondary groups such as religious and professional groups. Within these groups the involvement and attendance patterns are highly influential. Still, people are also influenced by groups they do not belong to. Someone aspiring to be a member of the board of trustees of the local opera society may make large donations and attend special events to cultivate acceptance by the group's members. Psychological factors such as personality traits, self-concept issues and emotions also affect people's attitudes and behavior. For example, personality may be described in terms of self-confidence, dominance, autonomy, deference, sociability and adaptability. Cultural innovators and opinion leaders are likely to be more self-confident, dominant and autonomous than the less innovative people, who may be more deferential and more interested in the social benefits of arts attendance (Kotler and Scheff 1997: 68-81).

Motivation is also a psychological factor, directly correlated with the concept of „need“. In order to understand what needs are, it is vital to refer to Maslow's Hierarchy of Human Needs and its five steps of needs (Fig. nr. 1).

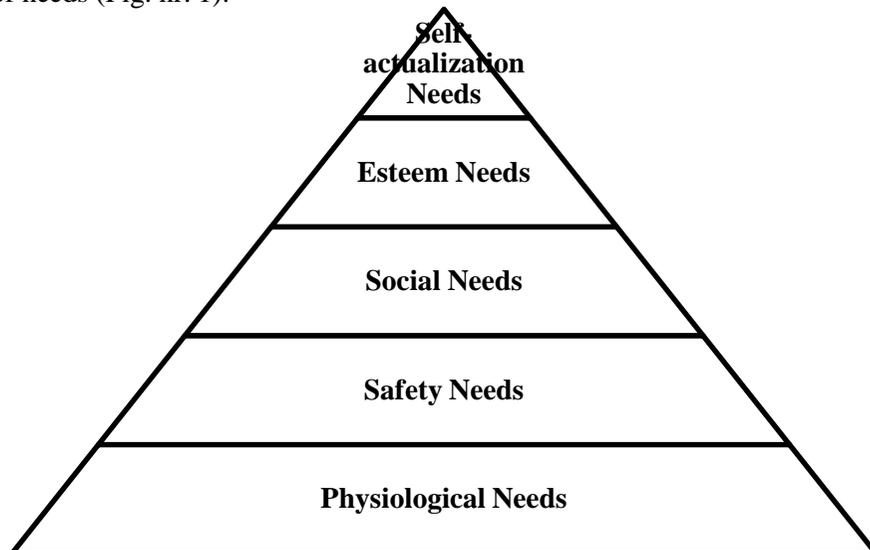


Fig. nr. 1. Maslow's Hierarchy of Human Needs

Source: Processed after (Maslow 1987: 16-22)

Physiological needs (breathing, food, water, sex, sleep, homeostasis, excretion) are the most prepotent of all needs. This means that in the human being who is missing everything in life in an extreme fashion, it is most likely that the major motivation would be the physiological needs rather than any others. A person who is lacking food, safety, love and esteem would most probably hunger for food more strongly than anything else. If all these needs are unsatisfied and the organism is then dominated by physiological needs, all other needs may become simply nonexistent or be pushed into the background (Maslow 1987: 16).

If the physiological needs are relatively well gratified, there then emerges a new set of needs, the safety needs. These include security, stability, dependency, protection, freedom from fear, anxiety and chaos, need for structure, order, law and limits, strength in the protector, etc. The organism may be equally wholly dominated by them. They may serve as the almost exclusive organizers of behavior, recruiting all the capacities of the organism in their services (Maslow 1987: 18).

If both the physiological and the safety needs are fairly well gratified, there will emerge the love and affection and belongingness needs (social needs), and the whole cycle will repeat itself with this new center. The love needs involve giving and receiving affection. When they are unsatisfied, a person will feel keenly the absence of friends, mate or children. Such a person will

hunger for relations with people in general – for a place in the group or the family – and will strive with great intensity to achieve this goal. Attaining such a place will matter more than anything else in the world and he or she may even forget that once, when hunger was foremost, love seemed unreal, unnecessary and unimportant. Now the pangs of loneliness, ostracism, rejection, friendlessness and rootlessness are preminent (Maslow 1987: 20).

Regarding the esteem needs, all the people from our society have a need or desire for a stable, firmly based, usually high evaluation of themselves, for self-respect or self-esteem, and for esteem of others. These needs may therefore be classified into two subsidiary sets. First, it is the desire for strength, achievement, adequacy, mastery and competence, confidence in the face of the world, and independence and freedom. Second, it is the desire for reputation or prestige (defining it as respect or esteem from other people), status, fame and glory, dominance, recognition, attention, importance, dignity or appreciation. Satisfaction of the self-esteem needs leads to feelings of self-confidence, worth, strength, capability and adequacy, of being useful and necessary in the world. Otherwise, they give the feeling of inferiority, weakness and helplessness (Maslow 1987: 21).

Even if all the above needs are satisfied, we may still often expect that a new discontent and restlessness will soon develop, unless the individual is doing what he or she, individually, is fitted for. Musicians must make music, artists must paint, poets must write, if they want to be ultimately at peace with themselves. What humans can be, they must be. They must be true to their own nature. And this is called self-actualization (Maslow 1987: 22).

Nonetheless, not to be forgotten, a variety of other personal characteristics (personal factors) affect a consumer's preferences and behavior. These factors include the person's occupation, economic circumstances, lifestyle and life cycle stage.

Secondly, the decision to attend a live performing arts event is the result of an elaborated process consisting of five stages (Fig. nr. 2).



Fig. nr. 2. Buying Decision Process

Source: Processed after (Kotler and Armstrong 2005: 286)

The buying process starts when the consumer recognizes a problem or need, which may be triggered by either internal or external stimuli. An internal stimulus may be a desire for an enjoyable, entertaining evening or a desire to support an organization by means of a subscription and a donation. external stimuli include advertisements and word-of-mouth recommendations from friends and colleagues. Knowing which stimuli are more relevant for consumers, may help the marketer to develop marketing strategies that trigger consumer's interest (Kotler and Scheff 1997: 86).

Still, an interested consumer is inclined to search for more information. Consumer information sources may be personal (family, friends, colleagues), commercial (advertising, posters, leaflets, etc.), public (mass-media, award-granting institutions such as „Uniter“) or experiential (based on previous experience with similar products) (Kotler and Scheff 1997: 86-87). However, consumer's selectivity in their information search depends on their ability to process the information, which can be related to experience, age or education (Guillon 2011: 34).

Nevertheless, consumers do not evaluate their alternatives only based on the collected information. The process of evaluation is influenced by the cultural, social, personal and psychological factors described above. So, the consumer sees each product as a bundle of attributes, which have varying capabilities of delivering the sought benefits and satisfying certain

needs. Consumers will differ as to which product attributes are seen as relevant or salient. One person may choose to attend a certain concert because of the symphony being performed, another because she likes a featured soloist, another because she was invited to join friends with whom she wanted to spend the evening (Kotler and Scheff 1997: 87-88).

The decision-making process in arts attendance is made more complex by the fact that the target consumer is often not an individual, but a group. Five different roles may be played by people involved in the decision process: initiator (the person who first suggests or thinks of the idea of becoming involved in a particular exchange), influencer (the person who offers or is sought out for advice), decider (the person who decides whether to take action, what action to take, how, where and when to take action), transactor (the person who completes the transaction) and consumer (who may or may not participate in the actual purchase) (Kotler and Scheff 1997: 89).

After the purchase, the final step in the process is that of the consumer performing a post-purchase evaluation. At this time, the consumer will decide whether their quality expectations have been met or even exceeded, or whether they have been disappointed with the experience (Kolb 2005: 102-103). Yet, a distinction should be drawn between a cognitive approach in which value is the outcome of a cost-benefit analysis with a view to transaction and choice (evaluation before purchase) and an affective or experiential approach in which value derives from a relative preference for the product with a view to consuming or owning the product (evaluation during and after consumption). This dichotomy between value established before purchase and value defined during or after consumption ties in with the distinction between purchase value and consumption value (Bourgeon et al 2006: 36).

III. Research methodology

As mentioned above, the aim of this research is to explore the motivations and the buying decision process related to the attendance of live performing arts events. For this, the author considers that the most appropriate manner is the qualitative research, namely the focus group; as this is considered to be the ideal place to begin understanding what products mean to consumers in their deep psyches rather than their deep pockets (Goebert and Rosenthal 2002: 3).

A focus group is a special type of group in terms of purpose, size, composition, and procedures. The purpose of a focus group is to listen and gather information. It is a way to better understand how people feel or think about an issue, product, or service. Participants are selected because they have certain characteristics in common that relate to the topic of the focus group (Krueger and Casey 2000: 4), in this case their attendance – with a certain frequency, to live performing arts events.

However, the question that is raised is: Why focus groups are a better alternative of exploring and why do they work? The answer is that the intent of the focus group is to promote self-disclosure among participants, as there is the desire to know what people really think and feel. For some individuals, self-disclosure comes easily—it is natural and comfortable. But for others, it is difficult or uncomfortable and requires trust, effort, and courage. Or disclosure may be easy in some settings but not others. Children have a natural tendency to disclose things about themselves, but through socialization they learn the value of dissemblance. Over time, the natural and spontaneous disclosures of children are modified by social pressure (Krueger and Casey 2000: 7-8).

In order to make the choice of focus group as a research method more clear, it would be useful that its main characteristics to be presented. Focus group interviews typically have five characteristics or features. These characteristics relate to the ingredients of a focus group: (1) people who (2) possess certain characteristics and (3) provide qualitative data (4) in a focused discussion (5) to help understand the topic of interest. Focus groups are typically composed of five to ten people, but the size can range from as few as four to as many as twelve. The group must be small enough for everyone to have an opportunity to share insights and yet large enough

to provide diversity of perceptions. Focus groups are composed of participants who are similar to each other in a way that is important to the researcher. The nature of this homogeneity is determined by the purpose of the study. This similarity is a basis for recruitment, and participants are typically informed of these common factors at the beginning of the discussion. The goal of a focus group is to collect data that are of interest to the researcher—typically to find the range of opinions of people across several groups. This differs from other group interactions in which the goal is to come to some conclusion at the end of a discussion—reach consensus, provide recommendations, or make decisions among alternatives. The focus group presents a more natural environment than that of an individual interview because participants are influencing and influenced by others—just as they are in life. The questions in a focus group are carefully predetermined. The questions are phrased and sequenced so they are easy to understand and logical to the participant. Most are open-ended questions. These questions appear spontaneous but are developed through considerable reflection and input. Focus groups work particularly well to determine the perceptions, feelings, and thinking of people about issues, products, services, or opportunities (Krueger and Casey 2000: 10-12).

IV. Research results

The main reasons why people attend live performing arts event are related, preponderantly, with their social and esteem needs. Attending these events is a way of relaxation, of escaping from the cotidian problems; a way of socializing and spending good-quality time with friends; a way of introspecting yourself; as well as a way of confirming one's status as an intellectual person.

The decision of attending a live performing arts event can be taken both on the spot (according to its state of mind or „appetite” for such an event) or following a buying decision process as presented below.

The need recognition is related whether to internal stimuli (mainly the reasons discussed above) or external stimuli (hearing from someone about the worth of an event or seeing an advertisement related to it), both managing to trigger consumer's interest.

When searching for information, consumers use a variety of sources. However, one of the most trustful source is the personal one, namely family, friends or acquaintances that are familiar to the performing arts sector. That is why taking a decision based on their advice it is safe and time efficient, as well. Consumers' own experience is equally important, as they are already accustomed with the process itself. Moreover, the institutions' sites – that host the event, are another reliable source of information. Still, one disadvantage could be the friendless interface of these sites that seem to make consumers more reluctant to its usage. Consumers tend to actively seek for information in free publications such as „24 FUN” or „Sapte Seri”, whether online or offline, while the passive presence of posters for these events does not seem to be appealing enough for consumers nor to drive their attention upon them.

While evaluating their alternatives, consumers pay attention to various aspects, among the most important ones seem to be: the name of the event (e.g. the name of a certain theatre play or symphony or piece of ballet), the distribution/performers (e.g. actors, musicians, dancers) and the director/conductor/choreographer. These „ingredients” tend to assure consumers of the event's quality and, therefore, certify their decision. Apart from these aspects, there others that are taken into account, although not so influential as the previously mentioned ones. The hour the event starts might persuade consumers to go or not, according to the availability of their schedule; the price that in case of lack of discounts (e.g. students, retirees) or desire for a good place in the auditorium may a demanding one, requiring certain financial resources; the way of purchasing the tickets, if consumers can't go by themselves to buy them or can't purchase them online, they find themselves in the incapability of participating to that specific event.

Furthermore, the purchase decision is rather difficult to be attributed to someone in particular, as attending live performing arts events is a „team sport”, in which everyone plays his role – one

comes with the proposal of attendance, another tries to persuade the others, another one puts the boot in and certifies the attendance, other purchases the tickets and all of them become consumers of that event.

Still, that event may or may not be a pleasant experience for consumers. A positive experience in the live performing arts, from the consumers' point of view, is a successful event. By a successful event consumers understand the following aspects: „performers gave everything they had and made me be part of that experience”, „I was very, very, very impressed after their performance”, „it made me vibrate”, „on my way home I was thinking about the message of that performance”. It seems that a successful performance has the power to change consumers' state of mind: „complete euphoria”, „it has cheered me up”, „emotional achievement”. So, a positive experience implies a communion between performers and audience, as well as a good understanding, communication and mutual respect.

Negative experiences influence profoundly consumers' next decision of attendance. By negative experiences, consumers refer to: „I almost fell asleep”, „I saw errors, abstract things or kitsch”, „a lot of kitsch”, „I did not understand which was the message”, „nothing was coherent in that performance”. In addition, a negative experience is not entirely related to the performance itself, but also to the audience's behavior such as: applause at the wrong time, cell phones ring tones, eating and drinking inside the auditorium in a manner that disturbs the rest of the audience.

Yet, it should be heard in mind that the results from above represent the conclusions of a qualitative study, meaning they are a general view over the matter brought into discussion, providing rather insights than representativeness for the cause. In order to assure the representativeness of these results, a quantitative research should be conducted. Such a research could enrich the actual results by conferring the possibility of classifying the studied aspects according to their importance from the consumer's point of view. For instance, one could know for sure which are the most powerful motivations for attendance? Which are the most relevant sources of information? Which are the most important aspects taken into consideration when evaluating alternatives? All for the sake of improving audience's experience regarding live performing arts.

V. Conclusions

As a final remark, this paper has underlined the importance of the arts marketing for the performing arts sector, as well as the usefulness of research for the same sector. The results of the conducted research are vital for any live performing arts organization who desires to know better the consumer to whom it addresses – which is the trigger for attendance and how does he choose. Such researches have been few so far, in the Romanian expertize literature. Therefore, the author hopes that this paper may be an inspiration for other researchers who want to further explore the performing arts sector from the marketing point of view.

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HOW FAR WOULD YOU GO FOR LUXURY? AN EXPLORATORY STUDY AMONG ROMANIAN FEMALE STUDENTS THAT CONSUME LUXURY

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The main purpose of the paper is to identify actions that Romanian female students consuming luxury have been taken and would be willing to take in order to obtain the desired luxury products, deepening the “compromise” dimension. Although not based on previous studies, as is the only one of its kind in the luxury domain, the study took into account the “sugar daddy” and the “extreme saving” phenomena, mentioned in few books and considered to exist among young female luxury consumers. The research is based on primary data collection, where a questionnaire-the data gathering tool-was applied among female students under 30 years, resulting 273 luxury consumers. The results that were obtained using the statistical program SPSS 19, showed that a small percent of the respondents mentioned that have made compromises to have luxury goods and services, like telling lies, engaging in relationships or have been financially supported by someone. The lack of past compromises for the other consumers is mainly due to the inconsistency between compromises and their moral and ethical standards, respectively to the low importance(desire) given to luxury. However, some of those who mentioned the previous reasons believe that in future there is a certain probability to make some compromises for luxury, especially for luxury cars, homes or clothing. In addition, many of those who have made compromises in the past are also willing to make in the future. But, in order to obtain luxury products, most consumers are willing to save or to get a job, seeing savings as a form of compromise. The authors contribution is given by the originality and uniqueness of the subject discussed, as there are no similar studies in the luxury domain both in Romania and at international level. Although the study has as a limit the use of a sample from a single city, we believe that the research is significant for the luxury sector, contributing on the one hand to outlining of the general profile of Romanian luxury consumer by identifying aspects related to consumer behavior, and secondly by identifying a new segment of Romanian luxury consumers, without high income but willing to take various actions in order to have luxury products.

Keywords: luxury consumer, consumer behavior, compromise, luxury products, luxury

JEL classification: M 31

I.Introduction

The increasing academic interest in the domain of luxury products and services (Tynan, McKechnie and Chhuon 2010: 1156-1157) had lead to a diversification of the areas approached, but nevertheless, compared to many other sectors, there are still numerous aspects that were scarcely addressed or even not at all. Due to its complex sociological and psychological nature (Pop et al. 2009: 810), luxury still doesn't have a universally accepted definition (Godey, Lagier and Pederzoli 2009: 528). One of the most complex approaches regarding the luxury's features and which allows to differentiate between luxury and other products is proposed by Ciornea et al.

(2011: 98). Bringing some additions to the model of Wiedmann, Hennings and Siebels (2007: 5), the previous mentioned authors consider that luxury is characterized by a set of values: price value, investment value, usability value, quality value, uniqueness value, heritage value, self-identity value, hedonic value, materialistic value, conspicuousness value and status value.

The paper aims to study the extent to which female students in Romania- luxury consumers, were or will be willing to take various actions in order to have luxury goods and/or services, deepening especially the problematic of the compromises. Through compromise, the authors have referred to issues such as consumers' willingness to lie, to financial fraud, to engage in different types or relationships with or without emotional involvement and even more radical actions such as having a child. Although in the luxury literature there are published researches based on samples of students, the authors haven't identified studies to address this taboo subject. We consider that the present research is especially important as the subject wasn't yet approached for any other segment of luxury consumers, either in Romania or internationally. In addition, because of the existence of a very limited number of studies on the Romanian luxury market, we believe that our study has significant consequences on outlining the profile of luxury consumers in Romania.

II. Literature review

Even though the research is not based on previous studies, as the authors haven't identified similar researches in the luxury literature, however has as a starting point issues and ideas met in few books on luxury. One of the most important issues identified in literature, is the existence of the „sugar-daddy” phenomenon among young female luxury consumers, a phenomenon that assumes to make compromises especially of sexual nature to afford/obtain something- in luxury field this means luxury goods and services (Kapferer and Bastien 2009: 19, 23; Thomas 2007: 11, 169; Chadha and Husband 2006: 48, 61-62). Even if in Asia this phenomenon is much wider, its intensity varies from a country to another, ranging from simple forms as „the simple company” up to extreme forms of „part-time prostitution” (Chadha and Husband 2006: 61). However, some authors (Leclerc-Madlala 2003: 215-218) argue that the sugar-daddy phenomenon (not associated strictly to luxury) seen as transactional sex relationships, shouldn't be identified with the prostitution, although both focus on intimate relations exchanged for money or gifts. The main distinction is that girls involved in the sugar-daddy phenomenon, don't consider themselves prostitutes, because in most cases the „transactions” occur in relationships where love, desire and pleasure are essential (Gbalajobi 2010: 2). If in the past most of the studies discussing the sugar-daddy phenomenon identified it with forms of „survival sex” (to satisfy essential needs), in the present it more motivated by consumerist desire (Leclerc-Madlala 2003: 215-216). This makes us we believe that in the luxury field the sugar-daddy phenomenon arises from the desire to satisfy needs placed on higher levels of Maslow's pyramid, such as belonging to a group (Kapferer and Bastien 2009: 19; Chadha and Husband 2006: 62), esteem and self-esteem, admiration or even self-improvement.

Another form of „sacrifice” common among luxury consumers from Asia, is „the extreme saving”, which implies a limited life-style- renting very small apartments, living with parents, reducing costs with various products even essential like food, etc. (Thomas 2007: 73-77; Chadha and Husband 2006: 61). Although the Asian countries are characterized by more pronounced behaviors in order to obtain luxury products, however we believe that the phenomena of saving and various forms of relationships are found in all countries, but the intensity varies depending on aspects as the importance played by luxury in the society, household incomes, etc. Also we believe that these behaviors are more common among young people (Chadha and Husband 2006: 61) and especially among females, thus the present research was conducted among young females under 30 years old.

III. Research methodology

The study is based on a primary data collection, using the questionnaire as a data gathering tool and face-to-face interviewing. The questionnaire had both closed and open questions, giving to our respondents the opportunity to express personal opinions and viewpoints. The ambiguity of the luxury domain required to support of each respondent through the questionnaire to avoid possible mistakes and clarify certain issues. The studied population is represented by female students from different years of study and specializations in the Faculty of Economics and Business Administration of Cluj-Napoca- one of the largest university centers in Romania. Although questionnaires were applied to a sample of 380 people, only 367 were lately validated. The questionnaires were applied only to female students, regardless if were luxury consumers or not, afterwards using as filter the responses to two questions, have been separated the luxury consumers from non-consumers. Adopting the proposal of Dubois and Laurent (1996: 470-477) regarding the existence of an „Excursionist” luxury consumer, through “luxury consumer” we will understand the person who had “consumed” at least once a luxury product or service. Considering that among the most affordable luxury products are the fashion luxury products, the respondents were initially asked to check a list of luxury fashion brands (proposed by Okonkwo 2007: 45-47); based on the list they had to check from all categories of luxuries given in the questionnaire (in total 29) those from which they “consumed” products or services at least once. Data processing was performed using the statistical program SPSS 19 and given the objectives of the research and the nature of the variables wanted to be discussed, the main analyzes used were frequencies and Chi Square Test with the Contingency Coefficient.

IV. Research findings

In the present paper, the authors didn't focused on testing hypothesis, but rather on the identification of past and future actions of the luxury consumers, respectively on the identification of a possible new segment of luxury consumers. However, for a complete discussion, we aimed to determine whether some variables as age, monthly family income and the importance given to luxury can influence the respondents' actions. From 367 validated questionnaires only 273 were included in the category of luxury consumers.

To identify the past behavior, consumers were asked to indicate if they have ever made compromises in order to have desired luxury products or services. The list with the compromises to which we'll refer the entire study includes the variables: „to lie”, „to be engaged in a relationship with a man”, „to get married”, „to be the mistress of a married man”, „to make a child”, „to be financially supported by someone”, „to engage in intimate relations without emotional involvement” and „to financial fraud (at work or similar context)”.

Table no. 1 Consumers' past willingness to make compromises for luxury

Willingness to make compromises -in the past	Frequency	Honesty<100%*
No, never	88,6%	26,85%
Yes, few times (maximum 5) and I did regret	4%	45,45%
Yes, few times (maximum 5) and I didn't regret	6,7%	33,33%
Yes, frequently	0,7%	50%

* percentage depending on the “willingness” chosen options

Source: made by the authors

In Table no. 1, one can see that 11,4% of consumers made compromises to afford or to obtain luxury products. Same table shows that not all respondents were 100% honest (they were asked to modify the percent of honesty only if they had lied intentionally when answering some questions- seen from the beginning as a possible consequences of the taboo nature of the subject approached). Testing the link between willingness to past compromises and the honesty of the

respondents, it was observed a relationship between them of small intensity (Contingency Coeff.=0,271, Sig.=0,032). On the other hand there is no significant statistical relationship between the willingness to past compromises and the monthly family income (Sig.=0,633), the age (Sig.=0,473) or the importance attached by consumers to luxury (Sig.=0,313). The selected categories of compromises made in the past for luxury, are distributed as follows in Table no. 2.

Table no. 2 Categories of compromises made in the past in order to have luxury

Categories of compromises made in the past	Frequency*	Honesty<100%**
To lie	66,7%	37,5%
To be engaged in a relationship with a man	19,4%	28,57%
To be financially supported by someone	13,9%	0%

*percentage from total responses

** percentage based on the selected „categories” of compromise

Source: made by the authors

Thus the categories of compromises made by consumers for luxury products were: „to lie”, „to be engaged in a relationship with a man”, respectively „to be financially supported by someone”. As some of the respondents weren’t 100% honest during the interview, test showed a relationship of small intensity between the respondents’ honesty and the variable “to be financially supported by someone” (Sig.=0,038, Contingency Coeff.=0,348). For each mentioned category, most consumers have a monthly family income under 4000 lei, thus there weren’t discovered significant relationships between the variables (Sig.=0,209, Sig.=182, Sig.=0,305). Also, has been found s relationship of small intensity between the variable “to be financially supported by someone” and the importance given by consumers to luxury (Sig.=0,05, Contingency Coeff.=0,386). There are no significant relationships between the categories of compromises made in the past and the age of the respondents (Sig.=0,429, Sig.=0,834, Sig.=0,429).

Consumers who mentioned that had never made compromises for luxury, were asked to select the main reason behind their decision, and the final situation is as follows: “never had the opportunity”(9,3), “ it’s not necessary as I have the financial means to afford most of the luxury goods desired”(6,9%), “ such behavior doesn’t meet my moral and ethical standards”(59,5%), “the luxury products are not that much important/I don’t wish them so much in order to compromise”(23,9%). There is a relationship of medium intensity between the lack of past compromises for luxury and the monthly family income (Sig.=0,000,Contingency Coeff.=0,498), and a relationship of small intensity with the importance attached to luxury (Sig.=0,036, Contingency Coeff.=0,268). There is no significant relationship with the age (Sig.=0,891).

Related to the future intentions of consumers regarding the willingness to take various actions in order to have the desired luxury products, there were mentioned the following possibilities (percent of total answers): „ to save from the money given by my parents”(37,6%), “to save from the salary, reducing costs with other products”(29,9%), “to get a job, even for a short period of time” (20,9%), “to borrow money from my friends, boyfriend, parents, other family members”(5,3%), “to make compromises”- from the given list (3,7%), “other option” (2,6%). Although the answers show that only 17 consumers would make compromises for the desired luxury goods, a following rechecking question showed that 77 of consumers have a certain future willingness to make compromises.

Has been found a relationship of medium intensity (Sig.=0,000, Contingency Coeff.=0,564) between the lack of past compromises and the future willingness to make compromises for luxury. Thus, 65,21% of those who mentioned that “never had the opportunity” consider that there is a certain probability to make compromises for luxury in the future (“probably no”, “probably yes”, “yes”), 5,8% of those who have the financial means to buy luxury products see a future willingness, while 10,88% of those who consider that compromises don’t meet their moral or ethical would be willing in a certain measure to compromise and 20,33% of the consumers

who think that for them luxury products are not so important (or don't wish) are willing to make compromises in the future. Although many respondents didn't mention the categories of luxury that could tempt them to make compromises, however the stated ones are: cars (28,7%), houses (17,85%), clothing and accessories (26,78%), travels(16%), cosmetics(7,1%), other service(3,57). No significant relationships were found between the future willingness to compromise for luxury and the monthly family income (Sig.=0,916) or the age (Sig.=0,733), but there is a significant relationship of small intensity between future willingness and consumers' honesty (Sig.=0,000, Contingency Coeff.=0,277). The categories of compromises possible to be made in future by consumers for luxury are given in Table no.3.

Table no. 3 Categories of compromises possible to make in the future to have luxury

Categories of future possible compromises	Frequency*	Honesty<100%**
To lie	56%	21,14%
To be engaged in a relationship with a man	32 %	12,5%
To be financially supported by someone	26%	61,53%
To get married	14%	28,57%
To financial fraud	4%	50%
To be the mistress of a married man	2%	100%
To engage in intimate relations without emotional involvement	2%	100%

*percentage from total responses

** percentage based on the selected „categories” of compromise

Source: made by the authors

Have been identified significant relationships between the honesty's level of consumers and the categories „to be the mistress of a married man”(Sig.=0,002, Contingency Coeff.=0,439) , „to be financially supported by someone”(Sig.=0,038, Contingency Coeff.=0,348), „to engage in intimate relations without emotional involvement”(Sig.=0,000, Contingency Coeff.=574). But there aren't significant relationships between the willingness for future compromises and monthly family income or age. More, there is a relationship of medium intensity between the past willingness for compromises and the willingness for future compromises (Sig.=0,000, Contingency Coeff.=0,580). Thus, 16,1% of the consumers who never made compromises for luxury believe that there is a certain probability to compromise in the future, while from those who made compromises in the past few times and regretted or not, a percent of 81,8% respectively 77,7% take into consideration this possibility in the future.

V. Conclusions

Even if only 11,4% of the luxury consumers have mentioned that have made in the past compromises in order to have luxury products (to lie, to get involved in relationships, to be financially supported by someone), the percent of those willing to make in future compromises is higher, even though some of the respondents willing to compromise mentioned that luxury is not important for them (or don't want it), compromises don't meet their ethical or moral standards or even some afford most of the luxury products desired. The most mentioned types of possible future compromises are lying, getting engaged in relationships, getting financially supported or getting married, while the most mentioned categories of luxury that would tempt consumers to compromise are the luxury cars, luxury houses, luxury clothing/accessories and luxury travel services. Although there is a tendency for those who have made compromises for luxury in the past to be willing to make compromises in the future, however, the main actions that consumers would do in the future to obtain luxury products are to save from the money given by their parents, to save from the salary or to get a job. Regarding the influence of different variables, tests showed that there aren't significant connections between age and actions done/will be done

in future for luxury, while for the variables monthly income of the family, importance given to luxury and honesty of the respondents some significant link were found for some of the actions. Therefore can be observed the existence of a category of luxury consumers willing to take various actions in order to obtain the desired luxury products, being essential to note that most respondents of the study have a monthly income of the family smaller than 4000 lei (almost 1000 euro). The identification of this category of consumers can have major implications for the luxury sector as due to the small personal/family income they are not taken into consideration while studying luxury domain (research companies take into account the family wealth, annual income, etc.) and most likely the producers don't consider them existing or possible clients. Most probably, in this category of consumers most are "excursionists" and could represent a significant market. We believe that the present study has a significant contribution to the luxury literature through the uniqueness of the subject approached (both nationally and internationally) but also due to the results obtained, namely the identification of a different segment of Romanian luxury consumers. However, one of the main limitations of the study is the collection of data from a single faculty in a single city, even if it is one of the greatest university centers in the country, and we consider that it is possible to obtain slightly modified results if the study takes into consideration young female students from less developed cities or on the contrary from the capital. For the future, the authors intend to extend the study among other categories of young female consumers under 30 years old, which will require data collection among girls in high-schools and among young females with medium studies. Therefore, the results can be considered interim results of a much larger study.

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IS THE WEBSITE MARKETING STRATEGY CORRELATED WITH THE COMPANIES OUTCOMES? EVIDENCE FROM ROMANIAN IT INDUSTRY

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With a constant yearly growth of more than 20% over the last five years and adding up to 10% of the GDP, the Romanian Information Technology (IT) sector has an important potential for development. Emphasizing on websites marketing in this sector could enhance more profitability. Even though this tool is considered to be much depersonalized, the users like getting a sense of the company behind the website. Having a wide range of information facilitates this understanding. In a very competitive environment, the IT managers have to realize that the overall site is what represents their organization to users. Prospectors look at product pages and read the site content when they are evaluating an organization as a possible vendor, business partner, employer, investment opportunity. Therefore, websites marketing is one of aspects that need to be constantly reevaluated in an ever-changing word of communication.

Given this facts, the present study identifies the extent to which the most valuable IT Romanian companies practice webpage's marketing. Specifically, we examine the content, in-time communication tools, navigability and style of the websites in correlation with their outcome and size. Moreover, the paper analyzes the differences between websites characteristics of Romanian IT SMEs and large companies from top 100, according to their turnover. The specific objectives in order to investigate the websites marketing of Romanian IT companies are:

-To evaluate the websites marketing policies of the software developer, hardware and IT distributors;

-To analyze in depth the Romanian IT companies websites performance in correlation with their profit, turnover and number of employees;

-To assess the differences between websites policy of SMEs and large companies from Romanian IT industry;

This study is exploratory and consists in a qualitative assessment of websites from top 100 software, hardware and IT distributor companies. The sample consists of 93 functional websites. The corporate website of each company was analyzed and subsequently codified on 97 variables clustered in four dimensions: content, handling, interactivity and layout. The results outline the fact that firms engage in websites marketing activities to a relatively high extent. There is a strong correlation between websites content and companies' turnover, profits and number of employees. Moreover, a positive correlation was revealed between interactivity and turnover.

The research outcomes reflect high disparity between Internet marketing policy of software, hardware and distributors.

Key words: websites marketing, SME, IT industry, Romania

JEL Codes: M31, M15

Introduction

The IT sector is considered strategic for the development of the national economy, as it can drive and enhance development and competitiveness of every other industry.

Romania is one of the strongest markets in Europe for technology investment and trade, with a highly skilled technology workforce and good cost/quality balance. Romania has a competitive advantage in the following IT areas (Tartavulea et al. 2010: 97-105): mechanical engineering sourcing, research and development, systems integration and security software development outsourcing. In Romanian IT industry is acting more than 45% SMEs.

Many studies (Manyka and Roxburgh 2011:1-10; Mattos 2007:1-4; Pavic et al. 2007:320-351) proved that productivity in the case of companies which are using the Internet is at least 10% bigger. In addition, evidence shows that these companies grow and export about twice as much as the others. However, there is a lack of analyses on the webpage quality of companies acting in IT industries. Visitors to companies' web pages want to determine whether the organization has experience, proven success, and an understanding of the challenges unique to their business. Marketers should also make it easy for customers to write reviews and leave comments on product and service pages because partners are more likely to purchase something based on current-user comments.

Therefore, the present study performs *the correlations between best Romanian companies' web pages quality and their outcomes and size. Moreover, we intend to analyze the SMEs in comparison with large companies that are in top 100 of Romanian IT ranks.*

In addition, the papers emphasize on disparities between the main object of activity, according the studied dimensions.

The following questions were addressed in order to investigate the websites marketing of Romanian IT companies:

-Which of the investigated dimensions are prominent in this sector?

-What is the situation of websites marketing policies in the three main field of activity: software, hardware and distributors?

-Does the performance of websites marketing depend on their size and financial results?

-Which are differences between websites policy of SMEs and large companies from Romanian IT industry?

This study is exploratory and consists in a qualitative assessment of websites. The paper is divided in five sections. The following part depicts the most used methods from assessing web pages. The next chapter describes the applied methodology for exploratory research and after that, the results are presented. The discussions and conclusion provide a summary of implications.

Theory and research review

In the literature, there are wide ranges of websites assessment methods that are continuously evolving directly related with the growing efficiency of a company website. The environments movements, especially concerning IT progress and consumers behavior, have determined the existence of different perspective in evaluation techniques of the sites quality. A great number of authors made recommendations about how to create a quality website (Head 2000:1-220, Mich et al. 2003:34-43; Nielsen 2008:1-253). There are also official e-government guidelines that have been produced by the Office of the E-envoy (2008). The most used criteria encountered in almost every specialists approach include elements such as purpose, source/authority, content, currency, style and functionality.

Other researches (Chakraborty et al. 2002:51-72; Nielsen 2008:116-121) demonstrate that effectiveness of a website is influenced of, *level of information, organization, transaction-related interactivity, and personalization* while other factors have no direct impact: non-transaction-related interactivity, privacy/security, accessibility, and entertainment.

Perceived information quality affects perceived value and loyalty intentions and perceived value influences loyalty intentions toward IT websites (Kim and Niehm 2009:221-233). In addition, entertainment and trust directly influence perceived value, while online completeness and entertainment strongly affects the loyalty.

On the other hand, *the most of IT sites from CEE are business- to- business (B2B)*. Nielsen, one of the gurus in websites assessment, considers that *ought to emphasize usability more*, because they must help users accomplish tasks that are more advanced and research more specialized products. B2B sites *must provide a much wider range of information than what is common in*

business-to-consumer (B2C). It must also offer information to help prospects understand concepts like total cost of ownership, ROI, and whether and how the product or service will integrate with the customer's existing environment.

In relation to the approaches for assessment (comparison and improvement of websites quality), the literature specifies the following:

1.) *Methodologies focused on the Websites technical quality* that use models or standards of software quality and methods focused on the usability, derived from research in human-computer interaction area: analyzing the degree of conformity with IT - quality assessment of Internet resources (Bauern and Scharl 2000:31-41), based upon the used software (Mendoza et al. 2002:70-84), methods from the offered on-line services perspective (Diniz et al. 2005:41-50), methods focusing on transaction security and trust (Schubert 2002:51-80), from browsing perspective (Schubert 2002:51-80).

2.) *Methodologies focused on the Websites content quality*, approach emphasizing on design and the importance of the interface (Rocha and Victor 2010:173-178) *taking into account the user's view* (Bernstam et al. 2005:3-19).

The present study uses methodology for assessing the *technical quality of a website*.

Research methodology

The present study is an exploratory study of websites policies of Romanian IT companies.

The study goal is *to analyze the degree by which best Romanian IT companies use websites* as a marketing tool in order to become more competitive on the market. Specifically, we are going to reach the following objectives:

- To examine the websites marketing of the software developer, hardware and IT distributors;*
- To analyze in depth the Romanian IT companies websites performance in correlation with their profit, turnover and number of employees;*
- To assess the differences between websites policy of SMEs and large companies from Romanian IT industry;*

The data was collected during the period January -February 2012. We assessed the software, hardware and distributors companies in top 100 IT/2011 according to their turnover (from 2010) made by doingbusiness.ro. The research sample consists of 93 websites, because at the assessment time, 7 sites were under construction or were not functional.

The sample structure by size and fields of activity is displayed in (figure no1). The majority in the sample is represented by software developers (58%), followed by distributors (25%) and, finally, by hardware producers (17%).The SMEs are predominant in distributors' field (59.11%).

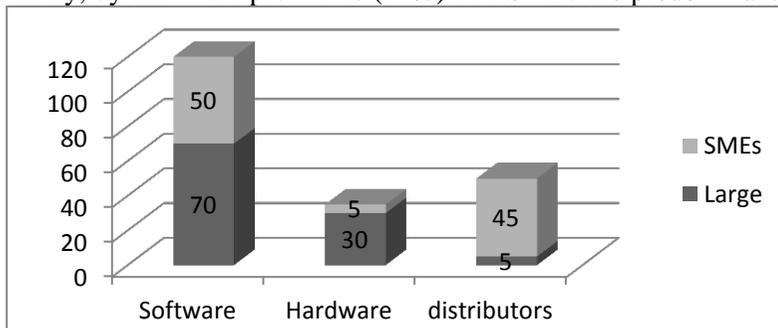


Figure no 1. *The structure of the research sample by size and fields of activity*

Source: made by the author

In order to accomplish our goal, we use specific dimension for assessing IT sites, based on *Profnet Institute from Munster website assessment method*, aiming at ranking worldwide web

sites in different branches (www.profnet.de). *In this approach, all the items will be clustered in four criteria: content, navigation, interactivity and layout.*

We have cut some of criteria according to Nielsen's recommendations described in the above section. Finally, every websites in the sample were *qualitatively* assessed through 97 criteria, grouped around the above-mentioned complex variables, as following: 38 criteria for *content*, 24 criteria for *handling*, 19 criteria for *interactivity* and 16 criteria for *layout*.

For each criteria, we got 1 point for the existence and we have considered the same importance rate for each of items. The maximum score of a site is 100 points, split on the four variables as following: 40 points for *content* and 20 points for each of the other three variables (layout, handling and interactivity). For example, some of analyzed dimension for content are: history, download forms, information about products/services, calendar events, frequently asked questions, information about industry, the managers, jobs, contact. For navigation, we have evaluated: the navigation path, holding a security certificate, search functions, for interactivity: Intranet/Extranet, personalized pages for the customer, callback service, hotline, e-cards, chat, online tour, schedules, online activities as well as online request for company information and for layout: the presence of Avatars, live images, a web camera, phone web, etc.

We have computed the data in SPSS 17. For a better correlation between websites quality and their turnover, profit and number of employees we applied Pearson correlation.

Results and discussion

Using the methodology and procedures described above, we have obtained the scores of the 93 sites according to their quality, at the time of assessment. Table 1 presents the average scores of Romanian sites by field of activity and the company size.

The findings reveal an upper medium propensity of Romanian IT company toward using websites policy (64.2 points from 100 possible). This result is related to the fact that IT companies have the necessary know-how (and required hardware) for implementing and properly managing their websites. The gap between large companies and SMEs is, surprisingly, rather small (69.33 vs. 59.11points). This means that SMEs try hardly to be active by offering actual and meaningful information, through adequate and fast access supports, possibility to interact and an elaborate design for websites public. Moreover, the hardware field got the lowest score (58.55 points) and the distributors the higher one (70.2 points). These disparities are present mainly due to different target segments: businesses vs. businesses and consumers. Distributors display more transparency and flexibility than the others; meantime the software websites try to build more credibility for potential partners.

Table no 1. Relative quality of the IT SMEs websites by field of activity and size

Average scores		Content 40)	Handling (max 20)	Interactiv. (max 20)	Layout (max 20)	TOTAL
Software	Large companies	25.3	17.2	10.1	17.5	70.1
	SMEs	21.03	15.2	8.7	12.8	57.73
Hardware	Large companies	26.1	14.9	8.5	16.9	66.4
	SMEs	17.2	14.1	7.8	11.6	50.7
Distributors	Large companies	24.8	15.6	14.3	16.8	71.5
	SMEs	25.6	14.9	13.2	15.2	68.9
Whole sample		23.34	15.32	10.43	15.13	64.22

Source: made by the author

As we expected, a facile navigation is present, *handling* getting the higher score (15.32 points from 20 possible). IT companies are adapting very fast to IT progress. Therefore, the great majority of companies in the sample *offer a different version for* widgets and mobile that make it

easy to access needed information (*adapted version for I Pad, I Phone, Blackberry, Android, Windows phone7 etc.*).

Interactivity is the feature most neglected by managers operating in Romanian IT industry (10.43 points from 20 possible). The explanation for this result can be the particular business model such as outsourcing. The most companies in the sample are software companies and have only few (large) clients, usually international ones. Therefore, the IT managers probably consider that there is no need to disseminate information for other category of prospective clients. Although, we have to mention a positive fact: 42% of companies posted comments on industry blogs with a track-back link to their own sites. Customers and prospects can share stories and tips, interact with the company directly and find new ways to use products.

The *content* dimension is also average (23.34 points from 40 possible). Stakeholders can be involved in a proactive relation through offering industrial information and could enhance preferences in the future, with no extra cost.

The feature “*Layout*” has upper medium scores (15.13 points from 20 possible). Regarding the presentation style, IT companies have a very impressive business style, using the latest specific soft version in the field (very good resolution vs. speed ratio). However, IT industry does not make any connections to audio-visual identification system (company colors, slogan, logo etc.) meaning that the managers do not pay much attention on unitary marketing strategy.

The relation between IT SMEs size and outcomes and their websites performance

The results regarding connections between IT SMEs turnover and their websites performance are presented in (table no 2).

Table no 2. *Pearson correlation between the assessed four dimensions and turnover, profit and number of employees*

		content	handling	interactivity	layout
turnover	Pearson Correlation	.362**	.024	.329**	.017
	Sig. (2-tailed)	.733	.049	.624	.034
profit	Pearson Correlation	.059**	.074	.024	.027
	Sig. (2-tailed)	.786	.054	.714	.484
No of employees	Pearson Correlation	.254**	.013	.071	.044
	Sig. (2-tailed)	.521	.062	.036	.016
	N	93	93	93	93

** . Correlation is significant at the 0.01 level (2-tailed); Source: computed by the author

The outcomes validate the existence of *three direct strong correlations between content and turnover/profit/number of employees*, which means the more employees and important (and profitable) business IT companies run, the more information is in the content section. Probably a bigger company can afford to administrate itself its websites marketing activities and has more achievements than another smaller. Another reason could be the overall marketing strategy that is more important when the company is more developed than in previous stage. But this assumption has to be further investigated. Finally, another positive correlation is revealed: those between interactivity and turnover. This fact proves *that websites can be a great tool to increase the sales*, mainly due to B2C online platforms, which implies more possibilities for gaining prospective consumers.

Conclusion

Our research sheds new light on websites marketing policy of the best Romanian IT companies and helps explain how managers can improve content, interactivity, handling and layout. The most efficient companies according to their turnover deploy an “upper-medium” development stage of websites marketing.

Nevertheless, navigation tools and layout are more sophisticated while content and interactivity are pointing an average level. The Romanian IT companies (especially SMEs) do not fully use the advantage offered by Internet. Even though they have unlimited free space to be used, most of the companies in the sample display minimum information.

The results pointed out strong correlation between the displayed content and their turnover and profitability. The interactivity dimension is directly related with the sales: the larger the company is, the more information on the websites is available.

Finally, given that the main trend under economic crisis is outsourcing in Far East, Romanian IT companies should be aware of their competitive advantage that could be threatened. Thus, we consider that even though the best companies in Romanian IT have good websites positions, they have to improve their websites marketing and to offer a complete online instrument as an “offensive wall.” It manager should consider to improve the real time communication with current, prospective partners and to enhance trust and credibility by displaying general and specific information related to the business and to their target segment interests.

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AN ASSESSMENT OF THE RELATIONSHIPS BETWEEN THE CULTURAL HERITAGE, TRAVEL AND TOURISM, AND SUSTAINABLE DEVELOPMENT IN THE CENTRAL AND EASTERN EUROPEAN COUNTRIES

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The cultural heritage, including, according to the UNESCO definition, the assembly of monuments, groups of buildings, and sites which are of outstanding universal value from the historical, aesthetic, ethnological or anthropological point of view, represents an important asset that can be engaged and capitalized in order to support the sustainable development. Meeting the needs of the present without compromising the ability of the future generations to meet their own needs in order to provide a better quality of life for everyone, now and for generations to come, has become a concern and, in the same time, a priority for all the stakeholders of the society.

Turning to the best account of the cultural heritage also represents an important driver for the sustainable development of the travel and tourism industry, as the cultural sites, institutions, goods and services, appropriately capitalized, represent significant attractions for the international and domestic tourists. The integration of the principles of sustainable development in the current functioning of the travel and tourism industry led to the development and implementation of the concept of sustainable tourism.

The paper explores in a distinctive manner the relationships between the cultural heritage and the travel and tourism industry, respectively the cultural heritage and the sustainable development based on a set of related statistical indicators, and the specific secondary data, expressing the extent of the cultural heritage, the development of the travel and tourism industry, and the attained level of sustainable development in ten Central and Eastern European countries, members of the European Union. There are two major research questions the paper aims to answer: (1) How significant is the relationship between the cultural heritage and the development of the travel and tourism industry? (2) Is there a noteworthy connection between the cultural heritage and the sustainable development in the selected countries?

Keywords: cultural heritage, travel and tourism, sustainable development, Central and Eastern Europe

JEL classification: M83, M31

Introduction

The cultural heritage, is defined by UNESCO as an assembly of monuments (including architectural works, works of monumental sculpture and painting, elements or structures of an architectural nature, inscriptions, cave dwellings and combination of features), groups of buildings (groups of separate or connected buildings which, because of their architecture, their homogeneity or their place in the landscape, are of outstanding universal value from the point of view of history, art or science), and sites (works of man or the combined works of nature and man, and areas including archaeological sites) which are of outstanding universal value from the historical, aesthetic, ethnological or anthropological point of view (UNESCO, 1972).

Together with other forms of capital – physical, natural, economic, human, social, and organizational, the cultural heritage represents one of the major resources that can be employed in order to support the sustainable development (Svendson and Sørensen, 2007). The capitalization of the cultural heritage represents an important driver for development, including here the tourism activities in a specific area: when properly managed, it can enhance the livability of their surrounding areas and sustain productivity in a changing global environment (Pereira Roders & van Oers, 2011). Culture, cultural heritage and development have been making an incalculable contribution toward improving human livelihoods and well-being in lasting and sustainable ways (Bandarin et al., 2011).

According to the Leask and Rihova (2010), the heritage contribution in tourism development, based on the capitalization of the available cultural resources, can be enhanced through (1) implementing strategies of sustainable growth and effective diversification of the local economy, (2) developing heritage tourism policies and products that meet the needs of community, policy-makers and tourists, (3) improving the stakeholder communication and participation in the creation of the authentic and individual visitor experiences, and (4) connecting the sustainable tourism development with the heritage conservation, community integration, and stakeholders.

The most frequently quoted definition given to the sustainable development is that provided by the United Nation's World Commission on Environment and Development in the Brundtland Report (1987), stating that it refers to the development meeting the needs of the present without compromising the ability of future generations to meet their own needs. The European Union (2010) views the sustainable development standing for meeting the needs of present generations without jeopardizing the ability of futures generations to meet their own needs, providing a better quality of life for everyone, now and for generations to come.

At the intersection of the travel and tourism industry and the sustainable development stands the sustainable tourism, which, according to UNESCO should: (1) make optimal use of environmental resources, maintaining essential ecological processes and preserving natural heritage and biodiversity; (2) respect the socio-cultural authenticity of host communities, conserve their built and cultural heritage and traditional values, and contribute to inter-cultural understanding; and (3) ensure viable, long-term economic operations, providing fairly distributed socio-economic benefits to all stakeholders (UNWTO sustainable tourism development conceptual definition in Pomeroy et al., 2011).

Methodological Notes

In this context, the assessment of the relationships between the cultural heritage, travel and tourism industry, and the sustainable development aims to provide answers to the following questions, that can be seen in this context as *research objectives*: (1) How significant is the relationship between the cultural heritage and the development of the travel and tourism industry? (2) Is there a noteworthy connection between the cultural heritage and the sustainable development?

The *research hypotheses* associated to these objectives state that: (1) there must be a significant relationship between the cultural heritage and the development of the travel and tourism industry; and (2) the contribution of the cultural heritage (mainly through its capitalization) to the sustainable development is rather moderate.

The exploration of the connections between the cultural heritage, travel and tourism industry and the sustainable development has been conducted at the level of ten countries from the Central and Eastern Europe, member of the EU. The selected countries form a group of *observation units* including: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. These countries attracted, at the level of the year 2010, 41.7 millions of international tourists (representing 11.5 % of the total international tourists of the EU,

respectively 8.8 % of the total international tourists in Europe) and accounted for 33.8 billions of US\$ in international tourism receipts (representing 10.2 % of the total international receipts of the EU, respectively 8.3 % of the total international receipts in Europe).

The selection of the *statistical indicators* expressing the extent of the cultural heritage, the development of the travel and tourism industry, and the level of sustainable development in the selected CEE countries has provided the following results:

-the *cultural heritage*: only the number of the cultural sites on the UNESCO World Heritage List has been considered, as the identification and selection of the indicators related to the cultural heritage represented a relatively difficult to accomplish task. There are few indicators measuring the cultural sector at the EU level, cultural statistics continuing to be an “under construction” field of the EU statistics, and there also are very few indicators describing the status of the cultural heritage;

-the *travel and tourism industry*: the international tourist arrivals, the international tourism receipts, and the contribution of the travel and tourism industry, respectively the travel and tourism economy, to the formation of GDP, respectively in generating employment were the indicators selected to express the performances of the industry;

-the *sustainable development*: GDP per capita, the share of GDP that is used for gross investment by the government, business, and household sectors, the energy intensity of the economy, and the employment rate of the population of 20-64 years old. The EU employs a system of more than 100 sustainable development indicators to provide an overall picture of progresses achieved towards sustainable development in terms of the objectives and targets defined in the EU’s Sustainable Development Strategy. The indicators are organized in ten themes: socio-economic development, sustainable consumption and production, social inclusion, demographic changes, public health, climate change and energy, sustainable transport, natural resources, global partnership, and good governance. The selection of the appropriate indicators of sustainable development represented a challenge in the context of this research as an important number of them refer to the aspects that are, at least apparently, less connected to the cultural heritage and the travel and tourism industry. For the purpose of this study, only the above-mentioned indicators, related to the socio-economic development theme, have been selected.

Spearman correlation coefficients have been calculated in order to assess the relationships between the cultural heritage and the travel and tourism industry, respectively the cultural heritage and the sustainable development.

Main Findings

Values of the considered indicators related to the cultural heritage extent, travel and tourism development, and the state of the sustainable development in the selected countries are presented in the table below. The first impression after reading the data is that the countries of Central and Eastern Europe represent a sample characterized by considerable diversity in terms of the cultural heritage they possess (from 13 cultural sites on the World Heritage List – the case of the Czech Republic, to none – the case of Slovenia), the development of the travel and tourism industry (from 11.89 million international tourist arrivals – the case of Poland, to only around of 1.3 millions – the cases of Slovakia, Latvia or Lithuania; respectively, from international tourism receipts of 9.01 US\$ billions – the case of Poland, to only 1.09 US\$ billions – the cases of Estonia and Lithuania), and the level of sustainable development (a GDP/capita varying from 15300 € – the case of Slovenia, to 3500 € – the case of Bulgaria; respectively an energy intensity of the economy varying from 259.20 kgoe/1000 € – the case of Slovenia, to 853.77 kgoe/1000 € – the case of Bulgaria).

Also, the existing differences illustrate the strong dissimilarities between these countries considering their profiles as tourist destinations.

Table 1: Values of the cultural heritage, travel and tourism, and sustainable development considered indicators for the Central and Eastern Europe countries in 2009-2010

Countries	WHS	ITA	ITR	T&TI GDP	T&TI Emp	T&TE GDP	T&TE Emp	GDP / cap	Inv	Energ Int	Emp Rate
Bulgaria	7	5.74	3.73	1.57	86	5.95	324	3500	0.00	853.77	65.4
Czech Rep	13	6.03	6.49	3.68	92	21.43	473	11400	24.45	531.94	70.4
Estonia	2	1.97	1.09	0.65	17	2.89	73	8300	19.45	678.77	66.7
Hungary	7	9.06	5.63	4.03	183	9.77	263	8800	17.47	419.52	60.4
Latvia	2	1.32	0.72	0.41	12	1.62	49	5600	19.52	372.94	65.0
Lithuania	4	1.34	1.09	0.43	12	2.09	57	6700	16.06	361.81	64.4
Poland	12	11.89	9.01	7.99	254	35.71	1054	8100	19.87	373.86	64.6
Romania	6	1.27	1.23	3.41	267	9.01	519	4200	22.74	588.93	63.3
Slovakia	5	1.30	2.34	1.53	35	9.89	206	8900	22.18	509.02	64.6
Slovenia	0	1.80	2.51	1.39	30	6.49	117	15300	21.60	259.20	70.3

Notes: WHS – Number of the cultural sites on the UNESCO World Heritage List (2010); ITA – International Tourist Arrivals (2009; millions); ITR – International Tourism Receipts (2009; US\$ billions); T&TI GDP – Travel & Tourism Industry contribution to the formation of GDP (2010; US\$ billions); T&TI Emp – Travel & Tourism Industry contribution in terms of employment (2010; thousand jobs); T&TE GDP – Travel & Tourism Economy contribution to the formation of GDP (2010; US\$ billions); T&TE Emp – Travel & Tourism Economy contribution in terms of employment (2010; thousand jobs); GDP / cap – Gross Domestic Product per capita (2010; €/capita); Inv – Share of the total investments of the government, businesses, and households in the GDP (2010; % in GDP); EnergInt - |Energy Intensity of the Economy (2010; in Kilograms Oil Equivalent / thousand €); EmpRate – Employment Rate of the population aged 20-64 (%).

The assessment of the relationships between the *cultural heritage* and the development of the *travel and tourism industry* reveal the significant connections between the specific research variables: for four out of six of these variables, the bivariate correlations proved to be significant at 0.05, or even 0.01 level of significance (2-tailed).

Table 2: Correlations of the cultural heritage and the travel and tourism indicators for the selected Central and Eastern European countries

			Correlations						
			Number of World Heritage Sites	International Tourist Arrivals	International Tourist Receipts	Travel & Tourism Industry and GDP	Travel & Tourism Industry and Employment	Travel & Tourism Economy and GDP	Travel & Tourism Economy and Employment
Spearman's rho	Number of World Heritage Sites	Correlation Coefficient Sig. (2-tailed)	1.000	.639	.949**	.882**	.730*	.824**	.832**
		N	9	9	9	9	9	9	9
	International Tourist Arrivals	Correlation Coefficient Sig. (2-tailed)	.639	1.000	.760*	.612	.316	.442	.394
		N	.064	.064	.011	.060	.374	.200	.260
		N	9	10	10	10	10	10	10
	International Tourist Receipts	Correlation Coefficient Sig. (2-tailed)	.949**	.760*	1.000	.900**	.710*	.851**	.790**
		N	.000	.011	.	.000	.021	.002	.007
		N	9	10	10	10	10	10	10
Travel & Tourism Industry and GDP	Correlation Coefficient Sig. (2-tailed)	.882**	.612	.900**	1.000	.924**	.879**	.915**	
	N	.002	.060	.000	.	.000	.001	.000	
	N	9	10	10	10	10	10	10	
Travel & Tourism Industry and Employment	Correlation Coefficient Sig. (2-tailed)	.730*	.316	.710*	.924**	1.000	.778**	.948**	
	N	.026	.374	.021	.000	.	.008	.000	
	N	9	10	10	10	10	10	10	
Travel & Tourism Economy and GDP	Correlation Coefficient Sig. (2-tailed)	.824**	.442	.851**	.879**	.778**	1.000	.818**	
	N	.006	.200	.002	.001	.008	.	.004	
	N	9	10	10	10	10	10	10	
Travel & Tourism Economy and Employment	Correlation Coefficient Sig. (2-tailed)	.832**	.394	.790**	.915**	.948**	.818**	1.000	
	N	.005	.260	.007	.000	.000	.004	.	
	N	9	10	10	10	10	10	10	

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

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

The number of the cultural sites included on the UNESCO World Heritage List correlate significantly with the international tourism receipts, but not with the international arrivals (although the value of the Spearman rho suggests the existence of a relatively significant association). This could mean that, although the cultural sites in the Central and Eastern European countries do not attract as many international visitors as it should, the revenues they generate are important for the overall performances of the travel and tourism industries. In this context, the appropriate capitalization of the cultural heritage seems to be important as attracting more international visitors will determine an increase of the international receipts. Also, the cultural heritage seems to contribute to the performances of the travel and tourism industry regarding the formation of GDP and employment.

The analysis of the associations between the cultural heritage and the sustainable development selected indicators reveals the lack of significant connections: none of the bivariate correlations proved to be significant, which means that the number of the cultural sites included on the World Heritage List does not have relevant associations with the socio-economic indicators describing the sustainable development, i.e. GDP per capita, share of the gross investments in the GDP, the energy intensity of the economy, or the employment rate of the population aged 20-64.

Table 3: Correlations of the cultural heritage and the sustainable development indicators for the selected Central and Eastern Europe countries

			Correlations				
			Number of World Heritage Sites	GDP per capita	Share of Total Investments in GDP	Energy Intensity of the Economy	Employment rate (20-64)
Spearman's rho	Number of World Heritage Sites	Correlation Coefficient	1.000	.261	.294	.176	.034
		Sig. (2-tailed)	.	.498	.442	.650	.931
		N	9	9	9	9	9
	GDP per capita	Correlation Coefficient	.261	1.000	.467	-.358	.389
		Sig. (2-tailed)	.498	.	.174	.310	.266
		N	9	10	10	10	10
Share of Total Investments in GDP	Correlation Coefficient	.294	.467	1.000	-.018	.237	
	Sig. (2-tailed)	.442	.174	.	.960	.510	
	N	9	10	10	10	10	
Energy Intensity of the Economy	Correlation Coefficient	.176	-.358	-.018	1.000	.103	
	Sig. (2-tailed)	.650	.310	.960	.	.776	
	N	9	10	10	10	10	
Employment rate (20-64)	Correlation Coefficient	.034	.389	.237	.103	1.000	
	Sig. (2-tailed)	.931	.266	.510	.776	.	
	N	9	10	10	10	10	

Apparently, an increase in the number of the cultural sites included on the World Heritage List will generate a positive but less significant impact over the GDP per capita and the gross investments, and a positive but extremely less significant over the employment rate of the population aged 20-64, all these with the price of increasing the energy intensity of the economy. Overall, the capitalization of the cultural heritage seems to have a rather modest contribution to the sustainable development of the selected CEE countries.

Conclusions and limits of the research

The exploratory assessment of the relationships between the cultural heritage and the travel and tourism development, respectively the cultural heritage and the sustainable development has been conducted at a level of sample including countries with significantly different profiles as tourist destinations. The indicators used in the assessment, although relevant, are obviously not sufficient to allow drawing consistent conclusions about the relationships between the cultural heritage and travel and tourism, respectively the cultural heritage and sustainable development.

Still, the measured correlations of the related indicators support the following conclusions:

- there are significant relationships between the cultural heritage and the travel & tourism industry – an appropriate capitalization of the cultural heritage may determine improvements of the performances of the travel and tourism industry and supports the overall contribution of the industry to the GDP formation and to the employment;

- the relationships between the cultural heritage and the sustainable development are rather poor: on the one hand, the cultural heritage is an asset less turned to the best account in the selected CEE countries, and, on the other hand, that capitalization of the cultural heritage, where conducted, generates a very modest contribution to the sustainable development of these countries.

These results should be considered in the context of the two limits of this exploratory approach. The first refers to the limited number of variables considered in the assessment of the relationships between the cultural heritage and the travel and tourism industry, respectively the cultural heritage and the sustainable development. Obviously, a set of eleven variables, although relevant for the scope of the research, could not provide a solid basis for the analysis of these relationships. Further improvements should be made consisting in the increase of the number of research variables by including more indicators regarding the extent of the cultural heritage, the level of development of the travel and tourism, and the state of the sustainable development.

The second refers to the limited number of observation units considered in the assessment of the relationships between the cultural heritage and the travel and tourism industry, respectively the cultural heritage and the sustainable development. Further improvements in this respect, depending significantly on the existence of the statistical data for the considered indicators, should lead to an enlargement of the list of countries involved in the assessment process.

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AN EXPLORATORY RESEARCH OVER THE CHINESE PRODUCTS ON THE ROMANIAN MARKET

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In this paper we studied the influence on the Asian products over the consumer decision making. We observed that because of the economic crisis most of the people are buying products made in China, although they now that the quality and the price are lower. The factors that change the habits and the consumer behavior decision making are: the lower wage, the small number of work places and the prices of the products. Regarding the low price of Chinese products quality, some times arouses suspicions. Romania is a parts of the European Union and on the market there are various products made in European countries but also products made in China. People with low wages from the last step of social classes are prone to buy lower prices products. Other consumers on the contrary became more sensitive and they prefer to pay more than to buy products made in China. The quality prevails over the price and sometimes over the quantity although the money to spend are dwindled.

The crisis affected consumer behavior, consumers have become more attentive to the country of origin and the disposable income for shopping. In order to validate some of the ideas the authors undertook a quantitative online research. The research had as purpose to identify the main influences of the decision making when the consumer buys Chinese products. The chosen investigation was the selective survey, the research technique was the exploratory interrogation and the research instrument – structured in online questionnaire. After research we found that the economic crisis caused consumer behavior change as a result of diminishing the income buyers, the consumer is placed in a position to buy products of questionable quality at low prices, mostly from China. Lower purchase price often makes Chinese goods represent an attractive option for consumers. On the other hand, the quality of Chinese products has proven to not comply with the quality expectations of the consumers, based on the use of products manufactured in other countries. Romanian consumer has been shifted his chooses because of the very low income and at the same time the culture purchasing pattern. For this reason, this research focuses on the changing buying behaviour in the period of economic crisis.

Keywords: Asian products, economic crisis, consumer's purchase decision, Romanian consumer
JEL codes: M31, N15, N35

1. Introduction

United States economic crisis began in the summer of 2007, no one ever dreamed that could affect the worlds economy. A year later, the economic crisis affected dramatically the developed countries, including countries in Europe, and possible candidates to the European Union. The Global Financial Crisis has brought also new challenges to European integration and the EU institutional architecture.

The EU integration project, which has been progressing successfully for more than half a century, is now facing what is likely to be the most serious sustainability test in its history. In particular, this relates to such crucial components as the Single European Market and the Economic and Monetary Union (EMU). The roots of the tensions that have appeared since the late summer of 2008 can be attributed to the incomplete nature of the EU project and its various asymmetries (Dabrowski, 2010).

The economic integration through European countries was much faster than political integration. The economic level in the countries from EU was different. For example Romania because is an emerging country, had loans from IMF for developing different economic sectors.

With European integration, Romanian consumers had the possibility to choose from a wide range of products made in Europe. The broad range of products coming from EU changed to some extent the consumer motivations to buy. On the other hand the economic crisis had a negative impact over the consumer behavior.

The consumer had a dilemma: the reduced income was due to the economic crisis and had changed his behavior and motivations of buying. In some cases consumers had preferred quality rather than quantity purchased, the price, was a decisive factor in purchasing decisions. He become more aware of the financial crisis and become more money minded. The consumption basket was also affected, the consumer could not spent money on premium products, although some consumers could afford. Most consumers bought only their necessities, switching to cheaper brands and had a more rational view on promotions. They started to compare different products and select based on price compromising quality (Nistorescu and Puiu, 2009).

In recent years, Chinese products are found increasingly more on European markets. European Union was the perfect marketplace for Chinese products, and encouraged European economic crisis thus purchasing cheaper products and lower quality. Although European markets were flooded with Chinese products, including the Romanian market, some consumers remained loyal to products from countries such as Germany, Spain, Italy, Norway etc.

Before describing the influence of the Chinese products on the market there will be a short analysis of the economic crisis in the Europe and Romania (section 2), followed by section three with the consumer behavior with the motivation of buying of the Chinese products and their opinion about the quality and the price. Section four focuses on the analyses of the research and discussions about the conclusion that we reached including a short overview about the Chinese products in Romanian market. The paper has three perspectives: the Romanian consumer profiling on the basis economic crisis, the influence of the Chinese products and the social factors.

2. Economic crisis

The crisis caused disturbances to powerful European and Asian economies putting them on the brick of deep recession. Other weaknesses in the global financial systems have surfaces. The crisis caused inflation and fluctuations in the prices of commodities, and hence, consumers started to take a shifted action towards their needs and wants. The social impact of the financial crisis can be seen more obvious in the developing countries where the poor are being severely hurt during the crisis as demand for their labor falls, prices of essential commodities rise substantially and social services are cut. The consumers cannot prevent the fall in total expenditure; they tend to adjust the basket of goods purchased. People may start buying less quantities, or switch to larger size items to avoid repeated purchases. They also started to switch brands, and focus on price rather than quality and they also have started to intensify the search on the web looking for valuable bargains (Durra Mansoor, 2011).

The buying behavior is considered a very complex phenomenon because it consists of a wide set of prior and after purchase activities (Hansen, 2004, p. 9). The buying process has five stages: recognizing the problem or need, searching for information, evaluating the alternatives, the purchase and the final stage, reevaluating the choice made.

There are four distinctive classes of consumer buying behavior identified by the literature. What differentiate these classes can be observed thorough the frequency of occurrence, emotional involvement, decision making complexity and risk. These types are known to be: programmed behavior; limited decision making buying behavior; extensive decision making buying behavior and impulsive buying (Arnould, 2002, p. 172).

Programmed behavior (also called habitual behavior) is distinguished by low complexity and little information search, this process is usually known as routine purchase of low cost items that consumer is used to buy out of habit: such as coffee, newspapers, bus tickets, etc. (Learn marketing, 2008). Limited decision-making buying behavior involves reasonable level of decision making and relatively low amount of information search in order to generate a purchase (Mansoor, 2011).

The extensive decision-making buying behavior is identified as being the opposing type to the limit decision-making buying behavior (Foxall and Goldsmith, 1994, p. 165). In this process the consumer would spend a relatively longer share of time in information search and would take longer period to make a decision regarding this purchase because this process is usually adopted when purchasing infrequent expensive product that takes a large share of the consumer's income and involves higher psychological risk (Peter and Olson, 2007, p. 89). The consumers pay more attention with their budget to spent, so they reduced the quantity of the products or changed the brands that they used to buy into cheaper ones, most of the times searching for the best price and bargains. These is a shift from expensive to inexpensive substitute, a shift from luxury to essential, a shift from huge quantities to small quantities and a shift from consumption to saving (Mansoor, D. and Jalal, A, 2011).

Alignment with the consumer needs in different countries, allocating product or service correctly is a challenge for the company. Consumers can choose products not just because they can bring the greatest satisfaction at the lowest price, but also to express personality, social status or group affiliation of consumer needs, choices and the consumer preferences for a particular product are generally affected by significant social cultural influences.

3. Consumer behavior

This paper's main objective is to analyze the influence of the Chinese products on the European markets, especially on the Romanian market, with special attention given on factors that influences consumer behavior. Before the European integration, Romania was a market with a great potential for the European products. Being a part of EU countries was a challenge because economical speaking the country was having an intense economical growth, but after a year the European countries faced the financial crisis on the global scale. So indirectly Romania was affected too.

Meanwhile in the Asian countries the global crisis was perceived on a smaller scale. China was developing to the fullest and was exporting a wide range of products. Republic of China is the largest country in East Asia and the most populated in the world. State is a booming economic and social. This has made Chinese consumers faced a new challenge, he must choose between maintaining traditional buying habits or total rethinking buying habits to effectively absorb the supply of foreign products in China.

Alignment with the consumer needs in different countries, allocating product or service correctly is a challenge for the companies. Consumers can chose products not just because they can bring the greatest satisfaction at the lowest price, but also to express personality, social status or group affiliation of consumer needs, choices and the consumer preferences for a particular product are generally affected by significant social cultural influences (Kiefer Lee, 2009). Monroe and Gultiman (1975) reckoned that consumers select a store first and then determine the product to be purchased within the store. In addition, they also considered that store choice is affected by the attitude towards store which, in turn, is influenced by the store's image. However recent studies made have seldom considered brand/store choice for a product that the purchaser buys for some to consume or use. (Yau, Chan si Lau, 1999).

In terms of empirical, emotional state is a decisive factor determining consumer purchasing decisions. The products that most of the time have a low monetary value at very low level of excitation of the senses, may induce to the consumer a habit behavior. As the product is more

expensive to both emotional level and monetary resources, the enjoyment will be higher. Purchase satisfaction, but previous acquisition and utility product directly influence consumer behavior. Chinese products are charged according to their utility (kitchen utensils, items of clothing, appliances and electronic items - laptops, iPads, mobile phones, tablets, e-readers) as having lower prices than products coming from the U.S. or Western Europe.

The financial crisis has increased the sensitivity of both buyer price and quality but unlike the previous crisis period, the origin place of the product is part of the top 10 reasons when the consumer plans to buy it. Lately the origin of the products is a crucial factor in purchasing decisions of consumers. They attribute the home to the product. Products manufactured in China can be seen in almost every category of goods, in world markets and the Romanian market could not be excluded. (Masoud Karami, Shahrzad Pourian, Omid Olfati, 2012).

In the sphere of marketing, reputation of products from certain countries has resulted in the concept "country of origin effect". The country of origin can be defined as any influence on the country of production, assembly, or the country where the product has been designed on consumer perception and behavior. A company competing in global markets produce goods worldwide, when the consumer becomes aware of the place of production, it is possible that this element to influence brand image (Ph. Cateora., 2006).

The country of origin means the influence of all factors associated with a country that plays a role and the assessment process products from that country. Lampert and Jaffe (1998) defined the home as "the impact that generalizations and perceptions about a country have on how an individual evaluates the products and brands." Country of origin is used rather as a strong indication in terms of quality brand than a precise definition of it. (Jean-Claude Usunier, Julie Ann Lee, 2005). China is the largest importer to the United States, with Chinese imports equaling \$321,443 billion in 2007, an increase of 11,7 % over 2006. China alone accounted for 16.5 % of U.S. total imports in 2007. Other major importers to the United States include Canada, Mexico, Japan and Germany. Significantly, none of these countries has experienced major recalls or safety issues rivaling the magnitude of Chinese goods. (Berman and Swani, 2010). A disproportionately high number recalled goods have been produced in China.

4. Methodology

In order to validate some of the ideas mentioned above, we applied an online questionnaire to various types of people. The scope was to obtain information about the Asian products and their quality and prices and the Romanian consumer. The quantitative part of the research identifies the reasons that economic status of the country pushes the consumer to buy. The four objectives of the research had focused on the factors that influence the buying decision, the products country of origin, income and group that influences the buying decision.

The population of this study was formed of male and female shoppers that had 18 and above, from Bucharest Romania. The study was applied online and the majority were university graduates. 42 % of respondents go shopping twice a week. There were only 112 questionnaires with a response rate 77%. However 26 questionnaires were incomplete, resulting only 86 completed. 74% of the respondents had between 20 and 40 years old, and 60% were females, and 40% were males. Usually, when buying people are influenced by family state of mind, attitudes towards products and recommendations of the friends or previous usage.

Research goal is to determine Romanian consumer attitudes towards products imported from China.

Research hypotheses

H1. Romanians believe the consumer products imported from China have questionable quality.

81% of respondents believe that the likelihood that products imported from China have questionable quality is high or very high.

H2. Romanian consumers associate low price with low quality. For over three quarters of respondents, the low price is a factor that arouses suspicions regarding the quality or inducing the idea that the product is inferior.

H3. Romanian consumers are willing to pay a higher price to buy a product from another country if they had a higher shopping budget. 46% of respondents said they are willing to pay a higher price to buy a product imported from another country than China, while for 40% of them is not important country of origin of the product.

H4. People believe that great brands image was not affected by outsourcing production to China. 67% of respondents feel great brand image was not affected by outsourcing production to Chinese market, either because they are not aware of this outsourcing, either because they have noticed changes in terms of product quality.

5. Results and Implications

The paper makes two important contributions to the existing literature: the first one is an empirical research, of the Romanian consumer that chooses Chinese products, and the second the paper extends the knowledge of a short Romanian consumer profiling that most of the times buys Chinese products because are cheaper.

During research it was observed that Chinese products on the Romanian market influences the consumer buying through the price, quality and the way is used. Depending on the type of product (clothing items, food, toys) and their frequency of purchasing, is higher in the household, unlike electronic products that have a frequency purchase lower (mobile phones, notebooks, tablets, e-readers).

They show that although the quality is low the Romanian consumer is unable to buy items with a higher quality or price so he prefers the Chinese products. But there the consumers with low to medium income prefer to make an effort and buy products with a higher quality or prefer to wait for bargains and promotions.

At the question 'Have you ever bought Chinese products?', 35% of respondents didn't buy such products, because they think they have a low quality, 11% because it would affect their image and 25% are afraid of some allergies that could be caused by counterfeit products. On the other hand, purchasing these products was made because of low income in most cases. 16% prefer to buy Chinese products because they are cheaper than the original products made in other countries, and 8% because they have a low budget. Only 5% of respondents said they had not noticed any difference in terms of quality between the two types of products. International brands have always been an inspiration to production in China. The luxury products concerned are generally food, drinks, clothes, perfumes and mobile phones. 37% of the respondents said they rarely or very rarely check the country of origin on product labels. 31% check it sometimes, and the remaining 32% check the labels frequently or very frequently. "Have you ever changed his mind about buying a product that has drawn just because it was produced in China?", 38% of respondents admit that they changed their mind about buying a product after they learned that it was produced in China. For 62%, the country of origin is not disturbed and not a hindrance in buying the product.

China is the largest importer to the United States, with Chinese imports equaling \$321,443 billion in 2007, an increase of 11,7 % over 2006. China alone accounted for 16.5 % of U.S. total imports in 2007. Other major importers to the United States including Canada, Mexico, Japan and Germany. Significantly, none of these countries has experienced major recalls or safety issues rivaling the magnitude of Chinese goods. (Berman and Swani, 2010).

6. Discussion and conclusion

This paper is focused on analyzing the factors that influence the consumer behavior during the crisis and those that they made about Chinese products. Consumer behavior can vary depending on a number of factors, such as income, demographics, social and culture factors.

International economic crisis that was installed in Romania in recent years has reduced the number of jobs and income. For this reason, consumers have begun to turn to cheaper products, such as those imported from China. Noticing this trend, retailers have entered the Romanian market more and more products like this, having held such an invasion of Chinese products. Today, consumer goods from China dominate many markets. Lower purchase price often makes Chinese goods represent an attractive option for consumers. On the other hand, the quality of Chinese products has proven to not comply with the quality expectations of the consumers, based on the use of products manufactured in other countries. Thus, compared to products manufactured in other countries, the Chinese are perceived as having low quality and a lower value.

Because the study was conducted on a homogeneous sample that may not be representative and the results generalized to a larger scale would be difficult. It is therefore necessary to perform other more complex studies about consumer perception about luxury products from China or the changing trends in the consumer buying behavior in global economic crisis.

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DEVELOPING AND PROPOSING A CONCEPTUAL MODEL OF THE FLOW EXPERIENCE DURING ONLINE INFORMATION SEARCH

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Information search is an essential part of the consumer's decision making process. The online medium offers new opportunities and challenges for information search activities (in and outside the marketing context). We are interested in the way human information experiences and behaviors are affected by this.

Very often online games and social web activities are perceived as challenging, engaging and enjoyable, while online information search is far below this evaluation. Our research proposal implies that using the online medium for information search may provoke enjoyable experiences through the flow state, which may in turn positively influence an individual's exploratory information behavior and encourage his/her pro-active market behavior.

The present study sets out to improve the understanding of the online medium's impact on human's exploratory behavior. We hypothesize that the inclusion of the online flow experience in our research model will better explain exploratory information search behaviors. A 11-component conceptual framework is proposed to explain the manifestations of flow, its personal and technological determinants and its behavioral consequence in the context of online information search.

Our research has the primary purpose to present an integrated online flow model. Its secondary objective is to stimulate extended research in the area of informational behaviors in the digital age.

The paper is organized in three sections. In the first section we briefly report the analysis results of the most relevant online flow theory literature and, drawing on it, we are trying to identify variables and relationships among these. In the second part we propose a research model and use prior flow models to specify a range of testable hypothesis. Drawing on the conceptual model developed, the last section of our study presents the final conclusions and proposes further steps in evaluating the model's validity. Future research directions include improving the model and hypotheses testing.

Keywords: flow experience of online search, structural and conceptual modeling, behavioral outcome

JEL classification: M30, M31, M39, D83, L86

1. Introduction

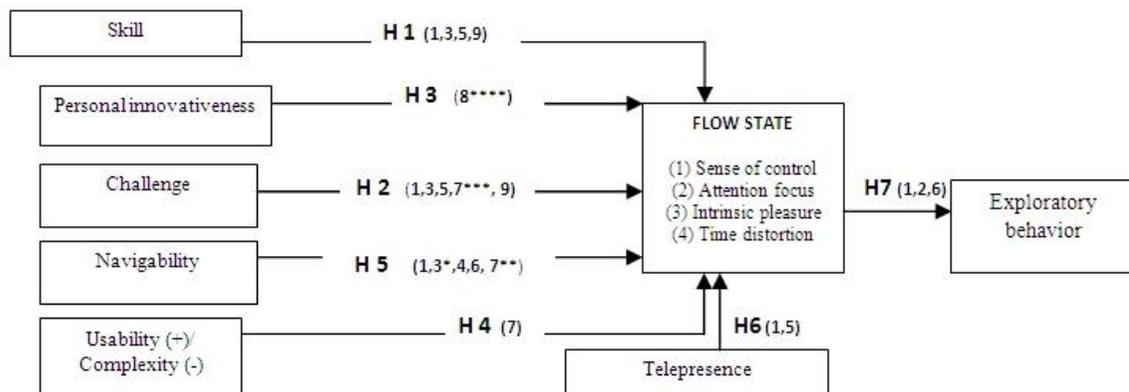
Flow helps anticipating users' behaviors in an indirect way. It supports prediction of some mental states that further influence behavioral patterns. We consider that expanding the body of work on online flow in the information search area may improve marketers understanding of informational behaviors in the digital age and provide inspiration for more efficient communication strategies. Investigating factors that facilitate flow experience in online information search is of both theoretical importance and practical relevance. An in-depth understanding of how consumers experience information gathering online is critical to marketing programs.

Our study sets out to create a better understanding of the factors affecting entering and maintaining a flow experience during online search. We posit that flow is important to the study of informational behaviors in the digital age because it serves as a key antecedent to a more exploratory mindset and thus to more consumer generated value. The article presents a summary of the reviewed literature and a new model which combines cognitive and design elements.

We propose that the levels of interactivity and usability of web platforms, as well as the innovativeness towards web 2.0. search applications and web literacy of the users or the state of being telepresent in the online medium are critical for entering a flow state during online information search and becoming more exploratory in one's information behavior.

2. Theoretical Basis of the Conceptual Model Proposal

The research model proposed in the present study is an empirically based integrative conceptual one, built upon previous causal flow models (Figure 1).



Studies that investigated relationships described in the present model:

- | | | |
|------------------------|---------------------------------------|-----------------------------|
| 1. Novak et al. (2000) | 2. Korzaan (2002) | 9. Mathwick & Rigdon (2004) |
| 3. Koufaris (2002) | 5. Skadberg și Kimmel (2004) | |
| 4. Huang (2003) | 6. Richard și Chandra (2005) | |
| 7. Guo și Poole (2009) | 8. Agarwahl și Karahanna (2000) ***** | |

* Koufaris tests the influence of *value-added search mechanisms* on flow

** Guo and Poole tests the influence of the *feedback mechanisms* on flow

*** Guo and Poole tests the influence of the *balance of challenge and skill* on flow

***** Agarwahl and Karahanna use a flow related construct: *cognitive absorption*

Figure 1 Theoretical foundations of the research model proposed

Source: developed by author

Hoffman and Novak (1996:57) defined online flow as “the state occurring during network navigation which is: 1) characterized by a seamless sequence of responses facilitated by machine interactivity, 2) intrinsically enjoyable, 3) accompanied by a loss of self-consciousness, and 4) self-reinforcing”. They developed a conceptual model which considered *challenges, skills, focused attention, interactivity* and *telepresence* as flow state antecedents, while the complete list of flow consequences mentioned by them includes: *increased learning, perceived behavioral control, exploratory mind-set, positive subjective experience*. Flow itself is an one-dimensional construct in their view.

The initial conceptual model of Hoffman and Novak (1996) was further improved and tested by Novak et al. (1998; 2000). One of the main changes brought to the original Hoffman and Novak's model (1996) is that the new model (Novak et al., 2000) considers the construct of *control* as being an antecedent instead of a consequence. However, flow is also considered an one-dimensional construct, and is tested only in the context of general web usage.

All further major flow structural models identified by our literature review are, more or less, built upon the pioneering work of Hoffman and Novak (1996). Koufaris (2002) uses the flow theory to investigate how emotional and cognitive responses to online shopping affect online

consumer behavior, especially their intention to return to an online shop and the probability to make spontaneous purchases. His model relates constructs from the flow theory with elements from the Technology Acceptance Model (Davis, 1989), such as *ease of use* and *perceived usefulness*, as well as other determinant factors for emotional and cognitive responses, for instance *product involvement* and *value-added search mechanisms*.

Huang (2000) uses a multi-dimensional structural model that proposes and tests *complexity* (represented by information load), *interactivity* (here, the level of information exchange) and *novelty* (new, unfamiliar, surprising events) as flow antecedents – that is as defining factors of commercially compelling websites. Skadberg and Kimmel (2004) empirically evaluate visitors' flow experience while browsing a website. Their flow operationalization is three-dimensional, including *time distortion*, *enjoyment* and *telepresence*. Guo and Poole (2009) test the complete structure of the flow model, as it was originally formulated, in an online shopping context. Their model posits that the impact of an informational technology's features on flow would be mediated by the three preconditions of flow: *balance between challenge and skill*, *goal clarity* and *feedback mechanism*.

3. Design Methodology of Conceptual Model

In this section we will present a detailed picture of the empirical background of each hypothesis proposed and will reveal the methodology of building our research model. Drawing on a thorough flow literature review we have categorized flow factors into flow antecedents, flow dimensions and flow consequences.

In the reviewed articles we have identified some major antecedents of a holistic flow experience (Table 1). These include the *skills* necessary to overcome online *challenges* – as well as the challenges themselves, which need to go beyond the average daily level (Novak et al., 2000; Koufaris, 2002; Skadberg and Kimmel, 2004; Guo and Poole, 2009). Important technological antecedents of flow in the online medium tested by the reviewed empirical studies are: *interactivity* (Novak et al., 2000; Koufaris, 2002; Huang, 2003; Skadberg and Kimmel, 2004; Guo and Poole, 2009), *complexity* (Huang, 2003; Guo and Poole, 2009) and *telepresence* (Novak et al., 2000; Skadberg and Kimmel, 2004). Another category of online flow predictors (or of the similar state of *cognitive absorption*) identified by the literature review are the personal factors – others beside *skills* (Finneran & Zhang, 2005; Moore & Chipp, 2005; Li & Browne, 2006), from which we have selected the user's *innovativeness towards information technologies* (Agarwal and Karahanna, 2000).

In developing our research model we have opted for a multi-dimensional flow conceptualization, as suggested by the some of the reviewed empirical studies (Koufaris, 2002; Pace, 2003; Huang, 2003; Skadberg and Kimmel, 2004; Guo and Poole, 2009). *Attention focus/concentration* (Koufaris, 2002; Huang, 2003; Li and Browne, 2006; Guo and Poole, 2009) and *control* (Koufaris, 2002; Huang, 2003; Li and Browne, 2006; Guo and Poole, 2009) are fundamental flow dimensions. While in a flow state, people do not have any room in their minds for any distractions, worries or irrelevant thoughts. They also feel a sense of control over their actions, which drives away concerns about failure. A flow activity is also a *self-contained activity* defined by intrinsic pleasure (Koufaris, 2002; Skadberg and Kimmel, 2004; Li and Browne, 2006; Guo and Poole, 2009). Another commonly reported dimension of the flow experience (Skadberg and Kimmel, 2004; Li and Browne, 2006; Guo and Poole, 2009) is *time distortion* (also called *transformation of time* or *temporal dissociation*). A distorted sense of time makes time appear to pass very slowly or very rapidly compared to an ordinary experience.

A particular consequence of the flow experience of online search is of special interest to this study: exploratory informational behavior patterns. Several studies explore the connection between flow and exploratory behavior (Novak et al., 2000; Korzaan, 2003; Richard & Chandra,

usefulness, ease of use). In Skadberg and Kimmel's study (2004) only the hypothesized positive relationship between pleasure and flow was validated, while time distortion's (the second flow dimension) relationship to flow proved statistically non-significant (Table 1). Guo and Poole's (2009) empirical tests also confirmed a positive influence of the balance between challenge and skill, and the feedback mechanism on flow in an online shopping context. Flow itself was measured through the constructs of concentration, merging of action and awareness, time distortion, loss of self-consciousness and autotelic experience.

Based on these results, we propose that high levels of search skills and search challenges (such as finding the right keyword or recognizing relevant results) determine high levels of flow during online search. We anticipate that, when information search is challenging and the online searcher is knowledgeable about using information and information technologies, he is likely to enter a mental state characterized by deep concentration, enjoyment and no concerns about losing control or feeling under pressure.

H3: The level of personal innovativeness towards online search tools positively influences the flow state intensity during online search.

Innovativeness in the domain of information technology is conceptualized (Agarwal and Karahanna, 2000:677) as "an individual trait reflecting a willingness to try out any new technology." Based on this definition, Agarwal and Karahanna (2000) posited that the users' beliefs about, or their perceptions of information technologies have a relevant impact on their technology usage behaviors. In their study they have validated the anticipated relationship between personal innovativeness and the flow like state of cognitive absorption. Innovativeness explained 42% of the variance in the respondents' involvement state with technology.

Based on these results we have formulated our own research hypothesis. We build on the premise that the higher the level of innovativeness (openness) towards the online search tools, the more intense the flow state experienced by the user during a web session. Willingness to try out new web search solutions can enhance users' emotional and cognitive involvement in information search activities.

H4: The level of web usability positively influences the flow state intensity during online information search.

H5: The level of online interactivity positively influences the flow state intensity during an information search activity on the web.

A series of studies regarding online flow support the importance of web page design elements as antecedents of the flow state (Huang, 2003; Guo and Poole; Koufaris). Novak et al. (2000) confirmed a statistically significant relationship between the *speed of interaction* and flow. Huang (2003) tested web site *complexity's* and *interactivity's* influence on flow. The validation of their hypotheses revealed the fact that users' *attention* (a fundamental flow dimension) is distracted by the complexity of the web site and that interactivity is a key factor in creating hedonic flow experiences.

Unlike their predecessors (Novak et al., 2000; Skadberg and Kimmel, 2004; Huang, 2003), Guo and Poole (2009) underlined that the effects of the *site complexity* on the flow state are mediated by pre-conditions of the flow state, that is, by the *balance of challenge and skill*, the *clarity of goals* and the *feedback mechanism*. However, the results of their empirical study only confirmed the positive relationship between the *balance of skill and challenge*, and the *feedback mechanism* – on one side – and the flow state, on the other. The research also validated the effect of the web site complexity on flow through strong negative correlations with all the three of its pre-conditions and proved the superiority of indirect influence over direct influence.

Based on the multiple results presented, we posit that the degree of interactivity of the online search interfaces and the usability level of the online informational medium enhance flow experiences during online search. High levels of usability correspond to reduced levels of complexity.

H6: The telepresence state induced by search interfaces is positively related to a flow experience during online information search.

Novak et al. (2000) tested the positive relationship between telepresence and flow during online activities with relevant results. Through a model fitting process, Skadberg & Kimmel's empirical study (2004) identified telepresence as a flow dimension, rather than a flow antecedent. Even if early flow studies and models developed in the 90s and in the year 2000 couldn't imagine telepresence appearing during online search (as compared to online games, for example), we consider that the latest social and video search instruments online facilitate complete online telepresence during information search. Based on this argument we have formulated our sixth hypothesis.

H7: The intensity of online flow is positively related to the level of exploratory informational behavior.

Hoffman and Novak (1996) were the first to hypothesize a positive relationship between the flexibility of a hypermedia environment and the consumers' exploratory behavior, a hypothesis later successfully tested by Novak et al. (2000). Based on this and further empirical findings (Korzaan, 2003; Richard and Chandra, 2005; Huang, 2006) that validated exploratory behavior as a consequence of flow in online contexts, we suggest that individuals deeply involved in online information search activities will exhibit more exploratory informational search behaviors. Exploratory information behavior is one of the exploratory behavior's dimensions – alongside of exploratory buying behavior.

4. Conclusions and future research directions

The conceptual model we have developed in the present study owes an important debt to previous models of flow conceptualized in the context of human-computer interaction, but it is unique in specifically representing information experiences in the new hyper-interactive online medium conventionally called *web 2.0*. Our literature review proved that the various constructs used in flow models changed in importance over time (especially those representing technological factors) and that this fact requires a permanent re-evaluation of theoretical constructs used in connection to web technologies.

The individual components of the model need to be further investigated and empirically tested. The overall approach will be a field study using a survey methodology for data collection. A quantitative measure of the model's constructs will be adopted by developing questionnaires, along with a reliability check of the different underlying factors. Subsequently, a testing of the hypotheses is needed to demonstrate complete validation of the instrumentation.

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BARTER-BASED TRADE – THE ENGINE OF THE ECONOMIC RECESSION

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Through this paper I would like to identify the main reasons that encourage firms to make barterers. I would also like to find out who are the more likely to do this exchange and what are the main objects or services which are the subject of barterers. This kind of exchange was present in ancient economies like the ones of the Egyptians or Indians. Even though there was no currency, an account unit was present, generally gold. I am attracted by this subject because the barter economy didn't disappear totally when the currency based trading began growing. In my opinion, a healthy economy should have a strong currency economy, but the businesses should seek partners willing to make barterers. This kind of trading makes both partners happy – they get what they want, they don't have to pay any money and they reduce their stock. If all economic agents would understand the benefits of being a barter trade practitioner than the economic growth would appreciate faster. This research is a small incentive for business owners to grow their deals even more. It's very likely that after gathering some knowledge and finding out all the benefits of barter trading more and more company owners would like to do swap goods for any kind of needed service or product. The working hypothesis is that respondents are aware and make barterers in proportion of 80%.

Key words: economy, barter trade, recession, economic growth
JEL code: M31, F19

1. Introduction

Since ancient times, mankind had the need to swap things, ie to do barterers. This kind of economy is present from prehistory. People's needs and preferences evolved a lot, from the need to get some meet to satisfy their hunger, offering anything else in exchange, to the need to go in a luxurious cruise by paying a large amount of money. The difference between those days and these are that we have money as a standard. In this evolution, gold, silver or copper was also a standard. The economic system has strong concepts and money or gold are, and were, a very good standard, except the time when they are missing from the market... Why are they missing? Because someone or an interest group wouldn't like them to be the subject of market transactions in order to have cheaper products, services or workforce. Due to the lack of currency, the barter is a very precious way to get goods or services during a recession, not being forced to pay money in exchange. Through this process you can satisfy your specific needs and offer your partner the goods or services that you provide. It's very difficult to find the business comrade that offers the good you need and needs the good you offer. To solve this problem a web page can be created. For example www.barterstockmarket.com is a free domain. This swap need is more and more present on social networks and people appreciate this kind of swap. For example Florida Barter's Facebook page has over 1012 members. Romania also has a group of 2640 members, most individuals, not economic agents. The Greek town of Volos has its own barter market where people share products through the TEM virtual currency. The value of the goods a person brings is stored in a local computer network allowing him to spend that value on whatever he choose (mostly food). The network numbers over 800 members and it's still growing. Due to the high unemployment rate, people that desperately need a place to work are accepting jobs paid in TEM's. A flower producer from Volos is one of the companies that offer TEM in exchange of money. The employees are happy that they have a job and can "buy" their essentials from the barter market. This is the perfect example that shows that the weakest economies resort to barterers.

It's more likely that an absolut barter economy could not exist due the fact that governments wouldn't collect working equipment or cows as taxes. In nowadays economy money are the main enginge, but barthers sure play an important role in market transactions. It also can avoid inflation and maintain stability. For this shift to be made a cooperation and understanding system is needed, based on real needs, direct exchange of goods, services and information between partners. Free market and the awareness that each person has, being interconnected creates the system. The individuals are more likely to do barthers because firms have a very difficult hierarchical order and if you, as a business partner, do not talk to the decision maker, ie the owner or administrator of the other company, you are wasting your time. If a barter-based economy would be created there should be a very precise exchange rate which should include all rates and the fluctuations should be very low.

2. The barter-based economy context

Profile studies show that the trend of barter adoption is more present in the whole world. From Queensland, Australia(Liesch and Birch 2000: Community-based LETSsystems in Australia: Localised Barter in a Sophisticated Western Economy) to Johannesburg, South Africa(Mpinganjira and Oliver 2010: Impediments to barter trading: Analysis of practitioners and non-practitioners perceptions). In Australia the so-called LETS(Local Energy Transfer, Local Energy Trading, Local Employment Trading, Local Exchange Transfer, Local Exchange and Trading) barter Systems were created in 1998 and their main aim was to utilise more fully the skills and resources within the local community and to provide a mechanism by which the community can remain viable and self-sufficient. LETSsystems are based on the premise that a community's wealth lies in its goods and services, the skills of its people, rather the amount of money available to it, and thus is not linked to traditional "employmnet" which is heavily dependent on money(Jordan 1990: 1).

Some authors agree that the barter-based economy could refresh the modern economy by increasing the number of trades, on the other half other authors support the theory that the healthiest economy is the money-based one.

People begin to understand the opportunities that this kind of economy is providing. There are also some impediments in barter trading. Many factors can prevent goods and services exchanges, from a very restrictive legal system to the man's need to have real money. By doing only swaps it's very likely to run out of cash and not be able to pay your taxes and fees.

Barter is used for a long time. In 1979 the International Reciprocal Trade Association was founded to facilitate access on barter information.

All research has its limits due the fact that you cannot interview all economic agents.

3. Research methodology

This study was made on a sample of 30 firms, based in Alba Iulia, Romania. The research universe was divided in three intervals. The allowance method was used as a sampling method. Ie there were administrated 30 questionnaires, 10 for each interval. The criterion upon which the division was made is the turnover(a.<100 000 RON; b.[100 000 RON-1 000 000]; c >1 000 000).

As a working tool a 13 questions questionnaire was used. It was pre-tested on a sample of 6 companies and administrated during 16-20 April 2012. The data was analyzed with the help of SPSS.

I. *What kind of company do you lead?*

a) *Limited*

b) *Corporation*

c) _____

II. *How many employees do you have?*

- III. *The year you've set up your company?*
-
- IV. *What is your main activity?*
-
- V. *Your turnover is between(RON/year):*
- a) *<100 000*
 - b) *[100 000; 1 000 000]*
 - c) *>1 000 000*
- VI. *You have available cash:*
- a) *Very few*
 - b) *Few*
 - c) *Much*
 - d) *Very much*
- VII. *Did you ever barter?*
- a) *Yes*
 - b) *No(if this is your answer, please pass to question XII)*
- VIII. *Where you pleased of the counter benefit?*
-
- IX. *What kind of goods or services were the object of the barter?*
-
- X. *Which was the highest barter value(RON/year)?*
-
- XI. *Are you willing to barter again?*
- a) *Yes*
 - b) *No*
- XII. *Which do you think the barter benefits are?*
-
- XIII. *Do you agree with money elimination?*
- a) *Yes*
 - b) *No*

4. Results

The results of the study are very interesting. My initial belief is true and I can say that the objectives of this study were met. 24 of my respondents said that they have made one ore more barterers. The most firms are limited companies. Among the 6 who said they didn't barter are a hairdressing saloon, a meat factory, a real estate company, a souvenir shop, a water distribution company and a bank. For the bank, it's quite difficult to make a swap because it offers mostly money that are not the object of a barter. If they could offer their financial services in exchange of goods or services without added operations charges for the partners that have an account opened at their branch.

All corporations have their turnover over 100 000 RON/year and 4 of them have turnovers over 1 000 000 RON/year. There are 6 limited companies that also have turnover over 1 000 000 RON/year. The most economic agents that didn't barter at all(3) are the ones that have a turnover higher than 1 000 000 RON/year. Firms that have a bigger turnover are the ones that were set up earlier. There are no companies started after 2006 that have this turnover.

The activity domain of the interviewed respondents are vast: from commerce(4) or advertising(2) to hairdresser, IT, quarrying, pavements, consulting or souvenirs. The ones that have big turnover are the firms where the main activity is agriculture, banking, gas, porcelain, advertising, sanitation or water distribution.

The biggest barter value was the one of a construction company that swaps new built houses at the periphery with central located apartments. The value is around 400 000 RON/year. Another big barter value is for a firm that produces pavements and made a swap with a construction materials company for raw materials in exchange of paving its yard. The smallest barter value was for a lake owner who offered fish to a cleaning firm to beautify the lake. The value was around 500 RON. Another small value was for a commercial operator that offered products that he traded for a cash register for 700 RON.

Only a firm from a total of 24 that made a barter said that it was not pleased of the counter benefit. It is a grocery store set up in 2008 that offered vegetables for tools. The reason that it's now willing to barter again is that the tools were bad quality. The value was around 600 RON.

There are 2 economic agents that were pleased of the counter benefit but they are not willing to barter again. Both agents have their activity based on commerce and one of them bartered a health insurance for its employees.

The benefits of barter are seen different by my respondents: from advantage over competition answers of press and advertising firms to customer loyalty seen by the quarrying firm or the accounting services one. The most answers were that it helps you increase sales(7) and it reduces costs(6). 2 of the respondents said that this kind of swap is a win-to-win situation. Only 1 economic agent thought that the barter has no benefits.

From the total of 30, 29 affirmed that they don't agree with money elimination. The only economic agent that said that it would be no problem for him to work only by barter was an advertising firm with low turnover. I can say that the answer is quite natural because he said that one of barter's benefits is expanding the distribution channel.

Start-up businesses are the most that didn't make a swap. 3 of them were set up after 2006. The old firms are likely to understand the benefits of this kind of exchange.

The number of employees is not conclusive when it comes to barter. There are 2 firms that have 1 and 2 employees that didn't barter at all, as well as 2 that have over 140 employees.

5. Conclusions and further concerns

In conclusion, an analysis at a relatively small scale was made to overview the main reasons that encourage economic agents to swap goods and services. For the future, it would be very interesting to do a regional or national research and compare the data with the one obtained in this study.

The results reinforce my initial belief that most businesses are willing to swap goods and services due to the lack of money on the market. Exchanging things you produce makes it easier for you to obtain the things you need "at a fair price". It is a win-to-win situation where the additional value paid for the product you need is balanced with the additional value for the product you offer. You can say that you gain something with 20-30% less. Barter should be a very fair trade, therefore the added value of assets that make the exchange object should be the same.

Nowadays due to the financial crisis, small firms are even more desperate to swap goods or services. If they don't find out a need for the products they make, an economic agent from which they need a good or service, they try to find out another company that needs their good and fulfill the need of the second partner in order to make a 3 way barter.

This habit was present in men's life from the beginning of time by trading food, tools or goods; it couldn't disappear suddenly because it has many benefits. It is still present at a reduced scale due to governments' interest in collecting fees and taxes. There is another important player that wouldn't like this system: banks. They are the most powerful and influential players on the market. All important decisions are taken by bankers. The more money they produce, the more power they have. If a barter-based economy would appear, then they would disappear, and who would like this...

A barter-based transaction it`s generally considered a fair one and partners tend to do business again and even befriend. I think that it`s because it removes the idea of man`s quest for money. It is observed that the main subject of swaps are services. Those are the ones that are not at the base of the need`s pyramid, they are harder to sell and people tend to empty their pockets harder. So if you would really like you business to thrive you must adapt to market conditions and give barter a chance. I guess this is the engine that gets us out of the recession because it`s based on fair trade!

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ROMANIAN MOBILE TELECOMMUNICATIONS CLIENTS' CONSUMPTION BEHAVIOUR WITHIN THE CURRENT ECONOMIC-FINANCIAL CRISIS

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The paper will analyze the consumption behaviour of the Orange mobile telephony company's clients towards its services' characteristics within the current economic financial crisis, taking into consideration the following elements: the low tariffs (for calls/ subscriptions/ other services), the quality of calls/ of sound, the network coverage within the territory, the company's reputation, the negotiated offer, the quality and availability of the customer care service, the diversity of the auxiliary services, the range and prices of the mobile telephones, the costs that pay those who make calls towards this network, the loyalty programs, the usage of a last generation technology, the friends have subscriptions in the same network and the promotional offers. For a thorough research we will divide the operator's clients into natural persons clients and legal persons clients, each group having its specificities. The data gathering method was the questionnaire sent by post office to all the Orange Romania branches (a total of 225 branches). We received a number of 64 responses, what means a responses rate of 28.4%, which were analyzed using the SPSS informatics program focusing on the correlation analysis and factor analysis. The main results emphasize the fact that the fight to attract clients becomes more and more powerful. The very competitive market leads to the growth of the importance of the price in choosing a provider. The operators' short term gains from the clients that prefer low prices represent a long term risk of image. Choosing some services packages is sometimes very difficult due to the complexity of the offer. The clients expect the service to work, be simple and easy to use. They want to benefit from rapid and efficient assistance if errors occur and the operator respects the clauses of the contract. The results obtained through this study, allowed us to make an opinion on the perspective that the operators have on the mobile telecommunications market from Romania. The authors' contribution consist in making a research in a specialised field covering both the natural persons clients and the legal persons clients of the mobile telephony operators from Romania..

Keywords: consumer behaviour, mobile telecommunications industry, economic-financial crisis

JEL Classification: M31, G01

Introduction

The current research is based on the intersection of the theoretic element (that of the methods, techniques and instruments of marketing) with the development of the mobile telecommunications companies that are present on the Romanian market within the context of the economic-financial crisis. There comes the need for the analysis of this extremely competitive sector. The main research direction can be defined as follows: *How do the mobile telecommunications companies' clients behave in choosing the providers' services within the economic-financial crisis environment?* The results obtained through this study, allowed us to make an opinion on the perspective that the operators have on the mobile telecommunications market from Romania.

Literature review

Stopka (1996, p. 72) analyzes the demands of three groups of consumers: *natural persons, legal persons – small and medium businesses, legal persons – big businesses*. **The business clients** represent the most important part of the telecommunications' services clients. The new technologies and services' success is due to the business market (McGinty, 1997). The spread of new technologies in the business sector is sustained, firstly, by the high financial resources of the companies and, secondly, by the rational decisions of obtaining a competitive advantage. The natural persons users are not preoccupied by the competitive advantages and, thus, they will adopt the new technologies within a longer period of time. (Seufert, 1996).

An approach in two stages is made for the **segment of the natural persons clients**. Within the first stage, the different groups of consumers from this segment are described, allowing the identification of the most attractive and valuable clients for the operators from the local sector. Within the second stage, the factors needed for the competition's existence on this segment are analyzed. The amount of money that the natural persons clients spend on telecommunications services depends on a diversity of factors. The most influential factors are: the incomes, the technology and the socio-demographic repartition of the population or the households. (Langen Windler, 1997, p. 91). The income factor is determined by the amount that a household can spend on telecommunications services. The households with high incomes can use last generation telecommunications equipments. Thus, we can say that the higher the incomes of the households are, the higher the amount of money spent on telecommunications is. The telecommunications services for the natural persons consumers are seen as homogeneous goods for which the subscribers pay the lowest possible price. The natural persons clients represent almost 60% of the operators' total incomes. They also represent the demand services at low prices. The natural persons' clients are more homogenous regarding their needs than the business clients. They can use the basic telecommunications service and network services with added value. The access technology and services are less sophisticated than those for the business consumers. Thus, the owner of an access network to telecommunications can offer a standard service, from which the subscribers can choose the wanted services. In exchange, a connection for a natural person client needs high costs and, due to the low turnover, the return of investment period is very long.

Research methodology

The data gathering method was the questionnaire sent by post office to all the Orange Romania branches (a total of 225 branches). The addresses of these mobile telecommunications branches were taken from the Internet site of the Orange Romania mobile telecommunications operator (www.orange.ro). We received a number of 64 responses, what means a responses rate of 28.4%, which were analyzed using the SPSS informatics program focusing on the correlation analysis and factor analysis.

The purpose of this research consists in determining the consumer behaviour of the Orange Romania mobile telecommunications operator within the economic-financial crisis. For accomplishing this goal, we formulated a series of questions that we tried to answer through a questionnaire:

-Why do the natural clients choose the mobile telecommunications services of the Orange provider?

-Why do the natural clients choose the mobile telecommunications services of the Orange provider?

Hypothesis no 1: The natural persons clients chose the services of Orange mobile telecommunications operator for: the low tariffs (for calls/ subscriptions/ other services), the quality of calls/ of sound, the network coverage within the territory, the company's reputation, the negotiated offer, the quality and availability of the customer care service, the diversity of the auxiliary services, the range and prices of the mobile telephones, the costs that pay those who

make calls towards this network, the loyalty programs, the usage of a last generation technology, the friends have subscriptions in the same network and the promotional offers.

Hypothesis no 2: The legal persons clients chose the services of Orange mobile telecommunications operator for: the low tariffs (for calls/ subscriptions/ other services), the quality of calls/ of sound, the network coverage within the territory, the company's reputation, the negotiated offer, the quality and availability of the customer care service, the diversity of the auxiliary services, the range and prices of the mobile telephones, the costs that pay those who make calls towards this network, the loyalty programs, the usage of a last generation technology, the friends have subscriptions in the same network and the promotional offers.

Research results

Analysis of the hypothesis no 1. According to the Tables no 1 and 2, the main components analysis attests the one-dimensional nature of this concept. This factor solution explains 57.159% from the total dispersion. The KMO test (0.612) validates the factor solution.

Table no 1. KMO test

KMO test	
Kaiser-Meyer-Olkin measurement	.612

Source: SPSS informatics program data analysis

Table no 2. Explained variation in percentage, number of factors

Components	Total	% dispersion	% cumulate	Total	% dispersion	% cumulate
1	1.715	57.159	57.159	1.715	57.159	57.159
2	0.765	25.513	82.673			
3	0.520	17.327	100.000			

Source: SPSS informatics program data analysis

Here, the quality and the availability of the customer care service, the low tariffs (for calls/ subscriptions/ other services, and the promotional offers are well represented. The quality of the representation for the variable the quality and availability of the customer care service is 0.663. This signifies that a percentage of 66.3% from the variable dispersion is taken into consideration by the extracted dimension. (Table no 3)

Table no 3. Representation quality

Answers	Initial	Extraction
Low tariffs (for calls/ subscriptions/ other services) are preferred by the natural persons clients	1.000	0.623
Quality and availability of the customer relationship service are preferred by the natural persons clients	1.000	0.663
Promotional offers (discounts, gifts etc.) are preferred by the natural persons clients	1.000	0.429

Source: SPSS informatics program data analysis

The results also indicate a correlation. If the coefficient of correlation and significance (Sig.) < 0.05, we can say that there is a correlation between two variables. We can observe that the preference of the natural persons clients for low tariffs (for calls/ subscriptions/ other services) is strongly linked to the preference for the quality and availability of the customer care service

(0.47; $p < 0.01$). However, their preference for customer care quality and availability is strongly linked to the preference for the negotiated offer – the client negotiated the contract (0.436; $p < 0.01$). There is also a correlation between the preference for promotional offers made by an operator and that for the usage of the last generation technology (0.432; $p < 0.01$).

Analysis of the hypothesis no 2. Regarding the legal persons clients, we can analyze the correlations between the different characteristics of the mobile telephony services. Thus, we can observe the connection between the preferences of the legal persons clients for the diversity of auxiliary services, range and prices of the mobile telephones (0.50; $p < 0,01$), on one hand, and, on the other hand, the costs that those who make calls towards this network pay for (0.56; $p < 0.01$). However, between their preferences for the range and prices of the mobile telephones and the customer care service quality and availability is a correlation (0.48; $p < 0.01$).

Using the exploratory factor analysis, we will identify the main preferences of the legal persons clients regarding the mobile telecommunications services. The KMO indicator (0,747) validates the acceptance of the results of this factor analysis. (Table no 4) The representation quality allows the verification of the initial variables to see if they are taken into consideration in a correct way by the extracted variables.

Table no 4. KMO test

KMO test	
Kaiser-Meyer-Olkin measurement	0.747

Source: SPSS informatics program data analysis

The total dispersion table can explain the two dimensions that summarize the information. (Table no 5) The first dimension allows the explanation of the dispersion phenomenon in a percentage of 30.769% what means that the variables which compose this first dimension synthesises the phenomenon in a percentage of 51.63%. The second dimension explains the dispersion in a percentage of 27.625%. The two dimensions explain the total dispersion in a percentage of 58.394%.

Table no 5. Explained variation in percentage, number of factors

Components	% dispersion			% cumulate			% dispersion			% cumulate		
	Total	dispersion	cumulate	Total	dispersion	cumulate	Total	dispersion	cumulate	Total	dispersion	cumulate
1	2.953	42.186	42.186	2.953	42.186	42.186	2.154	30.769	30.769			
2	1.135	16.207	58.394	1.135	16.207	58.394	1.934	27.625	58.394			
3	0.837	11.959	70.353									
4	0.791	11.298	81.651									
5	0.532	7.605	89.256									
6	0.392	5.599	94.855									
7	0.360	5.145	100.000									

Source: SPSS informatics program data analysis

The Table no 6 presents the components of the extracted dimension. These are:

The network coverage within the territory;

The quality and availability of the customer care service;

*The auxiliary services diversity;
 The range and prices of the mobile telephones;
 The costs that pay those who make calls towards this network;
 The usage of the last generation technology;
 The friends are subscribers within the same network.*

Table no 6. Components matrix (structural coefficients)

Answers	Components	
	1	2
Network coverage within the territory is preferred by the legal persons clients	0.443	0.551
Quality and availability of the customer relationship service are preferred by the legal persons clients	0.611	0.313
Diversity of auxiliary services is preferred by the legal persons clients	0.789	-0.274
Range and prices of the mobile telephones are preferred by the legal persons clients	0.759	0.065
Costs that pay those who make calls towards this network is an element preferred by the legal persons clients	0.737	-0.252
Usage of a last generation technology is preferred by the legal persons clients	0.602	0.426
Friends are subscribers of this network is an element preferred by the legal persons clients	0.530	-0.639

Source: SPSS informatics program data analysis

The Table no 7 presents the calculation of the alfa Cronbach coefficient. Its value is 0.756. For an exploratory study, a lower value of this coefficient is accepted (0.7), while, in a fundamental research, it has to be higher than $> 0,8$.

Table no 7. Alfa Cronbach coefficient

Alfa Cronbach	Number of elements
0.756	7

Source: SPSS informatics program data analysis

Conclusion

The hypothesis no 1 is partially verified. The natural persons clients chose the services of the Orange mobile telephony operator for: the low tariffs (for calls/ subscriptions/ other services), the quality and the availability of the customer care service and the promotional offers. Between the preferences of the natural persons clients for low tariffs (for calls/ subscriptions/ other services), the quality and availability of customer care services, the negotiated offer – the client negotiated the contract and the usage of the last generation technology is a correlation.

The hypothesis no 2 is partially verified. The legal persons clients chose the Orange mobile telecommunications operator's services, for: the network coverage within the territory, the quality and availability of the customer care service, the diversity of auxiliary services, the range and prices of the mobile telephones, the costs that pay those who make calls towards this network, the usage of a last generation technology and the friends are subscribers within the same

network. However, there is a correlation between the legal persons clients' preferences for the auxiliary services, the range and prices of the mobile telephones, the costs that pay those who make calls towards this network and the quality and availability of the customer care service.

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CONSIDERATIONS REGARDING THE USE OF MODERN MANAGEMENT METHODS IN PLANNING THE MARKETING ACTIVITY WITHIN THE SMALL AND MEDIUM-SIZED ENTERPRISES

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This paper aims to highlight, from a marketing perspective, the manner and conditions in which small and medium-sized enterprises can use modern management methods in planning the marketing activity. Using modern methods of management are particularly important for managers of these organizations and especially for marketers. Thus, the following methods play a significant role within the marketing activities' development for marketing specialists, namely: management by objectives, management by budgets, management by projects, and management by product. The high degree of understanding and using the above methods is, in the current economic environment, one of the determinants of the market success of small and medium-sized enterprises. In the current context, the adoption of the management by objectives is not a facultative option for the small and medium-sized enterprises, but rather a binding one in the context of adopting and practicing an efficient marketing with significant results on the development of marketing programs comprised within them. Similarly to the management by objectives, the use of the management by budgets within the small and medium-sized enterprises has a series of features required by their smaller size, features that should be considered by marketers. Regarding the use of management by projects, this method has to constitute the foundation for the elaboration of marketing programs developed within the small and medium-sized enterprises, thereby allowing shaping an action that can be accompanied by success in achieving the goals comprised within the marketing programs. Finally, the role of the management by product is extremely important in the marketing activity within the small and medium-sized enterprises, especially in the operationalization of concepts such as strategic marketing and tactical marketing. This paper thus outlines from a marketing point of view the main issues aiming at understanding and using modern management methods in the marketing activity planning process within SMEs.

Keywords: marketing, SME, management, planning, methods

JEL Classification: M31

Introduction

The planning of the marketing activity within the small and medium-sized enterprises is achieved by using a set of specific methods and instruments included in the broader frame of the instrumental management tools. Planning the marketing activity, in general, and the one developed within small and medium-sized enterprises, in particular, involves the use of modern management methods, out of which the following are distinguished as more important: management by objectives; management by budgets; management by projects; management by product.

All these methods have a significant contribution in the development of the marketing processes, especially in substantiating and operationalization of the marketing programs within SMEs.

Management by objectives within the marketing activities

In the course of marketing processes, the objectives and their manner of fulfillment lean on the organization's management system. On this basis it is necessary for SMEs to adapt management objectives and use management methods that facilitate the achieving of these objectives. One of them is the management by objectives.

Management by objectives consists of rigorously determining the objectives up to the executives' level, thus outlining accurate responsibilities, as well as calendars regarding the execution of the activities on some predetermined terms (Nicolescu and Verboncu 2007: 347).

As a method, *management by objectives* has some features that managers within SMEs should take into account when substantiating and elaborating marketing plans and programs. Among these features of the management by objectives method the following demarcate as more important (Ursachi 2001: 91): top management involvement; participation of all levels of management; frequent performance control and assessment based on the obtained results; freedom in the choice of methods by which objectives are met; assessing and rewarding performance takes into account the obtained results.

From this point of view, many organizations practice the *management by objectives* (Robbins și Coulter 2007: 192) as a process of defining objectives and using these objectives to assess the employees' performance. The system of objectives appears out of this perspective as being structured on several levels that allow their delimitation as follows (Verboncu 2000: 142): fundamental; derivatives 1; derivatives 2; specific; individual.

Specifically, within the marketing activity in general and that within SMEs in particular, the system of objectives is operationalized by means of the marketing policy (Olteanu 2007: 58) reflected by the strategies and tactics used in carrying out the activities of SMEs. In substantiating and elaborating the objectives one should consider to define them so as to allow an easy assessment in relation to the obtained results, i.e. they have to be realistic, measurable and achievable.

Therefore we can assert that the activity of formulating the objectives is a complex process that takes into account all these features that have direct implications on the marketing programs developed at the level of SMEs. Such features of the substantiation process of the objectives (**Figure no. 1**) should be considered by marketers in order to successfully use the *management by objectives*.

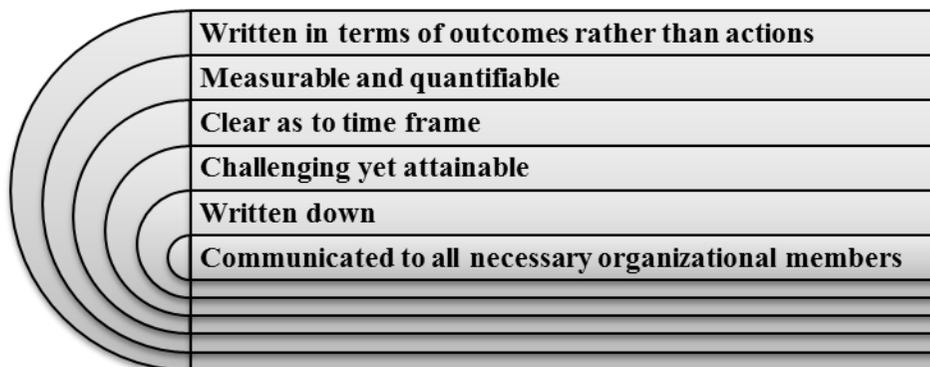


Figure no. 1. Characteristics of Well-Designed Objectives

Source: Adapted from Robbins, Stephen P. and Coulter, Mary. *Management*. 6th Edition, New Jersey: Prentice Hall, 2007: 193

We may note that the management by objectives is also retrieved in the strategic marketing planning, where we do not identify a single objective, but a group of objectives, such as those related to (Kotler 1999: 126): profitability; sales growth; market share increase; risk reduction; innovation. Following this approach we find within the strategic planning process objectives afferent to each organizational level, namely (Kotler and Keller 2008: 59): the entire company level; the division level; the business unit level; the product level.

The instruments that operationalize these objectives are presented in sequence as follows (Kotler and Keller 2008: 59): marketing plan; strategic marketing plan; tactical marketing plan. In the case of the marketing planning process, the system of objectives (**Figure no. 2**) is adequately reflected at each strategic planning level.



Figure no. 2. The system of objectives within the strategic planning

Source: Adapted from Olteanu, Valerică. *Management – Marketing*. București: Editura Ecomar, 2007: 59

SMEs who are considering the adoption or improvement of the management by objectives within their organizations and consequently the marketing activity should not ignore a series of criteria that can generate most favorable results from using the method of management by objectives. Among these we mention as significant the following four criteria (Kotler and Keller 2008: 59): the objectives have to be arranged hierarchically, from the most important one to the least important one; the objectives have to be specified in quantitative terms whenever it is possible; the objectives have to be realistic; the objectives have to be correlated.

Management by budgets within the marketing activities

In the planning of marketing budgets are an important determinant of success or failure of a marketing program, and not necessarily in terms of resources that are greatly diminished within SMEs relative to large companies, but especially because of their deficient manner of allocation and management, which is mainly reflected by the execution of these budgets. Thus, all these elements are assumed by the management by budgets, a modern method of management,

providing a coherent vision in managing and executing budgets, method that consistently supports the marketing processes within the organization, be it on marketing research, strategic planning, or scheduling marketing activities.

Obviously, all these marketing processes cannot run without a fundamented, fair and flexible allocation of resources at the enterprise's disposal, especially the small and medium-sized one.

As a method, using the *management by budgets* (Nicolescu and Verboncu 2007: 368) ensures in a financial expression the sizing of objectives, expenses, revenues and results at the level of management (profit) centers and, finally, the assessment of the economic efficiency in comparison with their budgeted level. Thereby, the marketing processes undertaken within the company appear to be separate in terms of the previously mentioned mechanism, but interconditioned in terms of planning their marketing activity.

Consequently, the management by budgets, as a managerial tool included in the management system, separates the marketing activity generated by adopting this method in two categories:

- delimitation of the marketing processes as profit center (Olteanu 2007: 61);
- elaboration and substantiation of budgets.

As such, the *research budgets*, for example, appear to be distinct and delimited in relation to the *promotion budgets* (Olteanu 2007: 61) thus allowing not only a more adequate evidence of the achievement level of the objectives assumed within each marketing process, but also the analysis of the results in relation to the allocated budget.

It is true that the process complexity decreases when SMEs determine the allocation of budgets for marketing activities as a percentage share of profits or turnover (Anghel and Petrescu 2002: 210), which is correct and recommended within these enterprises, noting that such a mechanism has certain limitations with regard to assuiming some daring objectives within the marketing programs.

In terms of strategic planning we can mention that different levels of planning require the allocation of resources by considering these levels and the objectives established at their level, delimiting the allocation of resources for each strategic business unit – USA (Kotler 1999: 112) at the entire company level, concomitantly there is an intercorrelation within the entire process.

In conclusion, we mention that the usage of the management by budgets method is necessary for marketing processes even from the design stage, constituting a support in their implementation, the operationalization being properly reflected within the procedural and structural organization (Verboncu 2000: 182), which requires adjusting and adapting the entire management system. Such an approach should also be considered within the SMEs, allowing an increased flexibility and a prompt manner of solving their marketing activity. Finally, marketers should consider analyzing the expenses-sales ratio (Kotler and Keller 2008: 652) as well as the impact of budgets' allocation on the results obtained by different marketing programs within the SMEs, taking the appropriate measures.

Management by projects within the marketing activities

Marketing activity in general and the operationalization of the marketing program in particular requires that in carrying out the marketing processes within the organization to also take into account a series of features that require the usage of management by projects as a management tool of the marketing activity within SMEs.

As a method, *management by projects* (Nicolescu and Verboncu 2007: 361) can be defined as a process that must: have a limited duration of action; be designed to solve complex, but precisely defined problems; benefit from the contribution of a wide range of different specialists; the specialists must be part of different organizational subdivisions of the enterprise; be temporarily integrated into an autonomous organizational network.

An entire series of similarities is ascertained at the level of the marketing program with regard to their content in relation to the management by projects, which determines its integration at enterprise level in the management system that operates at the entire company level. Since the initial design stage of the marketing program one can distinguish such similarities as the *establishing of responsibilities and schedule regarding the development of activities* (Olteanu 2007: 62), which concretely reflects the implementation of the management by projects within the marketing activities. With regard to the organizational structure of management by projects (MbP), it involves the incorporation of some requirements among which we mention (Nicolescu and Verboncu 2007: 361): general definition of the project; designation of the project manager; organizational project definition; climate preparation for the MbP implementation; establishment of control modalities; implementation of the MbP; periodic assessment of the project fulfilment stage. In this context it seems that the usage of the marketing program is at least difficult, if not impossible (Olteanu 2007: 63) without reflecting these requirements of the management by projects, knowing that many of the failures of marketing programs are based on ignoring such requirements.

Management by product within the marketing activities

Although apparently not of equal importance within the SMEs in relation to the above described methods, the management by product can be used in addition to the management mechanism within the organization together with the methods mentioned above.

Thus we retrieve within SMEs systems that consider criteria regarding certain market segments or geographical areas and even markets on which the company operates or intends to operate in the future. Therefore the *management by product* system (Nicolescu and Verboncu 2007: 366) is characterized by assigning main management tasks, competences and responsibilities regarding the manufacture and marketing of a product or of a group of similar products with significant importance in the organization's production to a management framework that deals exclusively with the decision-making and operationalization of actions for maintaining and increasing its competitiveness.

From a marketing perspective, the *management by product* is of particular importance within the strategic planning process conducted across the entire firm, which refers particularly to (Olteanu 2007: 64):

- defining the scope of products and markets;
- establishing the strategic activity units (USA).

Thus, defining the scope of products and markets is the starting point in using the management by product, a profound understanding of its operationalization mechanism ensuring within the SMEs, too, a proper use of instruments specific to the marketing activity and especially the use of those contained in strategic planning (Olteanu 2007: 65), such as: market segmentation; positioning; brand policy.

Conclusions

In conclusion, the adoption of the *management by objectives* is not a facultative option for small and medium-sized enterprises, but rather a binding one in the context of adopting and practicing an efficient marketing with significant results regarding the development of marketing programs contained within them.

The usage of the *management by objectives* by these enterprises has a number of peculiarities generated by their reduced size, out of which the following stand out:

- *The objectives' degree of detail is much lower*, corresponding to the reduced hierarchical levels. Most times, SMEs set goals related to profit, production, sales across the entire firm that are broken down at an operational level, either quantitatively on employees or work teams, or by work tasks by whose concatenation the achievement of the general objective is ensured;

- *Increasing the size* has the effect of more pronounced separation of the levels and consequently of the objectives used for each level, for which reason the objectives are detailed horizontally at each level and vertically between hierarchical levels;

- More numerous production centers appear within the medium-sized enterprises that are organized as *profit centers*, where a detailing of the objectives corresponding to these centers, addressed separately, takes place.

Similarly to the management by objectives, the usage of the **management by budgets** within SMEs has peculiarities imposed by their reduced size, as follows:

- Most SMEs use the method in its simplest form, by preparing the income and expense budget at the entire company level, within which the marketing activities are provided separately, usually comprised within the expenses;

- Along with the increase in size and especially with the development of several operational, production or distribution units, SMEs constitute income and expense budgets specific to them, which are usually transformed into profit centers;

- In medium-sized enterprises, profit centers are transformed into strategic business units, gaining a wide autonomy and specific marketing function.

As regards the usage of the **management by projects**, this method has to constitute the foundation of elaborating the marketing programs developed within SMEs, thereby shaping an action that can be accompanied by success in achieving the objectives contained within the marketing programs.

In its simplest form, the *management by projects* is reflected in the (daily, weekly, monthly, eventually quarterly) scheduling of production, sales, by preparing "work programs" that provide specific tasks for the personnel designated to execute them.

In a more evolved form, the *management by projects* is reflected in "distinct programs" prepared temporarily for the carrying out of some activities that have such a nature. For example, participation in fairs and exhibitions, with sale, requires the use of programming the actions connected to this participation.

In an even more evolved form, usually in SMEs, the *management by projects* is reflected in the development of distinct projects properly designed on distinct business areas: production, sales, procurement, marketing, etc.

Finally, the role of the **management by product** is extremely important within the marketing activity of SMEs, especially in the operationalization of some concepts such as strategic marketing and tactical marketing.

Such a role is evidenced especially in SMEs, whose line of business comprises different businesses that appear as separate products out of the *management by product* perspective. In most cases such companies organize their businesses separately, each area being constituted in a "profit center" with a specific management system that stands for just an application of the product management. To the extent that the business areas thus constituted use distinct brands, the management by product takes the form of the management by brand.

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MARKETING AND INNOVATION: YOUNG PEOPLE'S ATTITUDE TOWARDS NEW PRODUCTS

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This paper explores the perceptions of young students, who are training in the field of economics, to the very new products and outlines the role that marketing plays in bringing to market products based on innovative technologies. The study is conducted in Romania and tries to highlight Romanian specific features about the relationship between marketing and innovation.

The goal is to outline in a clear and actual image of young people thoughts about new technologies insertion on the market. The pursued objectives are: motivation investigation of option for new products; determining predisposition to the radical or incremental innovations, assessing perceptions of the link between marketing and innovation.

Research have been made in this field on various areas of activity. At the level of the European Community there are several organizations which activate in the field of innovation research. Eurobarometer through its subdivision Innobarometer brings in the attention of the public on a regular basis, through a series of publications, the results of researches undertaken from the business perspective, and are concerning all areas of action.

Research aims to identify the impact that new technologies have on the consumers most open to innovation. This exploratory research is based on a direct gathering of information, using an online questionnaire. Data are processed using SPSS software package, and the results show the type and nature of links between variables to be examined by applying bivariate and multivariate correlation tests.

Analysis report provides descriptive, easy to follow, for all the situations covered and investigated in the questionnaire. The results show a clear output of the relationship between compromises that those open to using new technologies are making to obtain superior advantages from the newest products on the market. Research carried out by the author being the first one in this area, only manages to outline the general framework of marketing in the process of bringing new innovations to market. Other research focused on several areas of participants in the process of bringing innovations to market, like inventors, distributors, intermediaries and final consumers, will be undertaken in the future.

The study bring into the attention of all participants in economic exchanges that marketing tools can be used to accelerate or to stop different directions of development. Marketing strategies and techniques can be implemented centrally in the economic environment of a country or communities, with immediate impact in the development (subject to certain priorities) of the society as a whole. Marketing can facilitate all socio-economic activities, starting from helping people interested in obtaining patents, attract their results into the economic cycle (production), going through transfer of the products to consumers (distribution), continuing to explain and inform all parties involved (promotion) and ending with the recording and collection of profits (price) of any kind (tangible or intangible).

Although the literature treats for a long time and in various ways the relationship between marketing and innovation, research on this direction in Romania are relatively few undertaken. Identification and assessment of consumer perceptions is an important step in any development process, especially in processes with a high innovative component, and this study tries to highlight Romanian characteristics of the relationship between marketing and innovation.

Keywords: radical innovation, incremental innovation, marketing, young consumers, Romania

I. Introduction

The study starts on the premise that marketing tools and its specific elements of action may attenuate undesirable effects that can be recorded at the time of the adoption of new thinking and new lines of action on all plans and in all areas, especially when there are forecasting an imminent series of elements that may make it more difficult for transition from one form of economic organization to another. The study tries to highlight features noticed by Romanian about the relationship between marketing and innovation. The aim is to have at the end of the research a clear and present image of young peoples ideas about the marketing of new technologies. They are more oriented towards radical or incremental innovation? They realize that there is a close link between marketing and innovation? And if so, what motivates them to seek products that incorporate innovative technologies? These are questions to which this research is trying to answer.

II. Literature review / previous research

In a proinnovative approach, various authors (A. Coskun 2011: ix) (Lederman 2010: 606) argue that innovation is a very important economic factor which cannot be ignored. Marketing and innovation (Maciariello 2009: 35) can be viewed as two basic functions of any economic activities. Innovation may determine the position that a company or even a country can hold at a time. Companies that rely on innovation activity may call for an economic growth sustained by influencing other industries or by creating new jobs in new established business segments. Innovation can trigger, the development of niche markets (Fig. No. 1) and overall socio-economic advancement. Development of trade, growth and emergence of market niches, all can lead to the development of new industries. These new industries can contribute greatly to the economic development of a country, on one hand, but they also have incorporated related risks to the dissolution of other industries, and can contribute to this end, on the other hand, to the increase of unemployment.

Another approach (Ram and Sheth 1989: 5) comes from the consumers of innovative products, which in the industrialized countries adopted an proinnovative attitude, but when they must opt for innovative products or services, are reluctant to do so. The more radical innovation is, the more opposed to adopt it were the consumers. Researchers believe that this kind of rejection of products incorporating the most advanced technologies, is due to several factors including insufficient motivation for consumers to make a change, augmented perception of the risk of new discoveries and personal beliefs of each person. All these obstacles found were classified into different market entry barriers to innovation. Of these are to remember the barriers of use, barriers on perceived value of the benefits gained against a greater price paid, physical and personal security, economic, social, and functional or psychological barriers related to traditions or certain image formats.

Researchers found the answer on how to implement the marketing tools used to achieve success in the adoption of innovation, and that is not laid in adapting and bending of these barriers to consumer requirements in the face of change, as well as in understanding the causes of resistance and its removals.



Figure 1: The general model of innovation's role
 Source: A. Coskun, 2011:ix

Figure 2: Outcomes of nurtured thinking
 Source: A. Coskun, 2011:34

The option to bring to market innovative solutions of the two methods, the method of small steps (successive improvements of existing products) and new methods, independent (radical invention/development of innovative approaches are totally different solutions on the market at a given time) some authors believe that radical solutions must be preferred to incremental solutions. And opt for this version under the premise that "what we have is good, but what we may have is infinitely better" (A. Coskun 2011: 33). Figure no. 2 illustrates that thinking, showing the difference between adding value to and create real benefits to enterprises and human society as a whole. Radical innovations can be successful even if they are not taken immediately. Some experiences have shown that other breakthroughs have been waiting even 20 years before they has been widely adopted and start to make profits for the companies which have placed it on the market initially (Lee Blaszczyk 2002: 96). Fast rhythm of development has however, a negative impact on radical innovation, while on incremental innovation has a positive impact (Hoonsopon 2009: 159).

For removing or shortening the time needed by diffusion of innovations, were composed by researchers from all over the world (Frenzel and Grupp 2009: 49) (Fanelli and Maddalena 2012: 648) (Sorescu et al. 2011: 14) theoretical models on diffusion of innovation to come in practical helping of the marketing people. These models take into account the most diverse aspects relating to both on those who bring innovations to the market, as well as the users or consumers.

III. Research methodology

Direct exploratory research has been undertaken based on a questionnaire completed online, to study youth perceptions about brand new products that incorporate innovative technology. The main reason to chose this form of information gathering, has been the attraction of a large number of participants, for reduced costs in a short period of time. The online environment is, as it will be seen from the analysis of data, the place where subjects subjected to investigation, spend a significant period of time. While electronic completion of a questionnaire provides comfort and great flexibility for participants. A disadvantage of collecting data needed for research may be the lack of representation among young people, being only selected students who are preparing for economics, are in the last year at the university and are enrolled at the Faculty of Marketing from The Bucharest University of Economic Studies.

The invitation to complete the questionnaire has been made in class, and participation was not imposed. Have filled in the questionnaire only students who have wanted to do so. Data was collected at the beginning of April 2012 and it made up a sample of 142 persons, 83% females and 17% males. And as an area of residence, taking into account major geographical-historical Romanian areas, 91,7% of them are from Muntenia, 6,3% of Moldavia and 2,1% from Transylvania.

Have been three categories of questions:

- filter questions, to separate respondents are not concerned about the innovative aspects of economic activities, or have not heard about them from those who are interested;
- questions used in the analysis of youth perceptions about marketing and innovation;

- demographic questions.

The objectives were:

-delimitation of the people who have heard about the innovative processes of those who have not heard, and the latter were investigated for the reasons why they have not heard, and has been composed a profile of the sources of information they use;

-defining the motivation for which they are or are not inclined to use innovative products;

-determination of their option for incremental or radical innovations;

-evaluation of perception of subjects of analysis about the link between marketing and innovation.

IV. Research results

Among those 142 people, 25.5% haven't heard of innovation or innovative processes and the remaining 74.5% have heard and will constitute the basis for the subsequent interpretations that follows. People who are not concerned with new discoveries of the present time, do not read newspapers, books or brochures and leaflets and have never participated in conferences or discussions or scientific meetings. The main sources of information used by them are browsing the Internet or talks on the phone with family members or friends or colleagues and watching the television. Unlike those people, the ones interested in innovation, are using all available media of communication, mainly browsing the Internet and online social media. When they want to inform themselves about certain issues, use the internet or read books, newspapers, are discussing with the members of their family, friends or colleagues.

Based on research it has been identified what primarily young people understand through innovation. Summing ideas provided, innovation means for the people investigated, bringing a change, an improvement, enhancing the usefulness or registration of added value and contribution to development. On their vision (Figure no. 3), products based on innovation, in the first place must use renewable energy and materials which can be recycled, and then must have a reduced impact on the environment, and for their arrival on the market, companies must use transparent business practices.

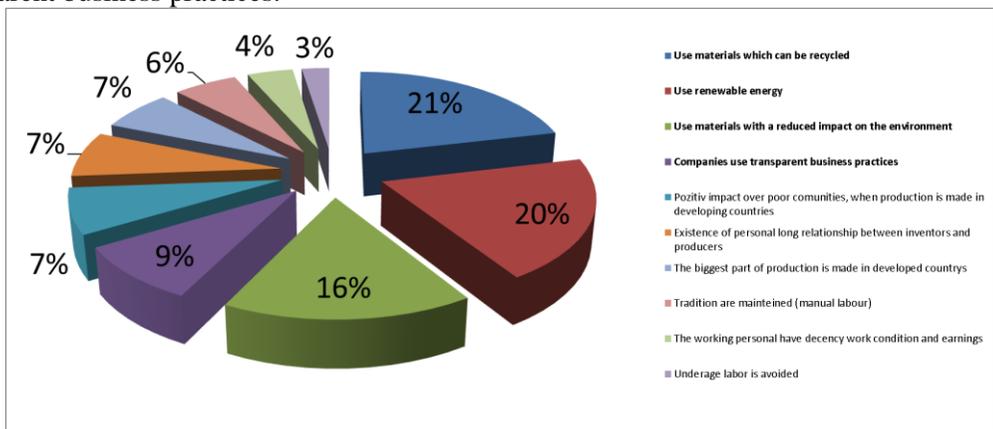


Figure 3: The sense of the concept of innovation

Source: own research

Most of the people have declared that they use or want to use products that have built-in innovations, out of curiosity, for performance, in order to contribute to the process of innovation but also by the desire to differentiate and to keep up with time fashion. All have recognized, however, when given the option of choosing a very new product they are documenting more than they would do, for a typical product. On the whole, a technology to be considered innovative by young people, must be new, must contribute to current improvement, need to contribute to increasing personal comfort and must be environment friendly. In the decision to use these

products (Figure no. 4), the most important weighting is assigned to desire of being among the first users of new discoveries, widespread adoption and to the maintaining of the latest fashion. The barriers that stop to purchase new products (Figure no. 5) are prohibitive price and scarcity of resources in the market.

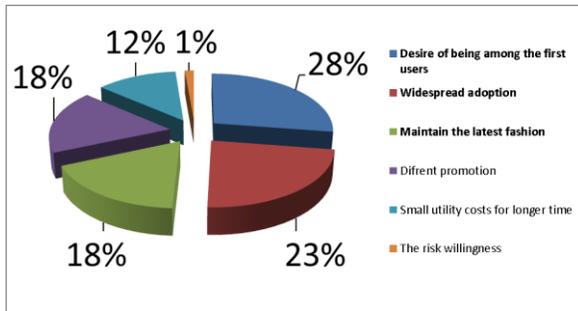


Figure 4: Proinnovative motivations

Source: own research

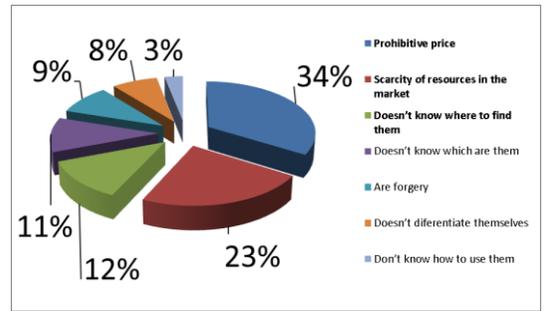


Figure 5: Proinnovative barriers

Source: own research

From the perspective of companies that introduce products made with innovative technologies on the market, young people believe that companies are more motivated to do this for the gaining of a better position on the market, in the attempt to differentiate themselves from their competition and to rise the improvement of competitiveness (Figure no. 6). After which take precedence recording of greater profits and the facts that there would be a demand for such products or that will contribute to the increased quality of life.

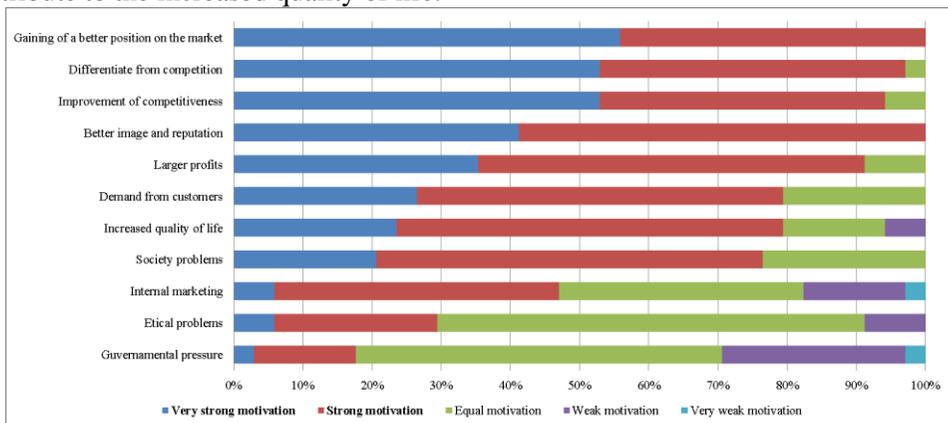


Figure 6: Motivations of open to innovation companies

Source: own research

Running at a more general level, above companies, promote innovation to consumers is determined in the first row, by the concentration of research on the new challenges of the moment (such as climate change, more efficient exploitation of resources and the energy of any kind). In the second row, on the existence and the increase in the financial support allocated to research, and in the third row, young people have identified the role played by *setting up and ongoing campaigns of marketing for improvements* in all of the areas of activity. Then encouraging cooperation between researchers, and free access to information.

Returning to the opinion of the consumers of very advanced products, they said that they had a positive inclination to companies which adopt innovative processes or promote products obtained from these processes (Figure no. 7), related in direct proportion to the level of high confidence that they have in the proinnovative companies (Figure no. 8).

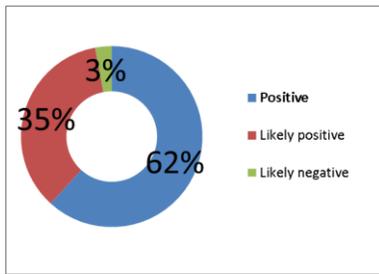


Figure 7: Image of open to innovation companies
Source: own research

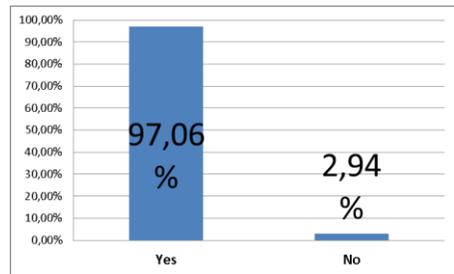


Figure 8: The trust in open to innovation companies
Source: own research

As a method of bringing innovative solutions on the market (Figure no. 9), students considered that would be more adequate, the small steps method, i.e., bringing successive improvements to existing products on the market, and not the method of radical inventions that involve development of approaches totally different from previous solutions.

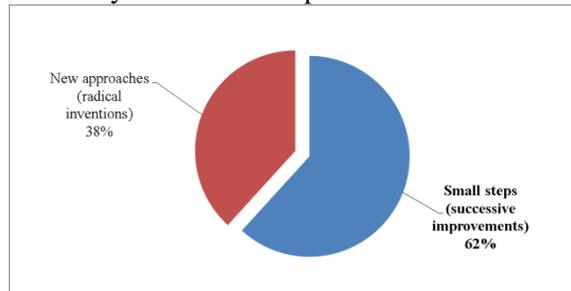


Figure 9: Bringing innovative solutions on the market
Source: own research

There are many who believe that innovation can be brought to market without expensive research and development, but recognize that progress depends on innovations in research and development investments. This shows that young people are aware of the individual capacity of each of us to come up with new approaches. *Ideas should not be investigated, but research helps maturation and putting ideas into practice.* Responsibility to generate innovative strategies after rank ordering analysis (Cătoiu et al. 2009: 168) falls under the authority of research and development departments, *marketing* and production. On the following places, young people are putting, management departments, consumers, any employee - regardless of the position they occupy, NGO's and other entities (Table no. 1).

Table 1: Responsibility to generate innovative strategies

Entities responsible for the generation of innovative strategies	Rank I (%)	Rank II (%)	Rank III (%)
Management departments	14,71	20,59	17,65
Departments of research and Development	55,88	23,53	14,71
Department of Marketing	26,47	32,35	20,59
Departments of production (engineers and technicians)		14,71	35,29
Any employee, no matter what position he occupies		2,94	
There mustn't be a (Department) responsible within the company premises			
Other institutions (governmental bodies and/or non-governmental)		5,88	2,94

Entities responsible for the generation of innovative strategies	Rank I (%)	Rank II (%)	Rank III (%)
Consumers	2,94		5,88
Other entities			2,94
Total	100	100	100

Source: own research

Other research results indicate that innovation is perceived as an element which leads always at much higher earnings than would be recorded in the absence of it. Respondents have confidence in future use of products which are very new and think that the appearance rhythm of the innovative products on the market, if it will not be maintained close by the current one, for sure it will increase. Are willing to pay greater amounts of money, counting between 21-30%, on new products that they have other benefits in addition to the usual ones. And with regard to the marketing techniques used in placing on the market of new technologies, considers that, they must be different and must be highly innovative too.

In evaluating online social networks, it is recognized that can be used to debate controversial and may possibly ensure political support in the promotion of innovations. But are seen as a new form of manipulation of information, a good environment in which they can express their views and comments on the decisions, and political factors can motivate people, this way, to take part in the implementation of various measures with economic impact. Exploring the Internet and socializing online occupies the first place among methods of information of the moment. However, young people are not considered very much aware of the level of knowledge and some information can still be kept away from the great mass of the population.

As an specific indicator of purchasing products that incorporate brand new technologies, was considered the change rate of personal mobile phone for a period of time. Thus, 97,1% have changed mobile phone in the last 5 years, mostly due to the fact that they have received a new phone as a gift. However, those who have deliberately changed the phone were the ones who wanted to benefit from increased performance, followed by those to whom the phone have failed. Of those *who have changed*, in the last 5 years, mobile phone *to get increased performances* 41,2% of them have done it twice, 20,6% only once, 17,6% three times, 11,8% four times, and 2,9% have either changed five or more often times, or have not changed at all. Young people have a horizon of time ranging from one and a half to two and a half years, during which time they collect information about a new product and acquires it. Or in other words they are willing to buy a product based on new technology once at a time, which varies between 1 and 6 months to 2 years and 6 months.

V. Conclusions

In summary, the conclusions drawn are:

- ideas should not be expressively researched, they may come from any person or individual, but research activities helps in the development, maturation and in the act of translating them into practice;
- proinnovative people, are heavily internet users, they socialize online, read specialized books, newspapers and are discussing every mater with their family's, friends or colleagues;
- Politics does not play an important role in bringing innovations to market, rather innovations reach the market first and afterwards the governments think about and attempts to reshape hostile legislation to accommodate innovative ideas.

Since the identification and evaluation of consumer perceptions is an important step in any development process, especially in processes with a high innovative component, the main contributions of this article are related on shaping and presenting a clear picture of what the Romanian young people think about the introduction on the market of new technologies, the role

of marketing in innovative processes and awareness of the close existing links between marketing and innovation.

Limitations of this study are related to the low rate of response, which led to the formation of a reduced sample, further research will be undertaken and it will try to cover wider categories of respondents.

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THE INTERDEPENDENCY OF ECOLOGICAL AND HEALTH ISSUES IN THE CHOICE OF ORGANIC FOODS

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In the last two decades the number of the studies on actual and potential consumer's behavior toward the organic foods has been increased considerably. The main issues investigated by these studies are concentrated among themes like motivation, purchasing intention, barriers of the adoption, and their impact on the marketing strategy and operational tasks in an organization. Most of the studies in this field appeal to the one of the most influential behavioral intention model, namely to the theory of planned behavior. In an organic food context the researchers try to adopt this model including some specific aspects. In this paper, based on a brief literature review, we propose a conceptual model for the organic food buying intention. In our structure the two key purchasing drivers, the health and environmental concerns are interrelated, and the last one exert their impact on the buying decision through the health attitude. This paper presents the argument for this proposed model. The proposed model, after testing it, could serve as a way of harmonizing the different attribute and benefit-related messages to the consumers' motivations.

Keywords consumer behavior, theory of planned behavior, organic food

JEL classification D12, M31

Introduction

In the last two decades the number of the studies on actual and potential consumer's behavior toward the organic foods has been increased considerably. A wide range of the specialists are interested on this topic, from the marketers to the regional and rural development specialist, from the governmental organisms to the profit oriented sector. The main issues investigated by these studies are concentrated among themes like motivation, purchasing intention, barriers of the adoption, and their impact on the marketing strategy and operational tasks in an organization.

According to the EC council regulation No. 834/2007 organic products are those which coming from organic production. This regulation presents requirements for the production systems. In the agricultural production and in the processing phase the usage of pesticides, insecticides, fertilizers, genetically modified organisms, antibiotics, hormones, artificial additives, components, colorants or even conservants are minimized or forbidden. The processing phase should be mild to preserve all naturally beneficial components, such as vitamins, minerals or other useful enzymes and organisms. The definitions given by the authorities, such as EC or WHO, are focused on the production process, phase which could not be observed by the consumers. They should have trust in the certification bodies and in their signals to buy organic food products.

Regarding the consumers studies, the ecological and health concerns are the most mentioned factors motivating consumers to choose an organic product. In some studies or in case of certain segments the ecological features has higher impact, while the others indicate the prominence of the health concerns.

The environmental friendly (consumer) behavior is often characterized as ethical or moral behavior, driven by the social norms and the moral considerations. In these days many of the human's activities of their way of the life are connected to a consumption context. Taking a lunch, wearing, spending their free time, working at the workplace or simply living in a house, all of these activities have an impact on the environment. In the same time, the health issue is one of

the timeliest topics covered by the society, economy and governmental sector. The healthy living and avoiding health risks are endless source for inspiration for product innovation and advertising message design (Luomala, Paasovaara and Lehtola 2006). Both of them have gained the interest of the consumers, the policy makers and the actors of economy as well. In this paper we propose a modified planned behavior model for a further research, which includes the ecological and health concerns and the interrelation between them. There is a connection between these two aspects. Ecology means the health of the living area, which indirectly has an impact on the humans' health. Protecting the environment, indirectly we protect ourselves and our family's health. Even so, due to their longer time perspective of the positive effects, the environmental concern's influence on organic food choice is tempered comparing to the health issues.

1. Main concepts

1.1. Healthy and ecological attributes of the organic food

Previous researches identifies the health and ecological issues as key motivating factors of the organic food choice (Cicia, Del Giudice and Ramunno 2009; Essoussi and Zahaf 2008). In this chapter we underline the nature and the similarities of these factors in order to found a possible interdependency of them. These factors have dominance among the motivation factors. Organic consumers view the chemicals and pesticides used in conventional food products as being environmentally harmful, while organic foods are perceived as being environmentally friendly.

As we pointed above, the definitions given by the authorities for the organic products are concentrated on the producing procedure. From the consumers' viewpoint, the organic food product has a range of observable and unobservable attributes. The literature call the observable attributes either search attributes, if they can be tested before the acquisition, or experience attributes, if they can be evaluated only after the purchasing, during consumption or use. Search attributes are the package's design, the price, experience attributes could be the taste, freshness, and short-term health effects. However, the key attributes of the organic products are of the credence nature, which means that they could be evaluated in a short run neither after nor before their consumption. To this category belong the health and the ecological features near the animal welfare issue and the local origin (Bonti-Ankomah and Yiridoe, 2006). The consumers can't verify easily if these attributes are true or fake, they are dependent on the third party certifications (Cole and Harris 2010). So, as the nature of the attributes the healthy and ecologically friendly attributes belongs to the credence category, and therefore they need trust from the consumer in order to become motivating factors.

The literature of the organic food consumer behavior identifies two types of motivational factors: egoistic and altruistic drivers. The egoistic motivations refer to the personal benefits conferred by the use or consumption of the products, while the altruistic motivations refer to the considerations which influence the decision by their effect on a larger community. The first category cover the health concerns, the effect of the fashion, the better taste and higher nutritional value. Altruistic motivating factors are the environmental sensitivity, animal welfare and local farmers' support. The majority of the studies underline the health issues as primary motivating factors of the organic food choice (Chinnici, D'Amico and Pecorino 2002; Ureña, Bernabéu and Olmeda 2008; Tsakiridou, et al. 2008). The main reason within this perception is the avoidance of the artificial additives, stabilizers, colorants and sweeteners in the conventional prepared foods, the pesticides and insecticides, genetically modified component in the conventional agriculture.

Let's see the most common motivational framework elaborated by Maslow. From a motivational viewpoint these two can be positioned on different levels. While the health issues represent somehow a form of physiological and safety motivational level, the pure ecological concerns could be included on a higher level in the Maslow-s piramyd. As we see this distance between the

two motivational factors it seems to be unusual the researchers' result according to them these two motivational areas has a similar impact on the organic food choice.

As the readiness to react to these two attributes the literature define and study two type of consumer habit: health and ecological consciousness. These motivational, more complex behaviors are used often as determinants of the organic buying behavior. Michaelidou and Hassan (2008) define health-conscious consumers as those who "are aware and concerned about their state of well-being and are motivated to improve and/or maintain their health and quality of life, as well as preventing ill health by engaging in healthy behaviours and being self-conscious regarding health". They tend to be aware of, and involved with, nutrition and physical fitness. An ethical or green consumer is ecologically conscious and tends to buy products that are environmentally friendly and not harmful to the environment or society

1.2. The Theory of Planned Behavior

The TPB is one of the most utilized, discussed and influential conceptual frameworks designed to describe human action. An overall support of this theory is offered by Armitage and Conner (2001) in a meta-analysis of the 161 researches. The central dependent variable is consumer intention, which is an indication of a person's readiness to behave in a certain way (Ajzen, 1985), for instance, the intention to buy organic products. The TPB identifies three antecedents of intention: the attitude toward behavior (Ab), subjective norm (Sn) and the perceived behavioral control (Pbc). It has been used successfully in many studies regarding the organic food purchasing behavior as well, including the buying intentions and its antecedent.

The predictor power of the attitude toward an organic context action has been underline by many studies (Magnusson et al. 2001; Chen 2007; Arvola et al. 2008; Gianluigi, et al. 2010; Aertsens et al. 2011). The innovativeness for most of these studies based on TPB has been represented by various forms of the antecedents and factors which influence or shape the attitudes, the buying intention or the correlation between these two. Tarkiainen and Sundqvist (2005) tested the TPB in an organic purchase context, and the emphasis was placed on the role of the subjective norms. Practically they defined the subjective norm as an antecedent of the attitude toward behavior. The result was significant. Arvola et al. (2008) included to the TPB the affective and moral attitude as drivers for organic purchase. Michaelidou et al. (2008) used a simplified TPB without Sn and Pbc. As antecedents of the attitude toward behavior, were proposed the health consciousness, ethical self identity (including ecological consciousness) and the food safety. He found that all of these factors affect positively the attitude toward behavior, but only the ecological consciousness influence directly the purchasing intention. Aertsens et al. (2011) included in their TPB model the influence of the objective and subjective product knowledge.

2. The proposed model

Based on TPB model and its derived version for the organic food choice we propose a model which includes the attitudes toward the health and the environmental concerns. Our hypothesis is the ecologic attitude exerts his impact trough the health one.

We examined papers about consumers' behavior toward organic food. We considered both the quantitative and the qualitative data based studies. Studies based on quantitative data did not analyze the correlation or the interdependence of these two issues. Generally, they set up a top list of the purchasing motives, or they handle them as two of the components of the general attitude. Usually the health concern is more important than the environment (Chinnici, D'Amico and Pecorino 2002; Ureña, Bernabéu and Olmeda 2008; Tsakiridou, et al. 2008; Cicia, Del Giudice and Ramunno 2009), which is understandable regarding the dominance of the egoistic motivating factors. The ecological concern is present mainly in social norm, and a part of the attitudes. The animal welfare is often included in ecological concerns (Honkanen, Verplanken and Olsen 2006).

In case of the organic foods there are some studies based on the qualitative data, however most of the researches apply quantitative methods. In our case, the qualitative studies could help us to base hypothesis and make clear how the people are thinking on the universe of the organic food attributes. For these the laddering interviews and means-and chains can offer a clear draw.

In Makatouni's (2002) research this dependence of the human's health on the environment's health is shown through the animal welfare concern. The environmental value chain does not, but the animal welfare value chain shows a health-related end (healthier animals → responsibility for family's and own well-being and health). Generally the laddering interviews discovered independent chains in which the environmental and/or animal and health issues appear as terminal values, in distinct value-chains.

Zanoli and Naspetti (2002) in case of the regular consumers found a between the two concepts (ecology and harmony, sustainable future → healthy and long life → well-being). In case of the occasional consumers the environmental concern does not appeared. Research made by Baker et al. (2004) does show any connection of the health concern neither with ecological nor with animal welfare issues. The same result has been found by Padel and Foster (2005). The researcher appealed on the in-depth interviews to investigate attitudinal concerns of the organic foods. Most of these studies do not investigate a possible interconnection between these two motives; they just marked a frequency of the statements regarding this topic. They identify the presence but do not underline any interdependence (Hill and Lynchehaun 2002; Essoussi and Zahaf 2009).

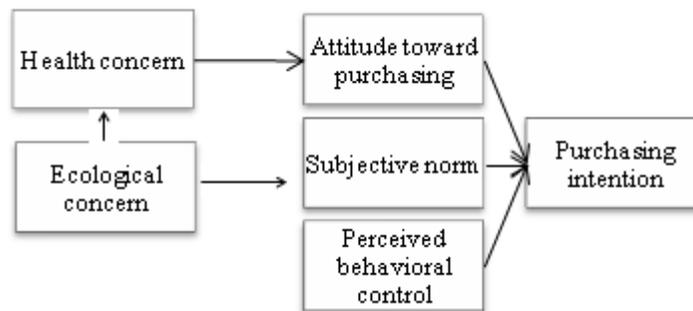


Fig. 1. The proposed model for TPB toward organic foods
Source: own construction based on Ajzen (1985)

However, the most promising result for our hypothesis is carried out by Chen (2009) after a research in Taiwan. He investigated the relationship between the two key factors motivating organic food choice. They used a more specific factor for attitude's antecedent, namely the healthy lifestyle. They suggested and then proved that the health attitude and the environmental attitude influence the attitude toward the consumption by this healthy lifestyle issue. We suggest a direct influence of the health attitude on overall organic food purchasing attitude and an indirect influence of the ecological attitude through health attitude (Fig. nr. 1.). In our model we keep all three antecedents of the classical TPB model and complete them with the health and ecological attitudes.

3. Implications

In a year the number of certified organic producers in Romania has been tripled (www.madr.ro), and the distribution channels expand visibly. The results from such studies could base a communication strategy. Based on motivational power of the two key factors we can conclude that there can be a conflict between these two factors. That is why we propose for examination

the possible interconnection between these two aspects. The results can be useful for marketing communication. In present the marketing communication efforts are relatively spread. There is not a consistent universe of the information regarding the benefits of the organic foods. The information regarding the health benefits of the organically grown product are complex (Vindigni, Janssen and Jager 2002).

This proposed model should be tested, and then could serve as a way of harmonizing the different attribute and benefit-related messages to the consumers' motivations.

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INVESTIGATING THE RELATIONSHIP BETWEEN PERCEIVED SACRIFICE AND B TO B CUSTOMER SATISFACTION IN THE INSURANCE INDUSTRY

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The Romanian insurance market expanded rapidly during the last two decades. Presently, the Insurance Supervisory Commission (CSA) reports 43 insurance companies and 567 insurance brokers. In this extremely dynamic and competitive environment, it is compulsory to control key elements that generate and maintain customer satisfaction.

Therefore, the hereto paper concentrates on the influence exerted by perceived sacrifice over the business to business customer satisfaction in the insurance industry. More precisely, the objective is to investigate the impact of effort, time and money spent by the business to business customer over satisfaction.

The concept of satisfaction has been intensively explored in the literature due to the fact that both practitioners and academics understood that it held a great significance in determining and preserving customer relationships and therefore, long-term profitability. In the service sector, much research has been conducted in the business to consumer context, especially concentrated on the relationship between service quality and satisfaction, whereas the business to business setting received less attention.

In order to explore the relationship between perceived sacrifice and satisfaction, a descriptive research design was used. A questionnaire was created using multiple items for measuring satisfaction and perceived sacrifice and also a number of identification variables. The survey concerned companies that had had benefitted from the services of an insurance broker at least once. Copies of the questionnaire were sent by email to company managers from all the main industries. A total of 85 answers were collected. With the help of SPSS tool, the two measurement scales were tested for reliability and validity and a factor analysis was performed. The next step was to calculate the composite scores for each of the two variables and to carry out the simple linear regression analysis. Our linear model considers that perceived sacrifice is the independent variable, whereas satisfaction is the dependant one.

The calculated R² indicated that perceived sacrifice explained 25% of satisfaction's variation. We also carried out a multiple linear regression in order to investigate the impact of each of the three components and we found that unlike price and time, effort doesn't have an influence on satisfaction.

The results obtained allow a better understanding of the relationship between perceived sacrifice and satisfaction making management decisions more effective.

Keywords: satisfaction, perceived sacrifice, services, business to business, insurance broker

JEL codes: M31, M39

I. Introduction

The hereto paper concentrates on the influence exerted by perceived sacrifice over the business to business customer satisfaction in the insurance industry. More precisely, the objective is to investigate the impact of effort, time and money spent by the business to business customer over satisfaction. We decided to focus on the services offered by the insurance brokers because this is a very divers and dynamic market. An insurance broker is an authorized legal entity who negotiates for clients insurance or reinsurance contracts and assists them during the prescribed

period, in order to establish circumstances, reclaim insurance damages, certify the insured's responsibility (CSA Annual Report, 2010: 39)

II. Literature review

Satisfaction is a positive or negative feeling that results when comparing expectations and performances related to a buying or to a consumption experience (Kotler and Keller 2012: 150; Lendrevie, Lévy and Lindon 2009: 858-859). It has a positive effect on developing customer loyalty, it represents an essential element that prevents customer defection and it holds a key role in building customer's attachment for the organization (Pop et al. 2006: 484-493). The research concerning satisfaction was developed in the context of an extended preoccupation for motivational studies. It is considered that the studies on satisfaction have been oriented towards elements that would explain the feeling rather than towards the mechanism of its formation, development or loss (Pop and Petrescu 2008: 107). However, satisfaction is not an end in itself, but a way to enable customer loyalty even though the relationship between the two key constructs is not linear (Kotler and Keller 2012: 150).

Fornell et al. (1996: 7-18) have created the American Customer Satisfaction Index, a type of market-based performance measure for firms, industries, economic sectors, and national economies. The authors consider that overall satisfaction is a fundamental indicator of the firm's past, current, and future performance (Fornell et al. 1996: 7). Satisfaction is perceived as "a key determinant of organizational success" with a positive influence over repeated sales and/or repurchases intentions and increase customer loyalty (Lewin 2009: 283).

Only a limited number of studies have dealt with business-to-business services and customer satisfaction (Lapierre, Filiatrault and Perrien 1996: 92; Homburg and Rudolph 2001: 15; Neumann, Williams and Khan 2009: 319-333). In the business-to-business context the relationships are long term oriented, enduring and complex, often bilateral, and the products are customized to buyer's needs, thus making him an active partner (Homburg and Rudolph 2001: 16). This particular implication of the business to business customer during the service delivery emphasizes the importance of a better comprehension of the determinants of satisfaction. Along with service quality, perceived sacrifice is considered to be one of them. Perceived sacrifice is a relatively new concept, developed by the authors in order to define costs supported by the customer with the purpose of receiving benefits such as service quality. The construct can be divided into monetary and nonmonetary sacrifice associated to money and respectively to effort and time (Lapierre, Filiatrault and Chebat 1999: 236). Some authors added other "cost" elements such as risk and associated them to the service quality dimensions in order to obtain a multidimensional measure of perceived value (Gil, Berenguer and Cervera 2008: 926). Others preferred discussing these three constructs separately and observe some of the exerted influences (Lapierre, Filiatrault and Chebat 1999: 238-240). A third category of studies uses the term of "value" when measuring items associated to perceived sacrifice such as price or quality-price ratio (Caruana, Money and Berthon 2000: 1346; Chen 2008: 712). Nevertheless, it is important to say that value remains a complex construct defined as trade-off between the costs supported by the customer and what he receives in return (Gil, Berenguer and Cervera 2008: 922; Chen 2008: 710).

The study of Lapierre, Filiatrault and Chebat (1999: 235-246) revealed that customers believe that what they give is more important than what they get. They are more conscious of both monetary and nonmonetary costs. Caruana, Money and Berthon (2000: 1348-1349) made the same observation but they only referred to the role of low price and its positive effects on satisfaction in the case of audit firms. However, no research has yet concentrated on the insurance industry and used this particular measurement scale.

III. Research methodology

According to Churchill's paradigm (Churchill 1979: 66), when developing better measures, one should first of all specify the domain of construct, generate the sample of items and collect the data in order to purify the measure and second of all, collect a new set of data, assess its reliability, assess its validity and establish norms. However, collecting data in the business to business environment is very difficult so we performed this action only once.

As stated previously, our survey concentrated on companies who were customers of an insurance broker. We prepared a questionnaire including 3 overall satisfaction statements (Fornell et al. 1996: 10). These items formulated for evaluating the overall satisfaction have been used by other researchers in their studies (Woo and Ennew 2005: 1183; Lewin 2008: 288). A 5-point Likert scale was employed for their measurement.

We have included three more items concerning the perceived sacrifice referring to monetary cost, time and effort spent by the customer when dealing with the insurance broker. All of them were adapted from Lapierre, Filiatrault and Chebat (1999: 240) and for their evaluation a 10-point scale was used. The last 5 questions concern classification elements such as the industry, the annual turn-over, the number of employees and the paid premium.

Because the survey takes place in several cities in Romania, all the original items had to be translated. In order to avoid confusion or ambiguous terms, the back translation method has been applied. We had the questionnaire pre-tested by 6 managers who discussed each item and expressed their opinion.

Copies of the questionnaire were sent by email to company managers from all the main industries: agriculture, constructions, transportation, engineering, retail, IT, online media, manufacture, consultancy, education. A total of 85 answers were collected during a period of four weeks. With the help of SPSS tool, the factor analysis was carried out in order to purify the measurement scales and also reliability and validity were tested.

IV. Results

Because our study deals with motivational aspects of behavior, the 85 observations collected are considered to be a sufficient sample for analysis, without any intention of generalizing the results. Considering that the measurement scales used had to be translated and adapted to a particular context, we tested their dimensionality, reliability and validity. The dimensionality was verified through the factor analysis.

The Bartlett Sphericity test allows testing the significance of the correlations between certain variables (Jolibert and Jourdan 2011: 298). The Kaiser Meyer and Olkin test uses both multiple and partial correlations between pairs of variables. A weak KMO coefficient indicates that the factor analysis is not appropriate (Jolibert and Jourdan 2011: 299-300). Table no. 1 shows that the value of the test KMO (0.716) is higher than 0.5 which means that the factor analysis is adequate (Malhotra et al. 2011: 546). Also, the statistic Chi-square for Bartlett's Test of Sphericity equal to 189.972 with 15 degrees of freedom is significant at 5% allowing us to reject the hypothesis of zero correlation between items (Malhotra et al. 2011: 543).

Table no. 1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.716
Bartlett's Test of Sphericity	Approx. Chi-Square	189.97
	df	15
	Sig.	.000

Made by the authors

For the factor analysis (Table no. 2) we chose the maximum likelihood method followed by a Varimax rotation. The Varimax rotation is one of the three orthogonal rotations that aim optimizing the loadings in order to see if the link with a factor is either very strong or very weak. As anticipated, two factors were identified corresponding to satisfaction (factor1) and to perceived sacrifice (factor 2).

The reliability was studied by calculating Cronbach’s alpha for each of the two factors. The coefficients are 0.71 and 0.78 (Table no. 2) and because they are both higher than 0.70, we can state that reliability is acceptable (Nunnally 1978: 245). The content validity is rather subjective and doesn’t have a formal indicator; it means that “the items look right” (Churchill 1978: 69); for that, the pre-test step allowed an improvement of the questionnaire. The convergent validity should be proved by measuring the traits with two different methods (Churchill 1978: 70) but in this case, given the business to business context we limited the research to only one method.

Table no. 2: Rotated Factor Matrix

	Factor 1	Factor 2
V1		0.797
V2		0.420
V3		0.896
V4	0.848	
V5	0.412	
V6	0.753	
Cronbach’s alpha	0.71	0.78
Mean	26.60	11.88

Made by the authors

In order to explore the link between the aforementioned variables we first calculated the composite scores in SPSS, and generated the scatter with regression line for the two variables that were obtained. The resulted graph (Fig. 1) points out a linear relation between satisfaction as dependent variable and perceived sacrifice as independent variable.

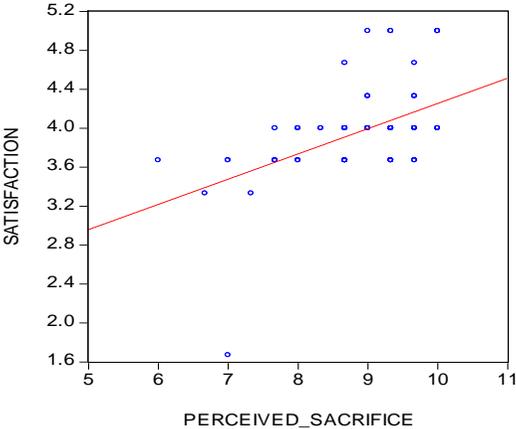


Fig. 1.The scatter with regression line

Made by the authors

Furthermore, the errors must have a normal distribution. The Jarque-Bera test with a probability exceeding 0.05 indicated that the null hypothesis of the normality of residual repartition should be accepted (Pecican, 2001: 94).

Through the OLS method, we then generated the estimation output for the simple linear regression (Table no. 3) and obtained that the probability for the t-statistic is 0.000 which means that we can reject the null hypothesis where the regression coefficient was zero. The estimated regression coefficient is positive showing that an improvement of perceived sacrifice will lead to a higher customer satisfaction. The calculated R² indicated that perceived sacrifice explained 25% of satisfaction's variation.

The Durbin-Watson test indicates the lack of autocorrelation because its value is close to 2. Another condition for the regression is the constant variance of the errors. The value of White's test was smaller than χ^2 for a probability of 5% and so we can accept the homoskedasticity hypothesis, which means that the errors have the same variance (Pecican 2001: 94).

Table no. 3: Estimation output for the simple linear regression

Dependent Variable: SATISFACTION					
Method: Least Squares					
Included observations: 85					
Variable	Coefficient	t-Statistic	R-quared	Durbin-Watson	F-statistic
C	1.66	3.81	0.25	1.82	28.07
Perceived Sacrifice	0.26	5.30			

Made by the authors

We followed the same steps for a multiple linear regression, where the independent variables are the thee items composing perceived sacrifice. The t-statistic indicates that effort doesn't have a significant influence on satisfaction, unlike time and price (Table no. 4).

Table no. 4: Estimation output for the multiple linear regression

Dependent Variable: SATISFACTION					
Method: Least Squares					
Included observations: 85					
Variable	Coefficient	t-Statistic	R-squared	Durbin-Watson	F-statistic
C	1.59	3.70	0.30	1.84	11.40
EFFORT	-0.006	-0.10			
PRICE	0.16	3.63			
TIME	0.11	1.69			

Made by the authors

V. Conclusions

The research results indicated that there is a positive linear relation between customer satisfaction and an acceptable perceived sacrifice. When analyzing in detail this link, we find that effort is not significant, unlike time and price for the business to business customers. One possible explanation is that generally, the insurance brokers assist their customers on every level: before signing a contract and after, therefore they expect to benefit from the service with minimal effort. Customers consider it a fundamental condition. Also, the monetary costs seem to be more important that the time spend with the insurance broker. However, further research is needed in order to confirm these results.

Understanding the way in which determinants of satisfaction influence this complex construct allows managers to make effective decisions in the service industry, and particularly in the insurance business.

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PERCEPTION AND COMMUNICATION OF INNOVATION IN RETAIL TRADE (CASE STUDY APPLIED TO BRICOLAGE PRODUCTS)

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Starting from the specific features of bricolage retail trade (which is part of the ‘Do It Yourself’ – DIY commercial format), this study aims to clarify the concept and structure of innovation in this field, and to present how innovation is perceived and communicated by sellers to customers. The initial literature review is followed by the design of a three-stage research, which consists of a variety of methods, techniques and tools of selective market research. The objectives are to establish the main forms of innovation in DIY trade, the perception and communication of innovation to the customer, and the internal marketing techniques which could deliver higher marketing advantages to the seller. This paper covers only the results of a pilot research conducted via qualitative exploratory research among 13 managers of the bricolage stores in Bucharest. Five hypotheses were tested and confirmed through research. All premises are ready for the scientific construction of research tools for the second and third stages of the study.

Keywords: perception, retail trade of DIY products, qualitative exploratory research, in-depth interview.

JEL Classification: M31, O31.

Introduction

Innovation and knowledge have always been the engine of progress. Our present and future society relies more and more on these two progress factors, illustrated by bold projects of the scientists. Self-propelling islands, teleportation, cloning, nanobots, vaccines designed to stop the spread of diseases with high mortality, flying cars, interstellar travels, these are all products and services that marketing people have to bring to the market and ensure their success among consumers. Communication in general and marketing communication in particular have undergone significant changes. In trade marketing, changes were determined by modifications in the sales staff's behaviour (who becomes more empathetic and cultivated) as well as by modifications in the customers' behaviour (who become more informed, and consequently, more selective). These 'physiognomic' changes were also due to the new communication directions in the strategies of sales marketing, on the background of generalised electronic communication technologies. Non-verbal communication, for example, wins - in this context - more ground. As mutations undergone by the marketing communication mechanism, it is necessary to report that marketing communication has intensified its interactive character and has gained an integrative feature (Brătianu et al 2011:105-108), both triggered by the modification of the seller-buyer relationship. The latter exceeds his role of recipient of products and services, and rises to the position of partner in the process of valuing the goods which meet his demand.

What is innovation and how it reflects in retail trade

Innovation is defined, broadly, ‘... as the work of a specialist or a team and its result, which ensures the improvement of technology, a production process, products and services, organisational arrangements which get a new look’ (Florescu, Malcomete și Pop 2003: 309). The implementation of innovations leads to increased productivity, reduced costs, higher quality, safer working conditions in general, and economic development, it generates transformations at the micro level, modifies the character and nature of work, and is an important basis for competition; to narrow this definition down, innovation is reflected in all new solutions (design, technological, organisational solutions), usually perceived as improvements and without raising any claims of uniqueness or priority. Many definitions tried to capture the essence of the term ‘innovation’ over time: ‘... *the introduction of something new*’ (The American Heritage Dictionary), ‘... *a change which gives performance a new dimension*’ (Peter Drucker), ‘... *the introduction of new products (...), new methods of production (...), creation of new markets (...), discovery of new resources*’ (Joseph Schumpeter), ‘... *the ability to create increased value for customers*’ (Jose Campos) (<http://innovationzen.com/blog/2006/11/17/the-definition-of-innovation/>). Peter Drucker tackles the concept of innovation in terms of entrepreneurship, defining it as: specific instrument of entrepreneurs, ‘... their means of exploiting change as an opportunity for different business or services’ (Drucker 1993: 19). It can be considered a field of study or a specific activity. Entrepreneurs should identify with precision the sources of innovation, its changes, and manifestations, which indicate favourable conditions for its successful implementation [ibid]. Constant innovation (understood as a state of mind) is the defence ‘weapon’ of the leader against competition, through the development of new products/services meant to increase efficiency and reduce distribution costs, and thus to increase the leader’s competitive strength and his customer value (Kotler, Keller 2012: 611). Implementing the innovation becomes a mental process that buyers undertake, involving several stages, from learning about innovation to adopting it, which materialises in the practical use of innovation (Kotler, Armstrong, 2012: 180-182). In retail trade - defined as the sale of goods to final consumers (Nufer, Wurmer 2008: 7) – the dimensions of innovation include: *sale type* (store type), *brands* (especially privately held ones), which make up the product category, *process innovation*, *customer experience*, *information technology*, *new communication media*, *payment options* and *order fulfilment* (Reinartz et. al 2011: 54). Being a field where interaction with the customer is at the core of all activities, the degree of novelty of products, services, processes or business model depends on the extent to which they are considered innovative by consumers, on the first hand, and by company representatives, on the other hand (Hauser, Urban 1977: 614-616). As a consequence, many companies have acknowledged the need of involving consumers in the innovation process (Verhoef, Reinartz and Krafft 2010: 247-52) as well as their employees by assigning them (especially to those with operational positions) the role of introducing innovative products and services to potential customers and providing counselling for innovation adoption. Another dimension of innovation in retail trade is the form of the commercial area. If the arrival of the supermarket—in 1930 in the U.S. (<http://en.wikipedia.org/wiki/Supermarket>) - was considered as the first novelty in this sector, today the sales form is a promising source for the development of innovations (Reinartz et. al 2011: 56). Ailawadi and Keller perceive the strategic decision to sell one or more proprietary brands, their positioning and differentiation in various media as another dimension of innovation in retail trade (Ailawadi, Keller 2004: 331-342). A relatively recent paper on innovation in ‘shopper marketing’ (Shankar et. al 2011: 32) brings into discussion the digital innovations, the atmosphere inside the store, merchandising, organisation of the marketing activity and the collaboration manufacturer-trader. Offer customisation was a major innovation. Nowadays the use of smartphones for product presentation is another major step. It is extremely interesting how technological breakthrough - smartphones, social networks,

etc. - can lead to innovative ways of approaching and delivering service to consumers. Baker's studies in 2002 revealed that innovations of the store atmosphere are a positive incentive for customers (Baker et. al 2002: 120–141). Among innovations at the sales point, with high impact on the purchase decision, the following are worth the attention: RFID (radio frequency identification), mobile technology, television networks, holograms (Kalyanam, Lal and Wolfram 2008). A regular opportunity to reflect on human creativity in the service of innovation is offered by the International Exhibition of Inventions in Geneva (held this year between 18-22 April). The event brought together more than 1,000 inventions and new products from 765 exhibitors. 'Paradoxically, affirms Jean-Luc Vincent - President of the Jury, economic and financial crises give rise to new ideas, determining investors to forget about the stock market problems and invest in products with high commercial potential' (<http://www.inventions-geneva.ch/cgi-bin/gb-visiteurs.php>).

The Internet plays an increasingly important role for the dissemination of innovations in retail trade because consumers use this medium to inform themselves before making purchase decisions. To influence the behaviour of potential customers, the innovation phenomenon must be also present in this environment. The retail expands rapidly, more and more companies being interested in becoming a global player, which implies new challenges. As a result, innovations are a must in order to seize opportunities and to successfully meet the requirements of an increasingly competitive market. On this background, the need arises to develop a study about the retail traders' behaviour towards innovation, as they play an important role in its dissemination inside the store.

Perception and communication in the service of innovation

A practical problem is the perception of innovation and its communication by the two parties involved in the act of exchange in retail trade: the seller and the buyer. If innovation is not perceived as such by one or both sides, it is no longer an essential element of discrimination in the act of choice of the common offer. Perception is understood as a psychological process through which objects, phenomena and processes from the objective world of human senses reflect themselves as a whole, with all their properties, in the human mind. A certain image of the surrounding reality emerges from this reflection, with subjective meanings which vary from one person to another [<http://dex.infoportal.rtv.net/~word-perceptie.htm>]. Perception has two important functions: informational and of regulatory adaptation. Man interacts with the environment via these two functions. Communication is essential as it 'sheds light' on innovation, both in the case of the sales staff's awareness and in 'spreading' it among customers. Marketing communication involves all the elements of the mix to convey messages between the organisation and its target audience (Popescu 2002: 20). The main role of any type of marketing communication is its ability to influence the customer's purchase decision as well as all other factors triggered by the purchase decision (manufacturers, retailers, civil society, groups of interest, etc.). The integrated character which defines marketing communication throughout the last decades - as mentioned - summarises all organisational efforts made to send and receive messages both to its external environment and its internal one. It is also part of the internal marketing of the organisation. Internal marketing requires managers to show empathy, to think and act towards their employees just as these ones are required to treat their customers. This way, employees become 'internal customers of the company' (Bruhn 2007: 231et seq.). The correct perception of innovation by all stakeholders, along with its communication methods, represents important leverages in any business which performs an innovative act (goods, services or ideas). Although often risky, new products and services give a major competitive advantage to companies trading them. The *determination of the seller* during the promotion of the merchandise is essential for its success to the public. The seller's attitude towards the extra effort required for promotion depends on how he perceives innovation himself.

A study on the theory of planned behaviour (Ajzen 1991: 179-211) explains the crystallisation of the seller's intention to act by measuring how subjective standards imposed by the sales process are perceived as managerial, organisational and social pressure to sell the new product (Fu et. al 2010: 61-76). This approach favours the assessment of the relation between the behavioural control of the seller and his performance in selling new products.

Research objectives and methodology

This research has chosen as reference the large stores and sales areas from the bricolage (Do It Yourself) field. In scientific literature, this commercial concept (commercial format) falls under the specialised markets category (Dabija, Pop 2008: 43-60). Such a format option justifies itself through its characteristics and peculiarities, which ensures a higher degree of buyers' involvement in the purchase decision and thus a greater effort on their side to understand and appreciate innovation. Moreover, the selected commercial format is also called, in everyday language, 'Do It Yourself' (DIY) store. On the one hand, the variety of products and services for home and garden design, but also for other types of environments invites the customer to fulfil his needs at the highest degree (arrangement of his habitat, maintenance of his living space, development of DIY objects, etc.). This high level of involvement is a prerequisite for a broad field of innovation in the sale-purchase process. On the other hand, Romania is spread out with a large number of bricolage stores of important European retail chains, such as German brands (Praktiker, OBI, Hornbach), Austrian brands (bauMax), French brands (Bricostore, Mr. Bricolage, Leroy Merlin), Turkish brands (Tekzen) and even local brands (Dedeman - market leader, Ambient, Arabesque). This phenomenon emphasises competition as well as competitors' innovative requirements. The authors' option for the DIY network was also determined by the fact that, besides the final customer (natural or legal person), an important role is also played by an intermediary who 'prescribes' the final customer what goods to purchase. This major customer segment is the consultant craftsman, always engaged in repairs, renovation, expansion, etc. of all classes of property under the management of the final beneficiary of the goods offered by the DIY networks. A specialist in commodities, the craftsman can be an important factor in demand multiplication and marketing of new products and services, to the benefit of the commercial organisation and its turnover.

The *objectives of the research* focus on the following aspects:

- a) which are the main forms of innovation in DIY trade?
- b) how is innovation perceived and communicated in DIY retail by the seller, respectively by the buyer?
- c) what are the main forms of internal marketing, which should be 'activated' in order to empower the seller with even more effective innovation marketing techniques?

The research consists of several *steps* and uses various *methods*, *techniques* and *tools* of investigation.

It starts with a *pilot study* applied to senior managers of store networks from the DIY commercial format. This study - which is the *subject of this paper* - analyses how innovation is understood and evaluated by these decision-makers. The pilot study takes the form of a *qualitative exploratory research*, based on: 1) a *semi-conducted in-depth interview*, which uses a *conversation guide* for decision-makers, 2) a *screening test* based on words or image completion, applied to the operational management of the store. The *second stage* provides a *quantitative descriptive research*, whose object is to determine the views and perceptions [Cătoiu (coord.) 2009: 78] of the managers from the DIY networks in Bucharest. The subject of this study is the *perception of innovation* in their business and how they communicate with their operational staff in order to raise 'innovation awareness' regarding the new products and services. The subjects of the *third stage* of the research are customers of DIY stores in Bucharest. Two different methods of investigation are applied at this stage: 1) *observation*, by monitoring their response to different

categories of innovations from the DIY stores, selected from the categories of innovations defined apriori (in the first stage of the research) and validated through the descriptive research among decision-makers, 2) organising a *marketing experiment* in one of the DIY networks for testing the optimal showcase position of new arrivals and signalling innovative products and services through different means (visual, acoustic, combined), 3) conducting a *qualitative causal research*, by means of a simulated market test [Cătoi (coord.) 2009: 85-86], to determine experimentally the customers' reaction to a given number of innovative services, present for the first time on the Romanian market. In this paper, the authors refer exclusively to the *pilot research* carried out among *decision-makers at store network level*. 13 specialised managers from the bricolage stores in Bucharest were interviewed. Although such an approach does not provide representative results, it makes place to interesting conclusions based on which future research instruments can be built (questionnaires, projective tests, observation sheets, experimental schemes). The research based on the conversation guide was conducted during two weeks, from the end of March until early April 2012. Dialogue with each party lasted between 30 and 40 minutes, being recorded - with the interlocutor's consent - on electronic media. Efforts were made to ensure a relaxed atmosphere and a constructive dialogue, avoiding, as much as possible, the 'Yes/No' dichotomous answers. The interlocutors were head of service and marketing managers, trade managers or acquisition managers from leading bricolage companies present on the Bucharest market. Semi-conducted in-depth interview was chosen as investigation method because of its capacity to clarify the main concepts, which are next interpreted as *operational data* (transformed in measurable or evaluative indicators) in the following stages of this study. The *conversation guide* (Pop, Petrescu 2008: 190) is not a questionnaire with closed questions, but an arguable reference meant to guide the discussion in case the interlocutor does not take the lead in tackling the proposed topics.

The five hypotheses formulated for the pilot research were:

H1 Interlocutors are able to make the difference between innovation of new products and other forms of innovation;

H2 The interlocutors' perception of innovation in bricolage (DIY) retail is *diffuse* in the absence of a well-structured definition of the types of innovation, depending on *involvement, responsibility and control*;

H3 Exploratory research based on semi-conducted interview may lead to a classification of the innovation sources by *types, technological criteria, responsibility and involvement*;

H4 *Local initiative* as source of innovation is poorly represented in all possibilities of innovation;

H5 *Customer as source of innovative proposals* is considered a secondary solution in marketing novelties.

Results of the research

Interlocutors' availability to dialogue was an essential factor of the pilot research. Asked to formulate their own opinion on the concept of innovation in their field of activity, interlocutors have formulated a wide range of solutions. The most frequently mentioned solution was *new product* launch, which was treated separately. The discussion on product innovation went further, answers varying widely - from brand new products on the global market (e.g. roof elements including a solar energy recovery system) to new products for the retail company. The main sources of product innovation also proved themselves diverse (from brand new materials for the construction industry up to pricing variations – either 'prestige' pricing or 'popularity' pricing in relation to pricing of similar products sold by competitors). As the subject of this research was not the innovation of product offers, the authors concluded that interlocutors succeeded to clearly set it apart from other forms of innovation and thus **H1 is confirmed**. Interlocutors mostly focused on the technological side of innovation (from discussions resulting ideas such as: '... based on the display from the flooring showroom, the customer calculates his necessary of

parquet and accessories with a few clicks.’), two thirds of them also reported innovations related to the sale process (‘... recently, our company opened a store in Transylvania, which has a testing centre for new electric tools, the customer having the possibility to try the equipment before purchasing it - something which has a positive impact on his buying decision and also brings something new which attracts the buyer’). A small number of interlocutors tried to classify innovation based on certain criteria, such as in-store presentation, additional customer services, product range and price configuration, loyalty programs, construction type of the store, without specifying exactly the persons responsible for such initiatives (store management, bidders - producers, stores network management, third parties). Although an important number of innovative services were registered, a direct connection could not be identified between these services and customers’ requirements, including their desire to receive an optimal service quality-price report. These facts, along with some aspects which will be reported by the other hypotheses, prove that there was no clear customer-orientation among the interlocutors. All these factors have led the authors to the conclusion that hypothesis **H2 is confirmed**. Through dialogue, the authors could establish a typological structure of innovations in DIY retail criteria based on *involvement*, *responsibility* and *control*. Table no. 1 brings these aspects together and serve as a basis for designing other techniques and tools for the second and third stages of the general research on innovation perception and communication in bricolage trade.

Innovation type	Concrete forms of innovation
a. Genesis of innovation in triangle: <i>manufacturer - distributor - customer</i>	<ul style="list-style-type: none"> - manufacturer – innovative products; - distributor – sales of innovative products and innovative trade methods; - consumer – provides the best innovative solutions (mostly conveyed by needs), but these can be unrealistic in terms of development costs.
b. Innovations at the point of sales (store)	<ul style="list-style-type: none"> - constructive; - functional; - esthetical.
c. Innovations in presentation/display and offer ‘activation’ at the point of sales	<ul style="list-style-type: none"> - merchandising aspects of the sales process; - informing customers (smartphone applications, information terminals); - special in-store attractions (new arrivals, ‘premium’ products, etc.).
d. Innovations in the selling process	<ul style="list-style-type: none"> - mobile shopping assistant (on various gadgets); - testing and creativity room; - innovative payment and settlement systems; - buy-back and customer incentives to recycling.
e. Complex customer loyalty programs - to the store brand and its offer	<ul style="list-style-type: none"> - addressing intermediaries with a role in products and services prescription, (craftsmen who performs various works at the customer’s location); - addressing organizational customers (construction companies); - addressing the end consumer.
f. Innovations along the supply chain	<ul style="list-style-type: none"> - in the supply process - in the transport process - in the storage process - in the inventory management at the store

Table no. 1 – Typology of innovations in bricolage trading

Source: realised by the authors of this research

Interlocutors have expressed their availability to classify innovations by categories they considered related to the applied field of the research (DIY retail trade). This approach presents applicative valences not only for the other investigations of this research, but also for delimiting responsibilities in *promoting* and *communicating* innovation in this context. Consequently, hypothesis **H3 is validated**. The authors observed the interlocutors’ focus on innovative aspects generated at the ‘mother’ company level, as a result of the influence exercised in the commercial concept by the ‘centre’. Paradoxically, in Romanian companies (Dedeman, Ambient, Arabesque) availability to innovation was less declarative and more strongly emphasised in practice. All interlocutors are open to specific training activities that involve customers directly in various practical activities, using products purchased from the store (e.g. cultivation of garden or indoor plants, installing tiles at home, painting the domestic environment, planning the bathroom in 3D,

etc.). DIY store chains with foreign capital are more likely to invest in innovation because, on the one hand, access to the latest technology is easier on the developed markets and, on the other hand, financial power of international groups is higher than that of the local ones. In addition, employees can be trained in stores abroad - where the brand is already present – this making possible the accumulation of knowledge that may lead to the creation of innovative solutions on the local market. Moreover, the concern of the vast majority of the interlocutors to highlight the innovative character of the brand they represent was highly appreciated. These considerations led the authors to **accept hypothesis H4**. Interlocutors noticed a change of conduct in the act of purchase. The customer first searches for the product on the Internet and then visits the store to purchase the product. Interlocutors state that it would be useful to place fast-speed Internet access points in the store, allowing quick visualisation of the entire product range. Customised treatment becomes also necessary - including customer loyalty programs - for intermediaries represented by craftsmen from different areas, who purchase goods for their customers. Interesting statements stood out, like: ‘... earlier this year we started a pilot project to test craftsmen’s reaction to a new loyalty program - if the craftsman makes a purchase for himself, he receives a direct discount on the products value; in exchange, if he brings his own customer in, he is rewarded with a percentage from the value of his customer’s purchase, the cash bonus being transferred directly to his account. The pilot program has been successful, which encouraged us to extend it to country level,’ declared a DIY store manager; ‘... I have recently visited a retailer, where I saw a very useful customer loyalty device. It scans the customer’s access card and discounts are then offered based on the information stored in the database about that customer’s purchase history,’ said a marketing director of one of the analysed networks. It could be observed that the DIY market is characterised by a minor concern for customer loyalty. Loyalty initiatives via the card are more punctual measures than a coherent plan to increase customer attachment to the products. The discussions showed quite clearly the *lack of a systematic approach* of the brand attachment process. Such a system would start from a *customer database* (based on classification criteria such as the nature and destination of the purchases, the average purchase amount, etc.), which is a prerequisite to *strategies of personalised customer treatment*, in terms of attachment/loyalty. Such a concept would be complete through a permanent marketing-controlling frame (Pelău 2009: 43-50). Buyers are more informed and, as a result, when they visit a store, especially a DIY one, they expect to find a wide range of products, of a high novelty level. One of the interlocutors stated: ‘... We had cases of customers who came and asked us if we had product X or Y, about which they had read in a specialised magazine. We often expanded our range of products and services based on customers’ proposals’. However, the research showed that there was no systematic concern for the registration of innovative proposals coming from customers, and even much less for their consistent processing. All these elements lead to the **validation of hypothesis H5**.

Conclusions

The exploratory pilot research proved itself very useful for the authors, in terms of assessing the situation in the bricolage networks from Bucharest, but also for the subjects of the investigation, in terms of a series of conceptual clarifications, with operational implications. The study will be followed, at this stage, by a *projective test* conducted on operational store managers. This form of non-verbal communication is recommended in situations where people want to discover ‘hidden’ motivational elements, that verbal communication could not accurately stress (e.g. the attitudes of operational staff towards an extra effort required ‘to highlight innovation’ or to learn new marketing and customer guidance techniques). We strongly believe that the second and third stages of the planned research will allow a much clearer delineation of how innovation is perceived and communicated by all company stakeholders in the retail trade of bricolage products.

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SMALL FARMERS FROM RURAL AREAS ATTITUDE ON ORGANIC FOOD

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This paper is one of the few marketing research done in rural areas of attitudes towards green products. Even if the subject is generally treated at the international level, Romania has an important specific is to be taken into account in the European area. Size of agricultural holdings and their degree of technology do not have the desired agricultural economic efficiency of modern economies. But by applying marketing techniques and by approaching customer needs, the agricultural sector in Romania can develop in another direction no longer going through the business model of major West European farmers. We are referring here to transition to a agriculture on small areas, intensively exploited and ecology and a system of distributed in the markets with a big search for such products. But he must know how people in rural areas see these green products and how they are trained to understand the concepts of green marketing and marketing organic products. These issues have been dealt with in the first part of the work. The second part of this paper aims to describe the attitude of small agricultural producers towards organic products and the degree in which they are willing to go to such a production. Research is based on a survey an explorer in two rural areas of Romania one at the mountain and the other in lowlands and shows the degree of adaptation for small producers to new market requirements. Results have been contradictory. Some of them have confirmed the assumptions, namely the opening to such a grown for, and others have shown a much greater degree of the use of chemical compounds in agriculture than expected. Also the degree of taking the initiative in rural areas was an issue that came out at a level lower than expected. This is a worrying conclusion but worth being taken into account. This research gives the image concept in rural areas being the starting point for further research and strategies which to propose turning Romania into a net exporter of organic production.

Key words: green marketing, bio food,, rural market

JEL Classification: M31

I. Introduction

In the recent years people began to be interested in protecting health and the environment by using earth resources rationally and making agriculture a reinvention of a conventional organic one. Several companies have emerged to support these ideas and even promotes environmental or selling such products. In big cities have appeared numerous companies and products certified organic. There is an ecological market peasant products formed parallel but nobody ever made an analysis of the perception of these small producers of organic products. There are several programs that encourage this type of production but, the interest is to see what the perception of this concept in this area is. Developing this type of production and introducing the modern retail system would bring huge benefits to both small producers and the entire national economic system.

In the current consumer market has become more demanding and began to consider the decision to purchase several aspects of environmental quality of products, type of packaging

(biodegradable or not), their effects techniques production and environmental technologies and social behaviour of companies. It makes the transition from traditional consumer to consumer "green" - social responsibility. Ecological concerns not only reflect the final product, but the entire field of production of product from producer to consumer. Modern consumers want guarantees that the products purchased in greening their meaning. This is why governments and supra-state institutions attempted to regulate the problem. If you really want to support the development of organic food production as a way of getting the profit, must not only respect the legal rules, but to be one step ahead by studying small producers, consumers and understanding their perception of these issues. And so it meets a real need for research and economic adaptation of scientific research these real problems lead to an improvement of our system of socio-economic life.

II. Literature review/ previous research

"Green marketing, from traditional marketing is directed toward community interests and environmental protection, the environment is changing. In other words it is directed towards environmental protection and quality of life ". (Danciu 2006: 25)

Green marketing should push for the use of clean technologies oriented toward saving resources and other sectors, such as production, which should be considered ecological qualities and packaging of "eco". (Stoian 2003: 16)

Eco-product is defined in terms of American professor Philip Kotler in the book "Ecomarketing" written by M. Stoian as "a service vehicle". "Eco-product is the product that consumers demand and at the same time harmonize their interests, the short, medium and long term. As long as eco product demand is steadily increasing adaptation to market needs is a simple way to increase profit entrepreneurs.

Organic products are included in the ecological products. The European Commission's view, organic products are those products derived from organic agriculture (including both plants and animals), aimed at "getting fresh and authentic processes designed to respect nature and its systems." (European Commission)

"Organic Production, consumption is an interesting option because it satisfies three needs at once. Are perceived by most consumers as compared to conventional tastes much better and healthier and the production process is less harmful to the natural environment. "(Garcia and Magistris, 2008: 386)

"The interest in organic food is seen to increasingly higher among consumers around the world, because agriculture" organic "Assurance of quality organic products that help consumers to take care of their health and families." (Roitner-Schobesberger et al 2008: 112)

Numerous studies in Europe and the United States have shown that the choice to purchase organic products is strongly motivated by the desire of a state of good health and taste much better than these organic products than conventional products taste and the belief that organic products are grown on healthy principles and protect the environment and animal welfare in their growth process. (Arvola 2008: 443)

On the Romanian market can be bought organic food from organic specialty stores, shops and organic products are on offer as are the supermarkets and online stores would have to offer organic products. Another option is to purchase products directly from manufacturers. Their list - the address, telephone and even e-mail - can be found on the website of the Ministry of Agriculture, Organic Agriculture section. Although not all large retail chains have highlighted green products on their shelves in many hypermarket chains emerged districts bio spaces. Unfortunately most of them are important products especially from Austria and Germany. Based on this observation our work was designed to see what is missing from the Romanian system to make our own organic products get easier on the market environment. Emergence of big retail chains and changing consumer preferences to products sorted, packed and labeled to meet quality

and food safety principles tend to reduce the percentage of production sold at the farm gate for organized markets. This percentage is declining as a result of increasing trade through intermediaries.

III. Research methodology

Aim of this study is to determine perception of ecological products in rural areas.

The objectives are:

1. Existence of ecological education in rural areas.
2. Awareness of ecological products in rural areas.
3. Analysis of rural respondents' perception of ecological products.

Right from the beginning we state that this study is not conclusive but an exploratory research. As a research method a survey was realized. 150 questionnaires were applied in rural areas. 90 were applied in Harghita County, Toplita area and 60 were applied in the Old Kingdom, the County the area Titu. The two areas chosen have no statistical significance they were chosen primarily because of ease of authors to collect data from these regions and secondly as a means of checking to see if there are common views in the two rural areas so different. Data collection took place in summer 2011.

Sampling was done by the "snowball". (Cătoiu et.al 2009: 534) The questionnaire was initially applied to residents of the areas studied and through them was applied on to their friends and acquaintances. The target group consists of individuals residing in rural areas, does not apply other demographic restrictions.

Because livestock and agricultural production are the basics of their own subsistence respondents were asked to exemplify that livestock are the main crops household and area exceeding 500sqm.

IV. Results

The analysis of responses shows that 87% of respondents see their production of the household as a green, and only 10% do not perceive farming. Of knowledge and experience so far this is not necessarily true because many of those who say that their organic production uses chemical fertilizers and chemicals for pest removal.

Through the media over half of respondents first learned the concept of ecological, 15% have heard from friends and almost 10% of magazines. Interestingly, although the research took place in rural areas 8% of respondents have heard about organic products through the Internet. Although we expect the mayor to have increased activity in familiarizing people with the concept of ecological still below 1% of respondents indicated it as the place where they learned about the existence of such products.

Wishing to find out if there is a tendency to adapt behavior to the market, respondents were asked whether the last five years have started to grow or cultivate a new assortment of breeds of animals or plants. 67% of respondents respond negatively and only 32% responded positively.

Reasons for trying a new plant variety or a new breed of animals refers mainly to an increase in output or productivity 12% and 6%.

Because in recent years discussions about accessing pre or post-accession funds have monopolized the interest of small producers, we asked a question regarding the wearing of discussions or attending lectures or meetings held with the format farming subject. The answer is disappointing only 6% of respondents stating that they have taken part in such events. Of the seven respondents who participated in such meetings in June admitted thinking of going to transform the mode of production. Directions of change have been dictated by obtaining more green products, to increase the quantity or remove products such as chemical fertilizers, herbicides or pesticides in production activity.

Although he saw some interest in organic products however request information from specialized institutions is very low, only 12% of respondents resorting to this method of information. Most of

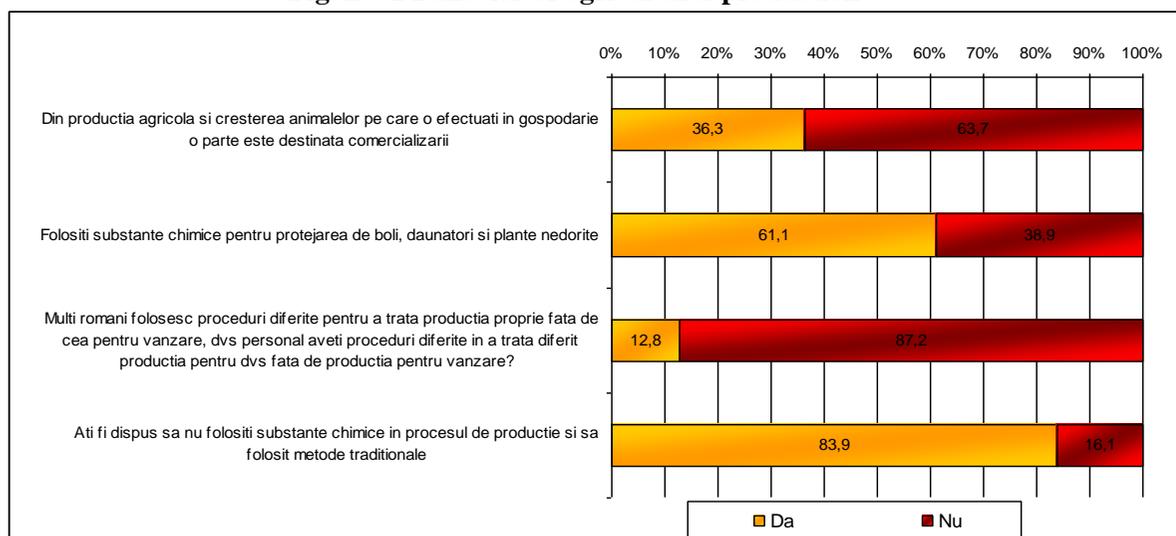
them have turned to existing information from the Ministry of Agriculture, a respondent turned to information provided by the institutions that manage European funds, one to the media, and one by the information could be provided by the municipality.

Most common place to search for information has emerged to be the Internet more than 50% indicating it as the main source of information.

The media is another important source of information 40%, along with magazines 27%. Only 23% of respondents would call the specialized agencies to obtain information, while 20% would turn to information held by friends. In last place are municipalities with 17% of respondents indicating it, as a potential site for information collection.

The vast majority of respondents use their own production for own consumption only a little over 35% of them sold part of their output. Unfortunately the majority of respondents over 60% of them use chemicals for fertilization and removal of pests or unwanted plants. (Fig. no. 1)

Fig. no. 1 Behavior of agricultural production



Realized by e author

A 12% apply different treatment products for own use from those for marketing, however over 87% do not apply differentiated treatment. Over 80% of respondents would be open to doing away with the use of chemicals in the production process and would return to traditional methods.

However, this transition would be made provided that the price of organic products to be slightly higher than the other products. Thus 29% of respondents believe that organic products should have a price 25-50% higher than other products, 27% would like a price 10-25% higher and 20% of respondents would be satisfied and with a 5-10% higher price. In other words 65% of potential producers would charge a price up to 25% higher than today.

In a battery of 5-scale Likert questions response we analyzed respondents' on various aspects of agricultural production. Thus the statement on chemicals such as fertilizers, herbicides, pesticides or insecticides tends to be relatively respondents agree that they are a necessary evil. There is a clear tendency to focus on the attitude towards them is neutral. Respondents recognize that there is adequate information on organic foods or steps that will be made to obtain environmental certification. Agree that more could and should do more to get this certification, and feel very strongly need help from City Hall. Place primary responsibility for obtaining these types of certificates to the government.

In view of respondents townspeople rarely buy organic products because they are more expensive 37%, 17% are not found or cannot afford. Western Europe prefer not to buy the Romanian origin because they trust not our products 18%, 14% are low quality, are not promoted enough 12% or have some better 9%. 4% of respondents see as the main reason lack "commercial aspect" that is not provided easy access to our products or because they are more expensive.

The main fault that things go as they should in Romanian agriculture is the government 52%, management 10%, 9% State, or Ministry of Agriculture 5% in other words not to blame but producers are still awaited from the State "to keep our hand as we cross the street".

As the bivariate analysis, we examined several questions in terms of demographics. Unfortunately due to the relatively small number of questionnaires, many of these correlations have not emerged statistically significant or have given too large calculation errors due to insufficient data. Yet few have emerged statistically relevant.

The area Toplița declares a higher percentage overwhelming that they have changed their production in recent years from 46.3% in Transylvania to 8.7% in Wallachia. This shows a greater power of adaptation in Transylvania. They also have been more interested in attending lectures, meetings, discussions about agricultural production, as well as organic food production. Although the hypothesis was that we left the mountain agricultural production is cleaner in terms of chemical treatment products, we noticed that all those from states Toplița a higher percentage (68.7% vs. 50%) that use chemicals to protect from diseases, pests and unwanted plants.

V. Conclusions

Upon completion of this work we can say that rural population has a slightly wrong perception of what organic means. As we showed the beginning of this article, ecological means not only organic products that are not chemically treated but also those that are certified. Unfortunately, no one respondent of those surveyed in this research didn't made such a statement. This gives a poor training to both small producers and the authorities. Unfortunately due to this lack of knowledge we cannot exploit the potential that we have.

Even though more respondents in an overwhelming number said that their products are organic, they also said a 60 percent share of their products are chemically treated. This lack of knowledge has made in recent years much of our potential to lose its organic produce. Chemicals used without respecting quantities make some products to exceed concentrations and production considered as organic by the small farmer actually to be more toxic than those distributed through department stores.

Another conclusion we can draw on the degree of entrepreneurship of rural population. Most expect the state to do various things to increase the profitability of agricultural production. Guilty are always those in power, but training courses attended, associations of small producers, local government initiatives are not choices made by respondents. Trust that the things may change starting from low to the top is not an existing one among the respondents. All are waiting for a solution to come up from the politics and government.

Confidence in their own products or those of farmers like them is lower than industry products. In this case it is very difficult to build a functional business idea.

As recommendations made after doing this research would be the attendance to courses done in order to bring education among the rural population of what organic products, the ecologic way of production, administrative steps to be followed for organic certification, marketing and entrepreneurship means. These courses made for as part of nearly 40% of the Romanians population, the rural one, can become added value in the economy. These courses can be made both by local authorities as well as central initiative and with the help of EU funds. In order to give an alternative to the rural population in order not have to emigrate in foreign countries to survive.

VI. Acknowledgements

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THE PERCEPTION ON ECOLOGICAL PRODUCTS – A RESEARCH ON THE URBAN CONSUMER

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This paper is about the consumers of organic products. The work is important because in Romania, although consumption data show a small percentage consumption of organic products, in words it is still high. The difference consists between the definition and the perception of the concept of ecological products in respondents' eye.

This work aims to study the consumer perception of such niche products from a narrow perspective and that of products certified or not. Trying to prove that there are differences in behaviour between the two groups.

Problem arising in this field is that there are many concepts of period of environmentally-friendly. Marketing and criterion by which to do all the market report shows green products from the point of view as they are legal certificates. Only that in Romania, there are two different segments of shoppers. Those who buy green products certified and those who buy green products certified. These latter, which many call the peasant market supplies, are an interesting group of future investigation for this type of sale. This paper comes as a complete research done in this market and brings attention to a new variable of analysis for motivational research.

This research is an exploratory research that proposed method is very common in research of this kind. We held three focus group meetings divided by a selection questionnaire.

The first group of 7 persons included only persons who have declared that they have bought certified products and the second group of 9 persons included only people who bought uncertified products. The third group also of 9 persons included people in both categories. So we could identify what some say about others when they are face to face and also when they are not. The results are as expected. We can say there difference between the two groups in terms of motivation choosing those types of products, the same reasons are for buyers and their family, taste and the appearance of a child in the family. However there are differences in what way those products are defined. If some consider as only those who are eco-certified, having confidence in the certification scheme more tightly, the other group has more confidence in their long term relationships with suppliers-manufacturers, and also in the taste of the products.

This research was necessary as part of a wider analysis that aims to build a model of purchase and consumption of organic products.

Listen

Read phonetically

Dictionary

Key words: green marketing, bio food, consumer research, Romania

JEL Classification: M31

I. Introduction

Green Products form a market more and more interesting for scientific community. Started from mere observation as the man came in conflict with nature in the early 1970s, the theme was working till today many specialty studies, law and social movements. But the concept of eco-

label is hard to catch with a single study. (Bahn and Wright 2001: 51-55), (Roberts 1996:217-231)

First of all, the answer to the question what is an organic product? It is very difficult to give. There are many works to define environmental performance, durable products green, ecological services and not least for organic food. (Magdoff 2007: 109), (Ottman 1993), (Polonsky and Mintu 1995)

All these products also started as a niche market, some markets such as the food have developed representing true market segments more than 5% of the market in certain countries. But to be able to ease the development of these markets requires research methods unit. But researchers define the term differently law and her interviews with a number of restrictions and consumers understand anything by this term. This work comes from this third perspective, that of consumers. Designed on a qualitative study, research aims to analyze two types of consumer perception of organic products certified and the uncertified ones. Because marketing puts its spotlight the consumers need not the legislation, in this study we'll consider as ecological those products that consumers consider them environmental friendly and not only if there are certified as such. This paper aims to fine out the perception of the consumers, both of certified and uncertified products, have on the issue of the legal labeling, and also if there are any differences between the two opinions.

II. Literature review / previous research

In view of marketing, organic products have been defined by many authors from different perspectives. At first she appeared in the 70 marketing term ecological products were seen as products that accompanied the ecological behavior. They were simple consumer products and the way the consumer does not affect the environment. Direction of study is human behavior and ecological behavior of people. The first definition of green marketing has been made to the AMA seminar, "Ecological Marketing" in 1975 and emphasized the study of positive and negative aspects of marketing activities in terms of pollution and depletion of energy resources as well as the non-energy. This approach to analyze the degree of damage to the environment by marketing activities quickly turned into a concept that was very well defined by Mintu and Lozada as "Green marketing is the application of marketing tools to facilitate the exchange to satisfy the needs organizations and individuals, so that the environment to be protected and preserved"(Mintu and Lozada 1993:18). In this view any type of product could be green as long as the design, manufacture, distributor, use and then remove its use is taken into consideration the natural environment. This concept is defined as organic food if the product does not replace another product grown better environment in place. It cannot be considered organic grain, if it is grown in place of a piece of forest that was deforestation, or if during transportation to the consumer market for that product was consumed too much energy as fossil fuels. This concept is suitable for all categories of products from consumer goods to the durable. The concept was expanded including green buildings, green cars and other durable products.

If we talk about scientific terms should be noted and the view of some authors who say they cannot talk about green product but about greener products. (Smith 1998: XX) Any human activity affects the environment so that eventually every product is itself a part of non-organic production. Other authors have opened the front for organic food products of ecological agriculture. Chemical-free products or products provided local dispute the term of organic. The unconventional farming without plowing the earth (the polluting factor considered here is the energy necessary for plowing and excessive fragmentation of land resulting from damage while lifting texture and excessive amounts of dust.) Or biological treatment methods based on plant and crop insects that are working better then chemicals. Note that the term of organic product is multifaceted also for the scientific community. Being an important issue both for market and for consumers the authorities tried to clarify the issue. (European Commision) So they came up with

a new approach to the term. This work comes from a customer perspective as we came from the very beginning with a description of organic products as seen by them.

III. Research method

We have talked to a total of 25 people divided into three groups. Selection questionnaire included only information related to: sex, age, occupation, education level, family structure and income and if they bought in the last month any labeled organic products or eco or green as they presumed. A key objective of the study was to understand the Romanian consumer perception of organic food and their associations, including attitudes and buying motivations. Another objective of this study was to evaluate and acquire knowledge about consumer attitudes and perceptions in order to explore Romanian market opportunities for organic food and use of qualitative approaches such as focus group was considered as suitable for data collection. The three focus groups included 25 participants, grouped in buyers of: certified organic, uncertified organic products and the third group consist of people who have bought both certified and uncertified organic products.

Were considered as certified products those labeled products or certified available for sale in big chain stores, hypermarkets, supermarkets, specialized stores. Uncertified food products were "unintentional ecological" products, produced by people in rural areas. Most participants believe that demand for these products is high in most urban centers in Romania and that are more favorable than those certified. All consumers have been buyers of food products, over 18 years old, with permanent residence in Bucharest.

In the purpose of this study, buyers of organic products were defined as those who bought at least one believed organic product in the last month and depending on the type of organic product were divided into 3 categories.

Four major themes were explored:

- i) general knowledge and awareness of organic food,
- ii) associations of organic products,
- iii) the major barriers to purchasing organic food,
- iv) sources of information and the role of different stakeholders in promoting organic food.

Within these themes a number of topics were discussed such as: What is meant by the term "organic", price and willingness to pay a higher price for organic products, taste, healthy eating issues, selection of organic products confidence, the home, labeling, availability of green products, environmental concerns.

IV. Results

Participants were defined similarly organic food, especially focusing on the lack of chemicals (fertilizers or pesticides like) and the absence of artificial ingredients (such as preservatives, food additives "E's" modified organisms genetically).

Word officially designated and used by the Ministry of Agriculture is "ecologic". However, during discussions, the participants used different terms to describe them, namely "eco", "biological", "bio" and "natural". Since most organic products sold in Romania are imported, the existence of various labels explains the participants' confusion.

Examples of are products manufactured and handled using defined means of certification bodies:

"Foods that are not genetically modified"

"Grown without chemical fertilizers"

"Quality food with 100% natural ingredients"

"Farmed animal grown with bio-food"

In addition, participants have linked organic food with small scale farming systems, small traditional peasant farms. Thus this method was considered more of a "natural" food production, with lower productivity and thus with less impact on the environment.

Thus this method was considered more of a "natural" food production, with lower productivity and thus with less impact on the environment.

"From what I understand, there are certified products. I like natural foods "

"I am convinced that there uncertified organic food in the market, for example"

"My parents raise chickens and their eggs are safe to be organic because they do not give anything artificial, outside the grain"

"Why pay a high price for a product you can buy cheaply at all?"

The main benefits and barriers to buying organic food were identified.

They can be represented as positive and negative consumer associations on organic food.

A joint award was recurrent consumption of organic products with a healthy diet.

Some buyers of green purchasing organic products perceived as a potential way to prevent diseases such as cancer or cardiovascular disease. Encouraging children to consume ecological products was seen as an attractive opportunity to increase hope and quality of life.

"Because environmental means health ";

"I am much healthier";

"If you are really green and healthy are clear";

"Grandpas' ... environmental diet extended his life";

"Are ideal for children"

Physical defects of organic food are perceived as evidence of their authenticity, as a trusted source for organic buyers.

"I avoid products that look unnaturally good; may look for a wormy apple or a dirty carrot"

"I went and bought the ugliest leeks available there"

Discussion groups also commented about the taste and organic food.

Some have made it clear that organic products taste better and have more natural. Others could not identify any difference. Extracted significant idea was that organic products are more filling.

"Taste it shows if bio or not";

"There is not difference in taste but what you put in you"

"Eat less. Two bites you get filled."

All participants bend organic products of tradition, and in some cases of childhood nostalgia.

Participants recognized, however, that the traditional diet is not necessarily healthier.

"When you think of how much fat you eat ..."

"You lick your fingers but your cholesterol is over your head."

It was discussed in the group also the possible link between the consumption of organic products and the effect of consumer snobbery. In the group that consumed organic certified products it didn't sow such a connection: "In Romanian culture, snobbery is something else, is a strong car and a mountain villa with swimming pool. It doesn't mean a healthy diet."

Ask what they think there is a difference between those who buy organic products from stores and from fairs; they felt that there is such link. "To give so much for these products means you snob. Buy them to feel well and to have something to discuss".

Higher prices and lack of confidence in what you write on the label are the main barriers to consumption.

Organic food truly certificated as label and taste seems to be perceived as a luxury only for a narrow segment dedicated of consumers, thus creating a niche market.

"There are too expensive";

"There will always be luxury items for only part of the population";

"The problem is price. Nothing we know what we buy, if we have no money to them and give. "

"I'm not sure if I could have confidence in products labeled"

Another barrier to use would be limited diversity of products with limited distribution. These things characterize organic products market in Romania because of low demand nationwide.

"I found only some labeled products on the market, that I care for";

"There are fruits and vegetables labeled";

"You cannot find them in any store";

Were praised "locals shops" those little stores that distribute local traditional products from Sibiu. Selling what they industrialize and blend without cargo.

"There wasn't always have the same taste but that's why I trust they are natural"

In terms of information sources, there were clear differences between buyers for certified and uncertified products. This is mainly due to the different degrees of awareness of participants.

"We see ads all crap, cigarettes, alcohol, but any good products"

"Green culture should be taught in schools";

"Even if the government's task should be to worry about the health of the population, that doesn't happen to us";

"I think we are not sufficiently informed about the benefits of natural products and about what we lose by all methods of production".

The main sources of information identified were the media, some specialty publications, the Internet and major sale points such as hypermarkets.

However, all participants agreed that it feels the need for information campaigns and greater involvement on behalf of the government.

When asked about buyer profile of ecological products in Romania, buyers tended to talk about themselves and their own experiences.

Participants in all three groups have defined the green consumer in positive terms: people informed, with above average income and who can afford the money and also the time, to seek to buy such products.

Those who do not buy products labeled clearly identified two types of organic consumers:

(i) urban consumers who buy certified organic products from hypermarkets, and
(ii) the consumer area, which produces "unintended ecological" products for self-consume.

In their view you cannot buy in town truly organic products you buy them because there are certified and because you don't know what you buy, only the peasant for his only use produces truly organic products.

In their view "eco consumer is a woman, highly educated, concerned with health and with an income above average".

"You go and buy organic food in the store because you are educated enough to believe everything that seller tells you in the market"

"After me, the organic consumer is primarily because he has the time for this"

"Clearly there are two kinds of eco-consumers. Most are those from the country that produce only for own consumption"

Low involvement in decisions related to food has been attributed to young consumers themselves, who do not buy organic products.

"Just by accident I happened to buy bio"

Was noticed a link between greater involvement in food choices and buying organic products. This was attributed to increased involvement of self-care behavior of some health problems or small children in this household.

"In my case, I changed a lot after I was born"

"I'm selfish. I eat this food because I like to take care of me"

"Keep and age, when you get older you start to think twice about what you eat"

This research is part of a broader research that aims to build a model of buying behavior of organic products. Research tries to conceptualize and crystallize the main study variables and to examine whether the main factor segmentation consumption of certified organic and uncertified imply different behaviors in the two groups.

V. Conclusions

In conclusion we can say that both groups mainly buy organic products for their own health or the family. The consumption is being enhanced by special programs and doctors but also the appearance of a child in the family.

There is one significant difference regarding the two groups. Among those who buy certified products are considered more educated and do not trust the sellers while the second group focuses more on the direct relationship they develop with the seller – producer, having not confidence in the present certification label. These last ones focus more on product taste. They tried certified products and didn't repeat the buy because of the flavor. "I ate certified cereal tasting like wood chips".

We could say that the second group cook more, this is a conclusion extracted from the research analysis and not a variable that was followed by early research. This is a new research direction.

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A THEORETICAL SPOTLIGHT OVER THE ROMANIAN AGRICULTURAL PRODUCTS

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This paper aims at identifying and classifying new types of agricultural products, especially in Romania, but not only. As we well know, all the countries all over the world have their own history, traditions, economic structure, and a certain type of agriculture, adapted to their soil, climate, and nevertheless to theirs people needs. So, we know that certain countries used to cultivate certain agricultural products, while others are wellknown for others. Usually, we associate Spain with great wines, Belgium with delicious chocolate, Turkey with coffee, India with rice, Romania with grain, Russia with cereals, SUA – tobacco, etc.

There are new researches in the agribusiness sector, the worlwide commerce is spreading and growing very fast, peoples' needs are continuously changing and therefore consumers behaviour is a new, different one. Every country, as well as every small or medium sized agrocompany has to focus itself on a new type of Marketing strategy, in order to be a succesfull one. Agricultural and food products are the most important ones in a persons life, and that's why we have to give them the right attention, starting with their production, pricing and selling, and nevertheless communicating and promoting their benefits.

The paper is a short literature review of defining and classifing agricultural and food products in Romania, underlying the attention given by the European Union to the promotion of products bearing a protected designation of origin (PDO), Protected Geographical Indication (PGI) or traditional specialty guaranteed (TSG), organic farming products.

Cuvinte cheie: agricultural and food marketing, basic needs, organic food, healthy products
Cod JEL: M31, Q13

1. Introduction

People's needs and preferences have changed a lot during the last years. Looking back to the ancient times, the mankind was struggling for food and a place to sleep. They were struggling for satisfying their most important needs – food and safety, needs that nowadays are perceived as **basic needs**. So, people's needs are changing; the needs are varied and unlimited, while the resources for satisfying them are limited. Therefore, mankind had to search and find different solutions for their problems. The commerce has developed, the science has evolved, and the climate has changed. Many years ago, every country was associated with certain goods it used to produce or to commercialize. And most probably, that specific product could have been obtained (cultivated or produced) at great standards only in that specific country or region. Usually, we associate Spain with great wines, Belgium with delicious chocolate, Turkey with coffee, India with rice, Romania with grain, Russia with cereals, SUA – tobacco, etc.

Due to commerce development and to the new researches in the Agribusiness sector, nowadays almost every country can vary the crops it cultivates and commercializes. Moreover, the world's climate is continuously changing, and that affords some crops to be cultivated in more different soils/ countries than many years ago.

During the Great Discoveries Period, Europeans introduced and adapted several types of crops found in the countries they conquered. So, for example, the eggplant, originary from India, (1500 years ago) is grown in Europe since Middle Ages only, and in Romania after the First World War (<http://www.horticultorul.ro/legume/vinetele-sau-patlagelele-vinete/>); the potatoes where brought

in Europe, in France during the Reign of King Ludovic the XVI-th (Valnet, 1991), and so on. Nowadays, we buy and eat fruits and vegetables from Asia and South America or even Africa, products like goji, peanuts, pistachio, mango, avocado, cranberries, bananas; we try to find and develop different new products to achieve new sources of energy, fuels, etc. If not possible, we try to use old, traditional products to meet new needs, or to find opportunities to diversify the use of a product (rapeseed oil used for biodiesel, miscanthus for getting heating energy, paulownia to obtain high quality timber, chocolate taste tomatoes, watermelon flavored brandy) (revista Profitul agricol, nr. 12/ 28 martie 2012).

Because of this new trend of diversity, variability and need to identify new solutions for old problems, every country has to reconsider its own strategy towards agriculture and agricultural foods at a macroeconomic level as well as microeconomic level. In other words, small farmers and national governments have to turn their spotlight on a new Marketing strategy, in order to survive and develop themselves on a fast moving market.

The starting point in reconsidering the marketing strategy of this domain is a good knowledge of the products/ services offered. For these new offered products one can establish all the others policies: pricing, selling and promoting strategies. First of all, in order to create, establish and implement a good promoting strategy, the strategic planner has to know very well the products (the subject of the promotion action) and nevertheless to identify to whom they might be addressed - the target market. So, in this paper we will consider the right definition and classification of agricultural and food products as subjects of a future promotion strategy.

2. The actual context of agricultural domain

It is considered that a country is a developed one if the Services Sector has a great percentage in its economical structure and contributes highly to its GDP; on the other hand, a country with an economy based on the Agriculture Sector is considered to be an underdeveloped or developing country. But, let's think a bit! A country can evolve only if it has a well settled Agricultural sector. Each country, whether developed or developing, has to put the importance of the agriculture at the right place. (We can see that, taking a look to SIC, or CAEN code in Romania). And Romania too! As LAPAR (The League of Agricultural Producers Association of Romania) said in its motto showed at the National Conference of Farmers, "mankind began with agriculture and would end in its absence" (revista Profitul agricol, nr. 12/ 28 martie 2012).

Considering Romania, agriculture is a very important domain, because our country was blessed with a great agricultural area and great climate conditions. It's up to us to create the appropriate legislative and strategic conditions to obtain the best from what we have! Romanian economy can overpass the crisis period investing and sustaining its "Cinderella" – agriculture. Contrary to the latest 20 years' trend of globalization, people tend to return to their origins, to their traditions and ways of being, turning their back to the new ideas of modernization and globalization. This idea of united states, free trade mark all over the world, the expansion of multinational companies sustains the development of junk food, a bad style of alimentation, the emergence of untreatable diseases. That's why now, we are looking back for our old style of life and eating, trying to find our original, healthy products.

In his new book, "Marketing 3.0", Kotler talks about a new level of satisfaction of needs, the spiritual needs (Kotler, 2010), considering that all the rest of mankind needs were satisfied by now. But, can we agree to this statement? It's true, almost all over the world basic needs are satisfied, but it has no importance the way they are satisfied? Yes, we have plenty of choices regarding food products, but we have to take care if they are healthy too. For example, Europe leads with the number of new yogurt products (1,234) introduced in 2003, and the number of cheese products introduced in 2003 with 979 launches. (Berry, 2004).

3. Perspectives of defining agricultural products

What are agricultural products? To try their definition, we define two separate words "agricultural" and "products".

What is a product? From an economic perspective, a product is a "physical good or service", material good for final consumption or use of individual or collective. After Ph. Kotler, "a product is anything that can be offered on the market to satisfy a desire or need. Products that are offered on the market are: physical goods, services, experiences, events, people, places, properties, organizations, information and ideas ". (Kotler, 2007) On the other hand, "agricultural" is seen as something that "keeps on agriculture", which "refers to agriculture" or "is used in agriculture". For example, Explanatory Dictionary of Romanian association offers "agricultural year" defined as "period of time between the beginning of autumn agricultural works, concerning next year's harvest, and harvest of this year", and the association of countries or regions with agricultural term: "What supports its economy especially on agriculture."

So, by joining the two words, agricultural and products, we could say that "agricultural products" are goods obtained as results of processes working on soil or biological transformation and results of natural phenomena caused by dependence on weather conditions.

Diaconescu, M. in his work "Agro-Food Marketing", has another perspective: "food for final consumption, or for human consumption, is the result of an organization system, consisting of production companies, distribution and promotion belonging to different economic sectors." (Diaconescu, 2005)

So, food is "a product in its natural state or processed food, which serves as food for the maintenance of vital activity of the body." (Manole, V., 2010) Here we come back to its importance for our healthy body and mind!

In order to understand what agro - food products are, we have to make a short review of their characteristics. Here are some of them:

1. **Seasonality** - the process of producing agricultural products is long, often well defined, which depends largely on factors such as soil quality, weather, climate conditions, applied technology, etc. Agricultural products are produced only at certain times (short) of the calendar year, but there is demand for them throughout the year. Marketing has the task of finding solutions to meet demand regardless of season or growing cycle of the product. Planning and organization of marketing activities must be "so that supply and consumption of products to be relatively balanced, at least basic food." (Manole, V.)

2. **Perishability** - agricultural products are consumed in a short time after getting them, most often fresh. Consumers always look for these products to be top quality, to provide nutritional values, intake of calories, vitamins highest, but especially to be fresh. Often, consumers find that the processes in which the products to be kept for longer, for easy transport or storage adversely affects their quality. Following this "urgent transformation and distribution of these products," agricultural marketing takes the size of promptitude." (Manole, V.)

3. Agricultural production is done / achieved only in **certain geographical areas** (country) - most often in rural areas, while consumption of these products takes place throughout the country (especially urban agglomerations). Marketing specialist has to find optimal solutions in terms of distribution to meet the demand of any area it would be.

4. **Agricultural products can be harvested at different time intervals** depending on geographical area, but consumption is achieved in the whole country. The harvest is influenced by time of sowing, soil conditions, climatic conditions and cultivation technology used by the manufacturer. In periods of "high season" supplying markets must be done daily, regardless of the geographical area where the supply is made. This requires additional effort and expense distribution. (Constantin and Alecu, 2009)

5. Agricultural production (especially plant) is characterized by **high volume and low sales value**. Because of this, and highly perishable, high volume of work is required, the need for long distance transportation of agricultural products (from rural areas into urban areas), transport costs / unit of product are higher than in other sectors. To mitigate this shortcoming, it is recommended that much of the processing steps and processing of these products to take place as close to the place of production and not consumption.

6. As a result of more aggressive industrialization and urbanization, expressed mainly in economically developed countries, there is a tendency for consumers to invest more money in **processed foods** (downstream agriculture). Therefore, the amounts allocated to unprocessed agricultural products are increasingly reduced, which leads to the idea that agricultural products are becoming increasingly perceived as raw materials. This trend is denied by the new orientation towards a healthy diet, trying to avoid using chemical treatments, to bring the food processing stages, an orientation towards what is natural and healthy! (organic farming and organic food)

7. In the food domain we can't talk about **after – sales services**. A product once purchased and consumed, buyer shall meet all requirements as in this case there is the possibility of returning or replacement with another product properly. Therefore, many organizations, both national and international endeavor to develop rules, criteria and rules regarding the production and marketing of food products. Thus, FAO (Food and Agriculture Organization of the United Nations) and WHO / WHO (World Health Organization - World Health Organization) have developed a "code" of food, which provides standards and codes of good practice in food, Codex Alimentarius. (www.codexalimentarius.net) Therefore, marketer's activity will be to consider compliance with these rules and adapt products to consumer's demands.

4. New approaches to classification of agricultural products

In the field of agricultural markets for the capitalization of agricultural products we can distinguish several classification criteria, among which mention the following (Chiran and Gîndu 2003):

1. After **the origin** of the product can be distinguished:

- Production of grain crops, Horticultural, Animal products
- Agricultural products side (straw, stalks, haulm, manure).

2. In terms of **degree of perishability**, products are grouped into four categories specified in STAS no. 6952/64, as follows:

- highly perishable products (e.g. strawberries, blackberries, some vegetables and some animal products like meat and milk)
- easy perishable products (e.g. fruit: peaches, apricots, grapes, cherries and vegetables: peppers, cabbage summer)
- perishable products (example: apples, melons, and vegetables such as tomatoes, eggplant, potatoes)
- durable products (e.g. cereals, nuts and some fruits like nuts, some vegetables like onions).

3. Classification of agricultural products in commercial practice in the market derives from the fact that different categories of agricultural products are no longer sold in special shops yet, but are sold together with other vegetable or animal products. This classification, most often used, grouped them considering the **origin, composition, properties and degree of processing technology merchandise**. With respect to this criterion, agricultural products fall into the following main groups:

- I. Goods grain pasta, flour derived from grains
- II. Fresh and canned vegetables and fruit
- III. Sugar, honey and confectionery
- IV. Alcohol, alcoholic and nonalcoholic drinks
- V. Digestive products (stimulants, spices, seasonings, herbs)

VI. Edible fats

VII. Milk and milk products

VIII. Eggs

IX. Meat and meat products

X. Fish and fish products

The document issued in Bucharest, by the MARD (Ministry of Agriculture and Rural Development) and APIA (Agency for Payments and Intervention in Agriculture), "Measures to promote agricultural products domestically and in third countries", in 2011, eligible products which may be subject to programs / projects and promotion, are differentiated on the two markets which they are addressed (www.apia.org.ro). Products subject to information and promotion on third country markets are especially products intended for direct consumption or for processing, for which there can be exported or the possibility of opening new markets in third countries, especially where no refunds, as well as typical or quality products with high added value:

beef or pork, fresh, chilled or frozen, food preparations based on these products,

- poultry meat quality
- dairy products
- olive and olive oil consumption
- wines with protected designation of origin or geographical indication, wines with wine grape varieties,
- drinks with geographical indication,
- Fresh and processed fruit and vegetables,
- Products processed from cereals and rice
- in textile
- Live trees and ornamental horticulture,
- products bearing a protected designation of origin (PDO), Protected Geographical Indication (PGI) or are recognized as traditional specialty guaranteed (TSG) in accordance with Regulation (EC) no. 509/2006 or Regulation (EC) no. 510/2006,
- Organic farming products under Regulation (EC) no. 834/2007 on organic production and labeling of organic products and repealing Reg. (EEC) no. 2092/91.

(http://www.apia.org.ro/materiale%20promovare/promovare_prod_agr_piata_UE_terte_piete_09112010.pdf)

A special attention is now granted by the European Union to products like PDO, PGI, TSG, medicinal herbs and organic farming products. These products definitions are established by the European Union in the REGULATION (EC) NO. 509/2006 THE COUNCIL of March 20, 2006 on agricultural products and foodstuffs guaranteed.

(http://www.madr.ro/pages/industrie_alimentara/r_509_2006_ro.pdf) Therefore, "traditional product" that is used on the Community market for a period, showing transmission between generations that has been proven. Traditional specialty guaranteed (TSG) means a traditional agricultural product or foodstuff whose specificity was recognized by the Community through its registration under this Regulation.



In Romania, there are 147 products PDO and PGI registered. Most of them are included in the Dairy Products category (70 products), while the fewest are included in the Bakery products category (5), Meat and Meat Products (2 – Sibiu Sausage and Pleșcoi sausages) and only one product in Processed Fruits category (Topoloveni Plum jam). We can notice also a great number of registered products in the Alcoholic Drinks category (39) and Wines (31). (www.portaldecomert.ro/DocumentDownload.aspx?parametru1=477)

Organic farming has a large impact on consumers, especially in developed countries, where "to eat well is similar to maintaining health", not making excess for celebrations, special events, etc. Biological products meet the new requirements relating to: Food quality, Food security, Respect and care for nature (eliminates the use of synthetic chemicals, but relies on natural organic matter recycling and crop rotation).

Consumers say they choose these organic products for several reasons:

- Can avoid the risks of disease versus: ecoli bacteria in cucumber (milk bacteria) the influence of chemical factors can limit the negative effects of bacteria / viruses, etc.
- Respect the natural environment
- Retrieving natural products tastes versus: about 20 years ago in Romania, we were dissatisfied with the consumption of bread, rye bread, soy sausage, that our products taste, appearance not that great, and now we are willing to pay prices up to 100% higher for organic products, to return to the natural taste!

French Agency for Sanitary Security of Food (AFSSA), argues that differences in the contribution of organic food and conventional farming are insignificant.

Regarding organic farming there are many voices arguing. One of the most persistent questions is: "Can organic farming feed countries like India?"

([http://www.researchgate.net/publications.PublicTopicRewriteHandler.html?params=%2FAgriculture%2Fpost%2FCan_organic_farming_feed_countries_like_India](http://www.researchgate.net/publications/PublicTopicRewriteHandler.html?params=%2FAgriculture%2Fpost%2FCan_organic_farming_feed_countries_like_India))

5. Conclusions and further concerns

In conclusion, we have thrown a short overview on the agricultural products, their characteristics, and the new concerns of European Union regarding the information and promotion of the PDO, PGI, TSG, medical herbs and organic farming domestically and in foreign countries. Starting with the thought that agricultural and food products are the most important ones in mankind's existence, underlying the attention that must be given to the quality of these products, considering the new environmental changes, as well the fast moving people's needs we took a short lesson of health!

It is considered that nowadays almost every person around the world can afford to satisfy his basic needs and struggles to achieve the necessary goods for needs positioned on the last stages of Maslow's pyramid. Trying to get a job, or a better job, trying to impress his boss, or to gain a lot of money, to afford to buy expensive clothes, cars and luxurious things, man forgets about his regular alimentation and gets sick. Therefore, he starts turning his face to nature: taking a short rest in a mountain resort, eating fruits and vegetables, taking medical herbs, or supplements. So, let's remember that its' highly important to satisfy the basic needs in a healthy way!

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ATTITUDES OF THE CONSUMERS REGARDING THEIR PERSONAL DATA: WHAT HAS CHANGED UNDER THE RECENT YEARS?

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The historical roots of the debates regarding the privacy are to be found in the conclusion issued, at the end of the 19th century, by the Pacific Railway Commission (1887), on the essential, for the citizen's peace and happiness, "right of personal security", and the individual's "right to be left alone", approached and explained by Louis Brandies (1890). Since then, many definitions have been given aiming to explain the content of privacy from different angles but all these attempts were rather difficult and succeeded to clarify things only partially, due to the various perspectives considered. The information age has made even more difficult not only the definition of privacy, but its defense in front of the many invading ways based mainly on the internet employment.

From a marketing perspective, the definition of privacy should focus on the personal data regarding the consumers, the extent to what this data is communicated to or is collected by others, and the subsequent data treatment, in terms of the processing and employment, by the entities managing this information. In this context, the privacy should be considered in connection with its particular area of application – the consumer's private space – described by the amount of information regarding the demographics, psychographics and behavioral characteristics of the individuals, and the rights they should have to disclose or not their personal data, and to have this data protected through the appropriate laws and means.

The paper aims to assess, in a longitudinal approach, the attitudes of the consumers, and the specific differences, regarding their personal data in terms of their disclosure, the previous consent the consumers should express to the companies or public entities collecting them, and capturing, processing, and further employment by the companies, based on the primary data collected in two surveys conducted in January 2010 and 2012.

Keywords: privacy, consumer private space, personal data

JEL Classification: M31

Introduction

The end of the 19th century has brought the first formal attempts to conceptualize privacy. In 1887, the Pacific Railway Commission has found that "of all the rights of the citizen, few are of greater importance or more essential to his peace and happiness than the right of personal security, and that involves, not merely protection of his person from assault, but exemption of his private affairs, books, and papers, from the inspection and scrutiny of others" (Langenderfer and Cook, 2007). Three years later, Louis Brandies, in the article "The Right to Privacy", has approached and explained the individual's "right to be left alone" as a response to the loss of privacy experienced during that times (Wirtz, Lwin and Williams, 2007).

In spite of their historical roots, the attempts to define privacy were rather difficult due to the wide number of related interests such as the personal information control, reproductive

autonomy, access to places and bodies, secrecy, and personal development (Kemp and Moore, 2007). Many definitions given have tried to explain the content of privacy considering the right to be let alone, limited access to the self, secrecy, control of personal information, personhood and intimacy (Solove, 2002), but misspecifications, cultural and historical biases, and their value-driven appearance altered more or less all of these (Kasper, 2005). Considering the information perspective, and the context of the information age, privacy appears as an ambiguous term and consumers may have different privacy thresholds depending mainly on the factors associated to the data collection (Long et al., 1999), and as a luxury to maintain, due to the many invading ways, mainly through the internet (Pan and Zinkhan, 2006).

From a marketing perspective, definition of privacy should focus on the personal data and information regarding the consumers. Westin (1968) sees privacy as the claim of individuals, groups or institutions to determine for themselves when, how, and to what extent information about them is communicated to others. Schoeman adapted the content of privacy at individual level presenting it as a claim, entitlement or right of an individual to determine what information about himself (or herself) may be communicated to others; the measure of control an individual has over information about himself, intimacies of personal identity, or who has sensory access to him; and a state or condition of limited access to a person, information about him, intimacies of personal identity (Jóri, 2007). Privacy must be seen in connection with the particular area where its content is applied. The above definitions imply the existence of a consumer's private space defined through and including an amount of information referring to the demographic, psychographic and behavioral characteristics of the individuals (personal data), and the rights the consumer should have to disclose or not, respectively to have this information protected through the appropriate laws and means (Veghes, 2009).

Analyzing the evolution of the definitions given to the personal data in the 1998-2008 decade, Grant (2009) has concluded that the content of the personal data, representing the central issue in the data protection, is still under debate. Still, there is a strong need for identification and definition of this data as consumers are more and more approached through direct marketing campaigns by the different companies and public entities. Although most of the consumers have realized that participating in direct marketing is a necessary part of being in a consumer society, they are concerned about the unauthorized use or the misuse of their personal data and information, mainly in the forms of sale of their data without permission, unsolicited contact by businesses, the feeling that businesses know too much about their personal information, and the accuracy of data retained in databases (Pope and Lowen, 2009).

Methodological Notes

The analysis of the variations in the consumers' attitudes regarding the processing and employment of their personal data has been conducted based on the data obtained through the research approaches conducted in January 2010, respectively January 2012. The research sample used in 2010 has included 78 Romanian consumers from the Capital and other cities, aged 21 to 30, with higher education, and holding a professional status of full-time employees, freelancers, entrepreneurs, managers, and students, while the research sample used two years later included 153 respondents, only from the Capital city, aged 23 to 34, with a similar status in terms of the education and professional status. The respondents have provided answers, among other aspects concerning their exposure, experiences, current and future behavior in connection with the direct marketing efforts of the organizations, corresponding to the following objectives and hypothesis of the research:

1) the attitude toward communicating their personal data to the companies or public entities the consumers are getting in touch with; the related research hypothesis states that there is no significant difference between the specific attitudes measures in 2010 and 2012, i.e. the majority of the consumers does not agree to disclose their personal data to companies or public entities;

2) the previous consent the companies or public institutions and/or authorities should obtain from the consumers before asking them to disclose their personal data; the related research hypothesis states that there is no significant difference between the specific attitudes measures in 2010 and 2012, i.e. the majority of the consumers would like to express their consent before disclosing their personal data to companies or public entities; and,

3) the attitudes regarding the employment, registration and processing of the personal data by the companies providing different products and services; the related research hypotheses state that there is no significant difference between the specific attitudes measures in 2010 and 2012, i.e. the majority of the consumers does not agree to have their personal data collected when buying products and/or services; the majority of the respondents does not agree to have their personal data processed after buying products and/or services; and the majority of the consumers does not agree to have their personal data further employed in the promotion of the companies' products and services.

Main Findings

As in 2010, the consumers have significant reserves toward disclosing their personal data to the companies, but a little bit more relaxed in communicating this data to the public institutions and authorities when getting in touch with them. As the results obtained indicate (see Table 1), the consumers maintain their reserves in disclosing their personal data to the companies approaching them in a direct and interactive manner, in spite of the slightly decrease in the weight of the respondents that would not, or rather not, communicate their personal data to the companies, from 60.2 to 58.1 %. The slightly decreasing weight of the respondents agreeing or rather agreeing to provide their personal data to the soliciting companies, from 39.8 to 39.2 %, supports the conclusion stating that the majority of the respondents adopt a defensive attitude and tend to treat with caution the companies' attempts to capture their personal data.

Instead, the attitude of the consumers toward communicating their personal data to the public institutions and authorities has registered quite an improvement in the last two years: the percentage of respondents willing to provide their personal data to these entities has increased, from 52.6 to 56.8 %, while the percentage of the respondents having reserves in this respect has decreased, from 46.2 % to 41.2 %. This apparently increased confidence in the public institutions and authorities may be seen as an effect of the unfavorable macro-economic context over the consumers' behavior, an important part of them seeking for a certain level of protection from or having more trust in these entities in what regards their personal data collecting, processing, and further employment.

Table 1. Attitudes of the respondents toward disclosing personal data to the companies and public entities (n₂₀₁₀=78; n₂₀₁₂=153; percentages)

Disclosing personal data to:	Agree		Rather agree		Rather not agree		Not agree		Don't know / Don't answer	
	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012
Companies	9.0	15.7	30.8	23.5	39.7	33.3	20.5	24.8	-	2.6
Public entities	9.0	26.1	43.6	30.7	35.9	30.1	10.3	11.1	1.3	2.0

These differences between the companies and public institutions and authorities in terms of the attitudes toward disclosing the personal data is related to the way consumers seem to perceive the employment of this data. Apparently, the consumers believe that companies could employ the collected personal data in a more threatening manner for their private space and privacy, and, consequently, they have to face increased risks associated with this inappropriate employment – potential abuses, and frauds they may suffer as buyers, consumers, and/or users of the different goods and services. The consumers' trust in the appropriate employment of this data by the

public entities is significantly higher as they do not expect, at least not to the same extent, to experience abuses or any other threats from the part of these institutions and/or authorities.

The right to agree or disagree in disclosing the personal data to the companies and/or public institutions or authorities is one of the most important tools the consumers may use to defend their privacy and private space. Results obtained indicate (see Table 2) that, overall, consumers consider this agreement they should be asked for and could express as mandatory before any attempt of the companies and public entities to obtain their personal data is conducted.

Table 2. Attitudes of the respondents toward having the right to express their consent before disclosing their personal data to companies and public entities (n₂₀₁₀=78; n₂₀₁₂=153; percentages)

Consent given before disclosing personal data to:	Agree		Rather agree		Rather not agree		Not agree		Don't know / Don't answer	
	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012
Companies	82.1	79.1	17.9	16.3	-	2.6	-	-	-	2.0
Public entities	67.9	72.5	26.9	18.3	3.8	5.9	-	2.0	1.3	1.3

The attitude of the respondents regarding the agreement they should be asked before disclosing the personal data to the companies and public institutions and/or authorities reconfirms the higher confidence the consumers have in the public entities: the percentages of the respondents demanding for this agreement from the part of these entities were slightly lower, both in 2010 and 2012, by comparison to the similar percentages associated to the companies. In spite of the slight decrease (from 100.0 to 95.4 %, in the case of the companies, respectively from 94.8 to 90.8 %, in the case of the public entities), these percentages remain higher which supports the conclusion that consumers tend to perceive the mechanism of expressing their previous consent before any collection and processing of the personal data takes part as an extremely important instrument in defending their private space and privacy. A possible explanation for the apparent relaxation of the consumers in soliciting the companies and/or public entities to demand for their previous consent may be the consequence of the decrease in the frequency and intensity of the direct marketing companies conducted in the last two years. Moreover, the migration of the marketing communication to the Internet has partially solved the problem: according to the current legal provisions, organizations should ask for the consumer's consent before sending any marketing messages when these have an obvious commercial character, the previous agreement being not compulsory in the case of the communication aiming to inform the consumer.

What happens with the personal data after being collected by the companies represents a significant concern for the consumers. The lack of trust in the good intentions of the companies in terms of the personal data capturing, processing, and further employment already proven made the majority of the respondents to rather not agree to have this data collected, processed after buying different products and/or services, respectively employed in marketing communication campaigns promoting products and services in the market. As the results obtained (see Table 3) indicate, the evolutions in the last two years did not changed significantly the attitude of the respondents: both in 2010 and 2012, the majority did not agree to have their data captured (57.7 % in 2010, respectively 54.3 % in 2012), processed (56.4 % in 2010, respectively 60.2 % in 2012), and further employed (73.1 % in 2010, respectively 71.2 % in 2012).

Table 3. Attitudes of the respondents towards capturing, processing, and employment of their personal data by the companies (n₂₀₁₀=78; n₂₀₁₂=153; percentages)

Companies should not:	Agree		Rather agree		Rather not agree		Not agree		Don't know / Don't answer	
	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012
... capture personal data	26.9	32.7	30.8	21.6	24.4	26.1	12.8	15.7	5.1	3.9
... process personal data	28.2	38.6	28.2	21.6	24.4	21.6	16.7	13.1	2.6	5.2
... employ personal data	56.4	54.9	16.7	16.3	14.1	13.1	11.5	11.1	1.3	4.6

Capturing and processing of the consumers' personal data were and still are perceived in a reserved manner by the investigated respondents: the majority agrees or tend to agree that companies should not process this data although is rather improbable even to imagine a situation in which a company will be content only to capture and store the personal data of its customers and prospects without conducting any processing allowing them to know better their consumers' demographics, psychographics and behavioral characteristics, to profile them, and to use this insight in planning more effective direct marketing campaigns. A possible interpretation of the respondents' attitude in this respect may refer to a certain expectation that their personal data will be processed in a way that will not affect their private space or do not expose their private lives.

Further employment of the consumers' personal data by the companies to promote their products and/or services through direct marketing campaigns is perceived in a rather unfavorable and reserved manner by the respondents: the majority agrees or tends to agree that companies should not employ this data in marketing communication campaigns. The percentages associated to the consumers not (or rather not) having a problem in disclosing their personal data (as obtained in 2010 and 2012) support the overall reserved attitude of the respondents regarding the processing of their personal data. These reserves are not necessarily determined only by the worries consumers may have regarding the risks associated with an inappropriate processing and further employment of their personal data, but also by the unclear definition of the personal data and the relative low consumers' knowledge on how this data should and could be protected.

As an overall conclusion that can be stated based on the results obtained in 2010 and 2012, the reserves of the consumers in terms of their personal data collection, processing, and further employment may suggest that this data should be used mainly in the database marketing activities, and less in direct marketing campaigns. The results also reveal the importance of educating consumers for a better understanding of the content of their personal data, the appropriate manner of collecting, processing and employment of this data, and the rights they are entitled as providers of personal data.

Conclusions, limits of the research, and main implications

Findings of the research approaches conducted in 2010 and 2012 show that the attitude of the consumers toward the processing their personal data was and remains a rather reserved one: consumers are not so willing to disclose personal data and are concerned for the risks they should face when this data is employed in an inappropriate manner. The consumers have significant reserves toward disclosing their personal data to the companies, but a little bit more relaxed in communicating this data to the public institutions and authorities, the increased confidence in the public entities could being an effect of the unfavorable macro-economic context over the consumers' behavior of seeking for a certain level of protection from or having more trust in these entities.

The research results indicated that, in spite of an apparent relaxation and in the context created by the recent migration to the Internet of the marketing communication, the consumers tend to perceive the mechanism of expressing their previous consent before any collection and processing of the personal data as an extremely important instrument in defending their private

space and privacy. This attitude may be associated with a behavior that avoids an engagement in direct and interactive relationships with the organizations and aims to create a safety distance allowing the effective defense of the consumers' private space and privacy.

Finally, the reserves consumers have regarding their personal data collection, processing, and further employment may suggest that this data should be collected and processed only with the previously expressed consent of the consumers, mainly in database marketing activities, and less in direct marketing campaigns. Educating consumers for a better understanding of their personal data content, collecting, processing and further employment, and the rights they have as data providers could generate significant improvements of the related consumers' attitudes.

Both the research approaches have been conducted in the context created by the existence of the limits related to the set of the variables considered to define and measure the attitude of the consumers regarding the processing of their personal data: obviously, these variables should be redefined in order to allow further research to be conducted. Other important limits are derived from the sample and the sampling procedures used: the differences between the samples, mainly in terms of the size and the demographic profile of the respondents (age and residence) have produced variations between the results obtained; further research should be conducted using a sample covering also the rural areas and having a representative structure in terms of demographics such as education and income.

The main implications of the results provided by the research approaches conducted in 2010 and 2012 are related to: (1) the significant difference in terms of the attitudes of the consumers toward disclosing their personal data to the companies, respectively the public entities, and (2) the reserves of the consumers regarding their personal data collection, processing, and further employment. Improving the attitude of the consumers, in fact, increasing their trust in the companies' and public entities' good intentions concerning the capturing, processing, and employment of their personal data should represent a priority for all the data processors and controllers that should action aiming to safeguard the consumers' private space and privacy. Clarification of the definition given to the personal data, and a better delimitation of the private space of the consumer, will create a better legal environment for the capturing, processing, and employment of this data, increase the confidence of consumers, as well as their openness toward the direct, interactive and personalized communication attempts of the organizations.

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ECONOMIC INFORMATICS

INFORMATION TECHNOLOGIES IN INSURANCE SALES SUPPORT

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Insurance system in Romania is carried out with a constant natural activity, evolving quite honorably these times. This is largely due to the difficulty with which insurance is sold in normal economic conditions when it comes to prosperity. Although psychologists, led by Maslow believes that the protection needs are basic needs, along with the physiological one, on the priority list regarding procurement, insurance needs are for some Romanians, of minimum or no importance, so that they are either pushed to the bottom of the list, or even, as it most often happens, they are non existent. Current economic conditions and climate, urges caution on most fields, especially in terms of individual properties, including, how somewhat forced, life and physical integrity which are still considered property, if this aspect is not debated in terms of Christian or other religious dogma. In other words, many Romanians see insurance as a product that “is not up their alley” including it in the luxury category. Furthermore, the media shows, sometimes amplify certain cases of doubt in relations between insurance company - customer. Appropriate marketing, allied with the information technology can improve the complete relationship between the two entities - the offeror and the consumer.

Through this study we aim to identify important issues that facilitate the sale of insurance, using information technology, given that the sales of these financial products through the "ancestral" methods are effective but not very efficient.

We will follow, by anchoring to the current reality, the insurance utility and how to use information technologies in support of marketing (sales). The study itself was done by observing the results in practical work, from an insurance agency, but also related to what the literature offers. Because this study is currently underway, there are certainly some limitations of accuracy of results, which are adjusted “on the fly”. Realizing a practical application to accompany the insurance consultant, manager and sales team, can increase business efficiency, while being able to better control the forecast, an aspect so painful to the sales man.

Keywords: insurance, insurance marketing, sales, informational technologies, Internet

JEL Codes: M15, M31

I. Introduction

The research field, in which the study takes place, involves the application of marketing concepts in insurance, also conjugation informational technologies. The importance of this study is based on usefulness it has in a person's life, given that this financial product is not approved by Romanians; people's reluctance often reaching a level of hostility, when the approach is done by agents with modest skills. So the question is: how to achieve quality sales, and increase the sales' quantity, in a relatively short amount of time?

Many people work until old age in order to enjoy an abundant enough pensions that would help them to survive. However, the risk for many that after a lifetime of work, to go bankrupt in their old age (Schloss 2007: 88). In Romania, there is no need to conduct studies as these situations are very obvious, just by observing those who are on the streets, standing in long lines at pharmacies for discounted drugs or in second-hand stores. It is true that current retirees have long been deprived of their active life of usefulness of information on savings plans that complement or compensate a meager pension. During the communist period, companies that offer such products were non existent; the insurance was only a monopoly. After the revolution, Romanians temptation was to invest money in securities that provide income right away, so many were fooled and instead of earning profits, lost, perhaps their entire lifetime savings. It is known that

the Caritas era, but also the FNI's, brought people in a position to sell their homes or cars to have the money "invested". And these companies are just two examples of the temptations of quick profit Romanians faced. And even if we have a proverb saying that "who burns himself with hot soup, later blows into yogurt" the desire for a rapid profit, it would determine Romanian, in a case of a new emergence of such "business", to stand in line again, again. An analogy can be the televised bingo games, which have had great success in the late '90s; two years ago they have resumed such games, it is true, far fewer followers.

II. Insurance Usefulness

Life insurance plays a key role in managing Risks in modern societies. It can provide income to beneficiaries on year income earner's untimely death or loss of ability to work (SigmaRe 2012: 31). The immense destruction that fire (Realitatea.net) has caused to a local shopping center on small business, caused the small business owners to directly or indirectly realize, how good it would have been if they would have gotten insurance for their business. Their last tardy remark how they couldn't have afforded to buy insurance has no foundation when they watched helplessly as what constituted their daily livelihood was destroyed by a huge fire. Certainly, little effort (but still an effort) that they would have made by insuring their business would be offset by the beneficial effects of compensation. That is why once again, it justifies the claim that people purchase insurance for a future that due to unpredictability generates uncertainty. There is that saying as "we are too poor to afford us cheap stuff. As for many years insurance was seen as a luxury item, which is not exactly true, this "daring" to afford a "small luxury" would have provided a substantial financial reserve.

In a TV program Ion Oncescu, Skandenberg, multiple world champion, said: "I subscribe to the civilized people category, because I am insured" (Antena2.ro). He even mentions how he used his insurance for an operation. Certainly, many other public figures have insurance and even refer to them, all from the perspective of the educated man with a financially sound situation, so that sometimes an insurance holding slides on the slope of snobbery. Indeed, it seems that insurance has become "bargaining chips" in the campaign, yet unstarted; so insurance has been used as a way to determine Sălaj priests to give signatures for a candidate for the post of County Council. He made a substantial donation, making insurance payments of 65 parish houses (stirileprotv.ro). Worldwide, after a temporary set-back in 2011, life insurance premiums will resume their upward trend in 2012 (SigmaRe 2011: 32). Interestingly, during the recession, people spend more time analyzing a decision about costs. Among the things that help them decide and trust are fundamental processes of a company (Bate 2008: 81). The current crisis and potential future crises can cause humans to think about translating some of the current financial situation, small but still existing, in the future it is likely to be even more difficult.

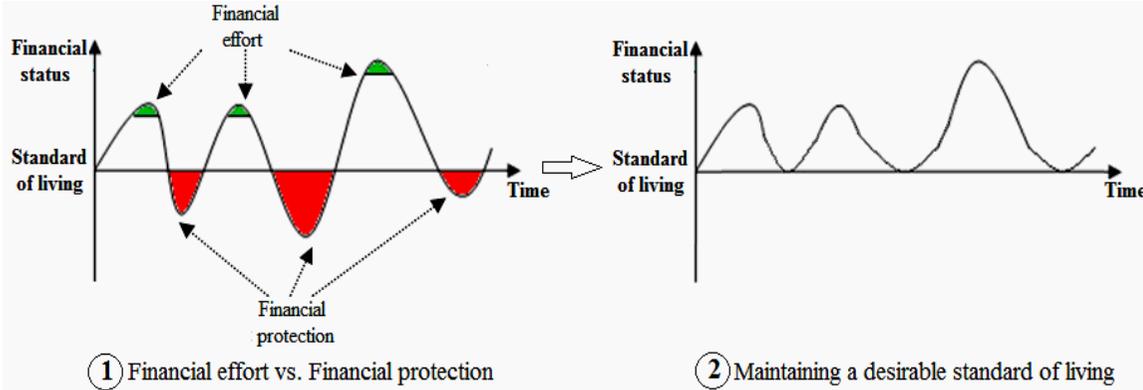


Fig. nr.1 Financial evolution depending on possession / lack of life insurance

Source: Made by author

This is a simple working principle of life insurance, given in the Fig. nr. 1.

III. The Internet as insurance sales support

Particularly for general insurance products, online insurance begins to gain ground (Iasig.ro). The distribution of insurance products has evolved significantly. Technological developments, such as the internet and mobile phones, have opened up new distribution channels and insurers are increasingly developing multi-channel strategies. (CEA 2011: 12). Adaptation sale steps, of course difficult to accurately achieve, can increase the chances of efficient distribution.

Prediction made in 1995 by Metcalfe, that the Internet will grow dramatically and in 1996 will catastrophically collapse was not achieved either in 1996, nor today, and is very unlikely that they will do in the near future. Although, when considering the warnings cautions in working with the Internet, given even by those from the FBI (Capital.ro)...

If warnings or prophecies more or less apocalyptic will happen, remains to be seen; until then, the Internet has a major role in people's lives, more important than hardware and software on which they are based. Rumbauskas Jr. (2012: 95-97) is convincing when he says the Internet is both extremely powerful sales tool and a generator of advertising, noting that one of the biggest mistakes made by sales people is a failure to accept the Internet and recognize and use its enormous capacity to identify potential customers. He recommended each salesperson to make a site for two purposes, in regards to the visit of a customer on his website:

- providing information to the customer, to design and consolidate credibility;
- retaining the name and email address of potential client.

Electronic communications allow the Internet to build relationships personally with potential clients and the real ones and the guidance of messages to individual users based on information on geographical features, content, buying behaviors and demographic or firmographic characteristics (Stone and Jacobs 2004: 275).

Making of orders and purchases via the Internet is becoming more attractive as consumers can be offered significant advantages due (Militaru 2004: 197) to: lower prices, showing the range of goods/service, convenience, entertainment.

E-mail has developed a reputation as less formal than other written communication in business and the level of formality continues to decline. In fact, it even became a substitute for speech (Sherman 2005: 151). People seem to no longer worry about spelling, thus abbreviations abound. Grammar is also affected, not to mention capitalization. We can consider that e-mail is somewhere between a substitute for speech and a substitute composition of letters. It's important to remember that e-mails without grammar or spelling mistakes are easier to read and allow quick understanding. Good writing depends on four factors (Grisham and Lee 2000: 61): thinking (that aims to write), legibility (clarity of writing), accuracy (spelling and grammar) and tone (how to choose the writing style, adapting it to the person to whom we are writing).

Prospecting using e-mail offers certain advantages: low cost, no shipping delays, the ability to track messages (whether or not read), provides extensive creative possibilities (Aguilar 2008: 74). Some people see in this modern technology, one of the greatest inventions of man but also one of the biggest sources of wasted time, if not used rationally. Richard Denny (2002: 56), one of the experts in sales, explained the situation to a customer who returned from vacation a week, 468 messages found for reading that, it took 22 hours, after which he realized that only three have been helpful. Another disadvantage of email is that companies without a good security policy, without judicious planning of its use has generated lawsuits challenging the discrimination to sexual abuse of trust, e-mail can even be easily faked or forged (Lilley 2008: 126).

IV. Technological “accessories” - modern weapon for insurance agents

Information technology supports all types of organizations to increase efficiency and effectiveness of business processes, performance in making decisions and cooperation in working groups, resulting in strengthening their competitive position in a highly volatile market (Hurbean 2008: 11).

In the hands of an expert having proper monitoring and support with “relevant” SQL can become a “weapon” of very useful network administration, from the creation of users, through the monitoring and logging to that of reporting to leading authorities (Munteanu, Greavu-Ştefan and Cristescu 2004: 239).

Despite the use of increasingly frequent electronic communication and the Internet, few experts foresee giving up traditional telephone services (Timm 2008: 67). Contacting a person can be done quite well through communication tools like instant messenger (Yahoo Messenger, MSN Messenger, Google Talk), but also on-line telephone systems (Yahoo Messenger, Skype), where costs are lower. Social networking sites, like Facebook and Twitter allow access to millions of customers and potential customers (Enderle 2009: 1). It may even make a segmentation of their constituency groups on demographic features.

Taking into account the usefulness of an applications to increase the chances of successful sales, the question is how useful it could be something passing through the filter of a relationship between the cost of developing, if a personal application or one of acquisition, if it buys the added value that it brings.

Widespread economic information systems are usually built around a powerful database server, whether the data managed in this way are available in client/server environment or on the web.

Information systems can be approached holistically, which keeps the prerogatives of systems specialist or a combination of interdependent and interrelated elements. Viewed through the prism of the two approaches, management information systems for sales is a component of marketing information systems, which, in turn, are a component of management information systems (Fig. nr. 2) (Donaldson 2001: 116).

Departmental subsystems

Financial		
Personal		
Production		
Raw materials		
Marketing	→	
		Subsisteme funcționale
		Commercials, promotional activities
		Distribution
		Outlook
		Research and marketing
		Developing new products
		Price determination
		Product planning
		Activity subsystems
		Sales → Buyers' analysis
		Sellers' analysis
		Sales Support

Fig. nr. 2: The hierarchy used in management information systems.

Source: Donaldson 2001: 125

The diagram below (Fig. nr. 3), extracted from one software implementation, in case of a company that pays commissions based on orders takeovers, shows how to organize the various elements that will allow monitoring of sales cycles, sales forecasts, calculate commissions, tracking results of each salesperson, their ability to make offers in this application and, finally, linking sales activities with the marketing (De Preville 2010: 213).

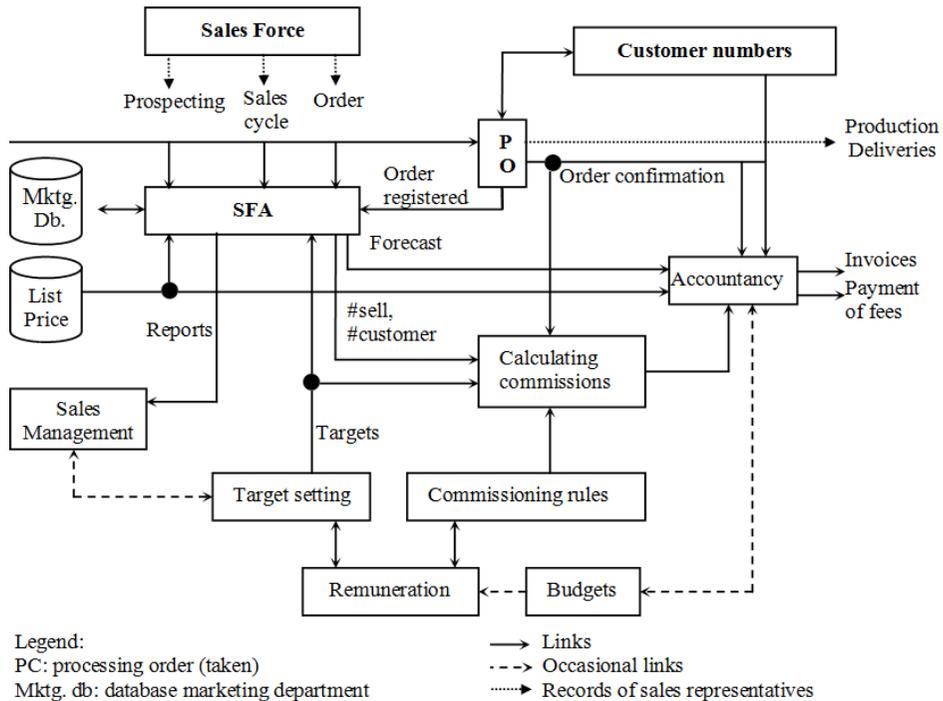


Fig. nr. 3: Example of implementing a management program to sales force.

Source: De Preville 2010: 214

This synopsis presents all the elements to be correlated with program sales force automation (SFA) to obtain relevant reports on sales cycles, sales forecasting and automatic calculation of commission sales representatives.

V. Conclusion

Insurance sales are a daily challenge for those working in this field both in terms of their financial advantages, especially in terms of utility they have on customers.

These types of sales can be achieved and certainly they will be achieved, many years from now, in a classic form, through strict human interaction. But man is subject to both error and oblivion, much more than a computer, which when well programmed will “do the job”. The observations I have undertaken, tapping into all sorts of small computer accessories, over time, gave me the opportunity to see an increase in the quality of sales. Still, far from what is intended as the project itself, this article has captured only a small part of the “troubles” involving the development, ultimately natural, given the thought that we live in the 21st century, or as otherwise referred to, the society of knowledge.

Information technologies are more than necessary, although many consultants are still “old school” based strictly on their flair. However using modern technology increases efficiency, especially in the early career of consultant time, the difficulty of this activity, leads many to step back. Customer is given the feeling of greater certainty in regards to his investment, with real-time access to information.

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RESEARCHES REGARDING THE ONLINE PRESENCE OF THE BIHOR COUNTY COMPANIES

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In this paper is presented a survey of companies' websites in Bihor county. The study aims at local companies whose scope of activity allows them to interact with the end-users – individuals and whose presence in the virtual environment is ensured by websites. Companies that own a website use it for different purposes: to communicate to the users information about the company, to promote its products and services offered, to offer potential clients the opportunity to purchase these products online, to interact with their clients. The website of a company ensure its constant presence and can be used as an instrument in the marketing strategy, as a meaning of identity development or growth of the brand exposure, as a support for relationships with potential buyers or as a way of achieving market research. But for the website to fulfill the purpose for which it was made it must give the needed importance to certain aspects. Research carried out reveals an intensified concern of the companies for creating their own websites, for communicating with potential clients from the virtual environment, but they do not give importance to issues related to updating the information, structure, appearance, purpose sites. Most companies use the website mainly for information. They give little importance to promotion, yet not realizing the benefits they might have. Less than one third of the websites analyzed offers the possibility of online orders.

Keywords: websites, Internet users, virtual environment, company's promotion, loyal clients
JEL codes: L81, C85

1. Introduction

The accelerated development of the Romanian technological environment led companies to an increasing concern about entering the virtual environment, communicating with potential clients in this environment.

A growing number of Internet users use it in order to search information by gvisiting websites and blogs. Therefore there is a growing trend of increased buyers to approach virtual environment at the expense of the traditional. In these circumstances, companies are forced to use online environment in order to initiate a dialogue with them, to be able to communicate the informational message, promotional or the intention of initiating a commercial exchange.

Enhancing virtual environment use by Romanian companies is the result of the influence exerted by companies that have tapped the domestic market from abroad and whose marketing practices include the use of this environment. Marketing strategies of the latter are successfully implemented, which has motivated domestic companies to take the risk of the online approach.

The website of a company ensure its constant presence and can be used as an instrument in the marketing strategy, as a meaning of identity development or growth of the brand exposure, as a support for relationships with potential buyers or as a way of achieving market research. Offers to

its visitors information about the company, about its traded products, about providers, or about the financial situation.

But for the website to fulfill the purpose for which it was made it must give the needed importance to certain aspects. Thus, the homepage of the website influences in a large way the visitors' response to the entire website. The consistency of positioning the information presented - text, images or animations - it's absolutely or relative positioning –in the page, also the forms the positioning of information take, relative to each other - determines the user's range of how he considers the website relevant to its interests. The relationship created between the types of information can make the page attractive or can generate an overall inconsistency. The contextual factors also include technical aspects such as speed of loading and inclusion on the first page of items that require installation of new programs in order to be viewed by users, issues that, superficially treated, can determine users to stop viewing the website after a few seconds. The most common types of content are text, images, sounds and video. In order to achieve an attractive page, you must find the balance between them, because although the use of as many different elements as form on the content may attract the users attention, their excessive use generates a cluster of information. The information must be updated periodically to attract visitors, to make them return.

2. The premises of the research

In the research that I performed i started from the fact that:

1. There are companies that continue to be present in the virtual environment, even after their dissolution.
2. For many sites there are some problems related to the information updating.
3. There is a similarity of sites structure, of their appearance.
4. Most sites are intended mainly for information.
5. Most sites have elements of interaction with users

3. The research methodology

The sites analyzed in the research conducted were selected from a database composed at national level. The database used has a search engine that allows searches based on criteria such as name, location and domain, advanced searches based on the number of employees, turnover, profit, filtering of results based on: phone number or fax, e-mail, website, etc.

From the database, which can be accessed online at the www.listafirme.ro I extracted data in the table below. The data refer to the years 2007 and 2011, a range of five years, in order to see what changes have been in the concerns of companies from Bihor county to be visible on the web.

As observed in Table1, the completeness of general data about the companies is extremely high. Table1 reveals a 7626 decrease in the number of active companies in 2011 in Bihor county, compared to 2007. The number of companies that have a website however is increasing, from 880 in 2007(3% of all companies) to 1.530 in 2011(8% of all companies). There has been a near doubling of their number, which shows increasing concerns of companies to be present in the virtual environment.

Table1: Total number of active companies in Bihor county between 2007 - 2011 and the completeness of the information for these

	Year 2007		Year 2011	
Number of companies in Bihor county	26.964		19.328	
Completeness of the information for companies				

<i>Company data</i>	Year 2007		Year 2011	
	<i>No.</i>	<i>Percentage</i>	<i>No.</i>	<i>Percentage</i>
Name	26.954	100%	19.328	100%
Address	25.394	94%	19.328	100%
Registry number	26.954	100%	19.328	100%
Fiscal code	26.954	99%	19.328	100%
NACE code	24.745	91%	19.328	100%
Social capital	18.455	68%	13.154	68%
Contact person	26.940	99%	19.328	100%
E-mail	1.573	5%	2.300	12%
Web	880	3%	1.530	8%

Information source: www.listafirme.ro

I have selected from the database used, using the search engine available, all the companies from Bihor County that have a website (1.530 companies). By checking the existence of these companies, in the year 2011, it was found that 6 of these websites were of dissolved companies, which haven't announced that they have dissolved nor withdrew their website. Therefore the selection of websites is represented by 1.524 companies.

Out of the 1.524 companies from Bihor county that have websites were selected 450. The selection of the 450 companies submitted to the research was made as follow:

1. There were grouped all the companies from Bihor county, whether they have or they don't have a website, in the following categories: manufacturing, services, trade and other.

Table2: Number of companies according to the type of activity

Activity	Number of companies	Percentage
Manufacturing	2.126	11%
Trade	1.933	10%
Services	15.076	78%
Other	193	1%
TOTAL	19.328	100%

2. Were selected companies that have websites taking into account the structure of the previous paragraph, as shown in the table below (Table3):

Tabel 3: Number of websites of the companies selected according to the type of activity

Activity	Number of websites	Percentage
Manufacturing	49	11%
Trade	45	10%
Services	351	78%
Other	5	1%
TOTAL	450	100%

4. Data analysis and interpretation

The results are summarized in the tables below:

No. companies registered in the database listed that have websites	No. existing Websites for dissolved companies	No. existing companies that have websites
1.530	6	1.524

Website s	Web sites that don't have updated the information	Web sites with similar structures	Purpose of the website			Sites that contain elements of interaction with users				
			Only for information	Only for promotion	Of information and promotion	total	a	b	c	d
450	324	401	81	63	306	320	86	45	89	51

a	The existence of contact forms as unique elements of interaction with users
b	Possibility of obtaining current information via newsletters (newsletters) and blogs
c	Possibility of making online orders
d	Possibility for users to interact both with company and to each other

The data collected revealed that:

-4% of the websites are of dissolved companies. They continue to exist because withdrawal of the website is omitted when they decide to withdraw from the market. These circumstances affect negatively the consumer's perception, not so much on the company, that is not affected of this case since they ceased to exist as legal entities, but on the whole virtual representation of business organizations. Consumers adopt an attitude characterized by lack of generalized trust to the information provided by companies through their websites.

-72% of websites fail to periodically update the information. The offer submitted by the company on the website is different from the real one, meaning that, with the change of product offer details is omitted the transposition of these changes in their website, resulting in a lack of trust of potential customers. It is also affected consumer perception on the companies' professionalism and diminished their confidence in the whole information of the virtual environment. Updating the websites offer visitors reasons to return and show him the company's willingness to communicate to the public. A possible cause of this situation is the attitude of local companies towards the virtual environment, an withheld attitude due to the minimized importance given to online marketing.

-89% of websites have a similar structure. On the one hand, this similarity allows visitors to familiarize with presentation websites, which makes internet surfing easy where the internet user is visiting for the first time such a website. On the other hand, it creates problems when a company wants to differentiate itself in the virtual environment from its direct competitors or from the whole virtual community of companies. The main role of a presentation website is to draw attention, to arouse interest and to trigger the desire to buy the product. From this perspective the presentation website is a form of promotion, and therefore must exhibit a distinctive identity of the company. Similarity between the websites of different companies is influenced also by the strategy they adopted. The copying strategy of some companies already

present in the market, whose design has proven to be a recipe for success, is really attractive especially for start-ups.

-18% of the websites are for informational purpose only. 14% of the websites are only for promotion. 68% of the websites have both informational and promotional content, in most cases is primarily informational content (83%). Therefore, for most companies the informative function is of major importance. Companies consider that this influences utmost the confidence that visitors give to the company, and the perception they form regarding to the seriousness of the company.

-71% of sites contain elements of interaction with users. Among these:

-26.9% of the websites have contact forms on the first page, these being the only element of interaction with users

-14.06% of the websites provide current information via informative bulletins (newsletters) and blogs

-27.8% of the websites enable online ordering

-15.9% of the websites can be found in public virtual spaces such as social networking and instant messaging programs. These sites allow both the exchange of information between the firm and users, and the development of virtual communities composed of visitors of those sites.

5. Conclusions

The consumers interest in the virtual environment is constantly growing, as evidenced by the rapid growth of internet use in the last years. But the pace at which companies approach the online environment is inferior to the one of the public. From 2007 till 2011 the percentage of the companies from Bihor county who have a website has changed from 3% to 8%.

Companies that own a website use it for different purposes: to communicate to the users information about the company, to promote its products and services offered, to offer potential clients the opportunity to purchase these products online. But a large number of companies don't give enough importance to regular updating of information, leading to a loss of confidence of their potential customers.

Most companies use the website mainly for information. They give little importance to promotion, yet not realizing the benefits they might have.

Less than one third of the websites analysed offers the possibility of online orders.

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RISK MANAGEMENT IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT

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The objective of the present paper is to present the singularities of risk management in the context of the new requirements and strategies adopted by the European Union in order to ensure sustainable development at organizational level. The paper wishes to approach the complex problem of risk management, given the premise that risk needs to be tackled as a conscious and calculated assumption of reality. The motivation for this research originates from the necessity of having a holistic approach for the risk management process, which will allow risk analysis and evaluation at a strategic, operational, financial, environmental and social level. This integrating approach, the continuous and systematic analysis and evaluation of all risks will constitute a real fundament for the sustainable development of all organizations, generating an efficient management system for all possible risks and opportunities resulting from these risks.

The present research is based on the analysis of specialized literature, identifying the characteristics of the risk management process at conceptual level, in order to ensure the organization's sustainable development, the managers' perception regarding the importance of this process and the necessity for integration in the leading structures of the organization. The adopted research methodology is based on activities specific for descriptive research.

Modern management needs to be risk-sensitive, to follow the implementation and utilization of reliable and efficient systems, to elaborate action plans and security schemes which include ranking the objectives on operational levels, adaptable to the permanent changes. An efficient management system does not limit itself to a 'short time horizon', also but considers further perspectives. In these situations, proactive management turns into prospective management, its purpose being to identify the risks that might arise as a consequence of strategy or environment modifications. Today's organizations need to fully absorb the concept of sustainable development and risk management into their strategy, not only to minimize potential losses but also to exploit new business opportunities which result from the principles of sustainable economic development.

Keywords: risk management, sustainability, strategic risk, social risk, environmental risk.

JEL classification: M21, M15

INTRODUCTION

Organizations today need to fully integrate the concept of sustainable development and risk management into their strategy, not only to minimize potential losses, but to also fructify the new business opportunities which derive from the principles of sustainable development. These can include new products and services that can favor sustainable development, new technologies that can support and improve an organization's sustainability and financial performance, or new business models in order to develop emerging markets and support the creation of sustainable communities.

The bankruptcies recorded in the past years (Long-Term Capital Management (1998), Enron (2002), Societe Generale (2008), etc), the present world economical crisis brought profound mutations at manager mentality level, regarding the importance which the risk management system must have within the organizations' strategic preoccupations, regardless of their nature. The integration of this process needs to be an objective necessity, dictated by the complexity of the business environment and the multitude of interdependent risk factors.

The research conducted for the present paper attempts to deliver an answer for the following questions: What is sustainable development and what are the dimensions of this concept? What is

the role of risk management in ensuring the sustainable development of the 'new economy'? What is the content of the risk management process within the frame of sustainable development? In an attempt to answer these questions, the structure of this paper is the following: chapter 1 – analyzes the specialized literature concerning the concept of sustainable development, chapter 2 – offers a description of the risk management process for ensuring a sustainable development. The final section, conclusions, presents a few general observations regarding the research.

1. CONSIDERATIONS REGARDING SUSTAINABLE DEVELOPMENT

The relationship between humans and the natural environment is a problem that now concerns the international community, starting from the first UNO environment Conference (Stockholm, 1972) and was materialized in the works of the World Commission for the Environment and Development, established in 1985. This Commission's report, presented in 1987 by G. H. Brundtland and named *Our common future* offered the first definition of the concept of **sustainable development** as being a type of 'development which satisfies the actual generation's needs without compromising the future generation's chances to satisfy their own needs'. Although, initially, sustainable development was meant to be a solution for the ecological crisis determined by the intense exploitation of resources and continuous degradation of the environment, the concept was extended to the economical and social fields (figure 1).

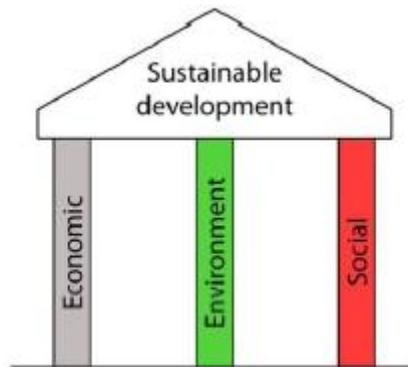


Figure nr.1 The three pillars of sustainability development
(source: Zetterlund (2011))

Sustainable development has become a political objective of the European Union, starting 1997, through its inclusion in the Maastricht Treaty. In 2001, The European Council in Goteborg has adopted the European Union's Strategy for Sustainable Development, to which an external dimension was added in Barcelona, 2002.

In 2005, the European Commission has initiated the process of revising the Strategy, by publishing a critical evaluation of the progress registered after 2001. The document also highlighted a number of unsustainable tendencies, with negative effects on the environment, which could affect the future development of the European Union, the climatic changes, threats towards public health, poverty and social exclusion, the exhaustion the natural resources and the erosion of the biodiversity.

In 2006, the EU council adopted the renewed Sustainable Development Strategy for an extended Europe. In this strategy's vision, the object of sustainable development is represented by 'continuously improving the quality of life for present and future generations by creating sustainable communities, able to efficiently manage and use resources and fructify the ecological and social innovation potential of the economy, in order to ensure prosperity, protection of the

environment and social cohesion.’ In order to accomplish this, four **key dimensions** are identified within the strategy:

- **Environment protection**, by measures that allow the dissociation of the economical growth from the negative impact on the environment;
- **Social equity and cohesion**, by respecting fundamental rights, the cultural diversity, the equality of chances and fighting discrimination in all its forms;
- **Economical prosperity**, by promoting knowledge, innovation and competitiveness in order to ensure elevated living standards;
- **Fulfilling international responsibilities** of the EU by employing democratic institutions in the fight for peace, security and freedom, of the principles and practices of sustainable development worldwide.

In conclusion, the concept of sustainable development represents an attempt to fuse environment protection and economical development, while respecting social responsibility. This is not a doctrine, nor a theory, or a synergy between economy and ecology; it is an actual necessity to employ economical instruments for the responsible management of this planet’s resources, its purpose being the continuous improvement of the quality of life, for present as well as future generations.

In the last years, the authorities’ efforts to regulate the field of sustainable development have intensified, and the result can be seen in the number of methodologies and standards associated with this field (ISO published a brochure “*Rio+20. Forging action from agreement – How ISO standards translate good intentions about sustainability into concrete results*” that specifies the standards which allow a sustainable development):

The environment

- The family of standards **ISO 14000** certify that the organization’s environment management system is aligned with the good practice standard.

Economical

- The standard ISO 9001 refers to the quality management system, its purpose being to ensure customer satisfaction and to obtain compliant services and products.
- The family of standards ISO 22000 concerns a food safety management system.
- The standard ISO 27001 concerning information security.
- The standard ISO 50001 concerning energy management.
- The standard ISO 28000 specifies the requirements that concern the supply chain security management systems.
- The standard ISO 31000 concerning risk management, although it is not considered as a standard management system, is considered to be an important instrument for ensuring a sustainable economy.

Social

- The standard ISO 26000 concerning social responsibility.

2. RISK MANAGEMENT – the basis of a sustainable development for organizations

Today’s organizations need to completely absorb the concept of sustainable development and risk management into their strategy, not only to minimize potential losses but also to exploit new business opportunities which result from the principles of a sustainable economical development. These can include new products and services that favor sustainable development, new technologies that will sustain and improve the risk management process’ sustainability and performance, or new business models for developing emergent markets and supporting the creation of a durable community.

Figure 2 illustrates how risk management, in the context of sustainable development, includes social and environmental factors and extends economical problems that are broader than in the case of the traditional risk management.

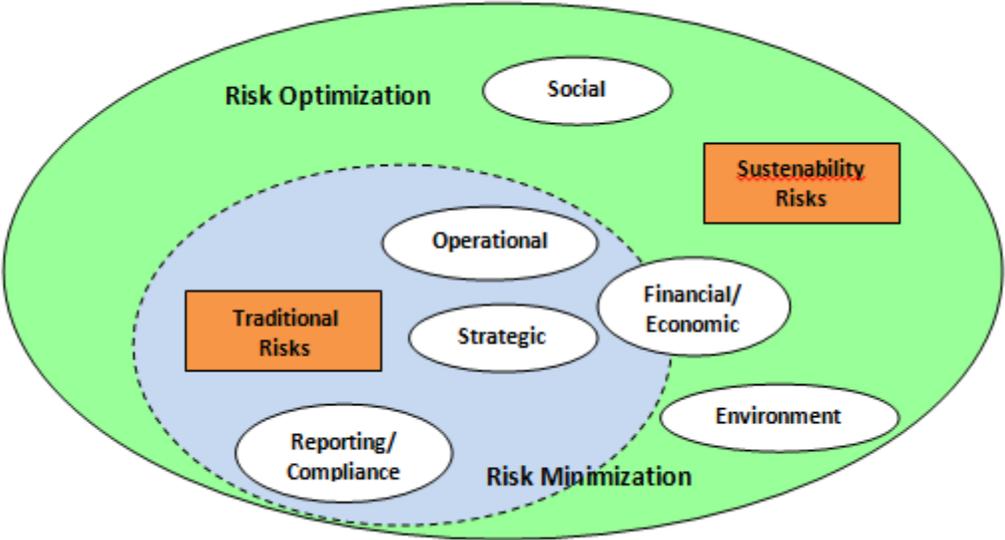


Figure nr.2 Risk management in the context of sustainable development
(source: AON (2007))

In the vision of the work frame elaborated by COSO (eng.”Committee of Sponsoring Organizations of the Treadway Commission”), the objectives of the risk management process at organizational level are centered on the following fields: strategic, operational, financier reporting and conformity to standards, the law in force. In the context of sustainable development, the risk management process will analyze and evaluate risks at organizational level from the following points of view: strategic, operational, financial, environmental and social (figure 3).



Figure nr. 3 Traditional risks versus risks in the context of sustainable development
(Source: AON (2007))

Total risk= $\Sigma R_{\text{strategic}}$ + $\Sigma R_{\text{financial}}$ + $\Sigma R_{\text{operational}}$ + ΣR_{social} + $\Sigma R_{\text{environment}}$

The risk management is considered to be an integrating part of the management of any organization, whose objective is represented by the identification, the analysis and the evaluation of the risks in an organization, having the goal of implementing additional measures of control which will lead to their decrease. Otherwise said, risk management has the goal of reducing the vulnerabilities of an organization confronting the adverse changes in its environment, and intends to reach the pre-targeted goals with maximum efficiency.

Risk management is a cyclic process and implies going through five stages, which in reality blend harmoniously in order to create a whole (ISO 31000, 2009):

1. Organizational environment and risk factors analysis;
2. Risk identification;
3. Risk hierarchy and assessment;
4. Establishing risk response strategies;
5. Risk monitoring and control.

The risk management process starts with the internal and external **organizational environment analysis** of the relationships established between the organization and its existence environment, of the opportunities and threats specific to its environment. This analysis will allow the identification of the risk factors (political, social, economic, financial, technical, operational, and legislative) at which the organization is exposed.

Risk identification starts with the preceding stage's results (knowing the organization, the market in which it operates, the legal, social, political, economic and cultural environment in which its activities take place, as well as its organizational objectives) and it will identify the threats and vulnerabilities that affect the activity or reaching the organization's goals, the consequences associated with these possible events.

Risk hierarchy and assessment. After the risks have been identified we go on to evaluating them, or otherwise said, to the estimation of the probability of achieving the risk and its impact. In practice, the specialists use different methods: quantitative, qualitative, or semi quantitative. Starting from the *Risk = Probability * Impact* equation, the evaluation of all the risks is made using the same method (quantitative, qualitative) to assess the probability and the impact.

Establishing risk response strategies. Not all risks will be treated, only those that exceed the risk margin taken on by the organization. For each critical risk a response strategy will be chosen:

- *Risk avoiding* – eliminating the uncertainty by not initiating the activity considered as being hazardous;
- *Risk transfer* (risk externalization) – consists of giving property over the risk to a 3rd party (through bonds, insurances, contractual clauses);
- *Risk decrease* – through reduction of the probability of appearance of the risk or the impact. Otherwise said, through the implementing of additional control measures;
- *Risk acceptance* – this type of risk response consists in not taking any measures of risk control and it is adequate for inherent risks whose exposure is smaller than the risk margin. This strategy can be adopted in the situation in which no other response strategy can be put into action.

Risk monitoring and control. Monitoring and controlling the risks represents the final stage of the risk management process and certifies the efficiency of the management system and of the technicians, of the instruments used during the whole process. The stage will allow the revision and continuous enhancement of the risk management process, by identifying new risks or observing possible threats.

In conclusion, there is a significant recognition of the increasing number of risks, their variety and interactions with the organization. The progress of technology, the dynamics specific to new business models, globalization, the deeper complexity of the business world contributes to an increase in the number and complexity of the risks. The new requirements of sustainable development, the strategies adopted by the European Union in this direction require that the organizations use a holistic approach of the risk management process, which will allow risk analysis and evaluation at strategic, operational, financial, environmental and social level. This integrating approach, the continuous and systematic analysis and evaluation of all risks shall represent a real fundament for the sustainable development of the management of any organization, thus generating an efficient management of all possible risks as well as the opportunities that may result.

CONCLUSIONS

Risk management grows more and more important as the decision factors realize its multiple applications with supporting the organization's sustainable development in an increasingly pressing competitive environment. The specter of the advantages which result from this process extend to concrete financial aspects, which consist of the elevated degree of predictability of cash-in and payment flows, the reduced costs in case of unpredicted events, disasters, up to the construction of a favorable image among all actors who interact with the organization in its environment (shareholders, employees, clients, authorities, society in a broad sense).

At large corporation level, risk management has become a process integrated within all other processes inside the organization, which allow the identification and evaluation of all the risks which result from its activity, including the ones determined by the outside, political, social and cultural environments. Compared to the traditional risk management, according to which specific instruments and techniques are developed for each and every identified risk, the actual risk management accomplishes a continuous and systematic risk analysis and evaluation. Given its continuous character, this process consists in identifying, analyzing and evaluating risks, as well as elaborating and implementing control measures which address to individual risks and risks caused by the interactions and interdependencies between themselves, thus creating a systemic perspective for the organization's management. In this context, risk management must not be regarded as a panacea, but only as an elaborated process for reducing the uncertainties and occurrence probabilities of certain events which affect the organization's financial performance.

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THE ROMANIAN BANKING SYSTEM – PAST, ACTUALITY, PERSPECTIVES

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The way crossed by the Romanian banking system until the present time is one governed by profound reforms which have been made in regards to the European Union. The strategies embraced by Romanian banks, in 1990 and until the present time, are meant to develop and to improve the performances so that they can compete with European banks and they can respond in an efficient manner to the customers' needs. The purpose of this paper is to underline the main stages of evolution of the Romanian banking system since 1990 and to lay emphasize the perspectives on its evolution in the context of the actual economic crisis. By going through the stages previously mentioned in this paper, we can see that the Romanian banking system evolved positively, from the moment of the transition to the market economy, but in order for it to be functional and to contribute to the development of the economy as a whole, aspects related to the the supervision of the financial stability should be taken into consideration and in order to assure the stability of the financial system, the increase of the administrative capacity of the Central Bank should be considered, as well as balancing the structure of the creditation process, on coins, the improvement of the banking assets' quality, the qualitative study of the NBR's surveillance process, managing the contagion risk, etc. In order to achieve these objectives, the documentation by the investigation of a significant volume of works has been done, by scientifically acknowledged publications, analysis being applied, by deduction method and a significant volume of quantitative information was submitted to professional judgment. Concerns regarding this subject have been found in various paper works and in specialized books. We mention here the doctoral thesis of Elena Teodorescu Georgescu "The evaluation pattern of credit institutions' prudential surveillance efficacy", the author of this work David Delia, with the work "Contributions regarding the improvement of the banking accountancy dealing with credits granted to non-financial clients" and so on. An outstanding attention payed to this subject was the one of the governor of the National Bank of Romania, Mugur Isarescu, who issued a series of articles and books on this subject. Also, Silviu Cerna, Aurelian Paul Berea, Vasile Dedu, Nicolae Danila approached in their books the problem regarding the evolution of the Romanian banking system. The National Bank of Romania offers to its users, information regarding the evolution of the banking industry through the Reports of Financial Stability and The Annual Report. The results of the research and the general conclusions regarding the concern on the evolution of the Romanian banking system are presented at the end of the work.

Key words: commercial banks, banking reform, The National Bank of Romania, development perspectives

JEL Classifications : G01,G21, G28

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1.Introduction

The transformations suffered by the Romanian banking system until the present time represent the result of profound reforms which had as purpose to comply to the EU norms. The reform of the banking system started actually in December 1990 (Dedu , 2003: 12) focusing the commercial banking operations of the National Bank of Romania into a new founded bank, named The Romanian Commercial Bank. The transition of the mono-bank system complied by the NBR and four specialized banks(the Romanian Bank of Exterior Commerce, The Bank for Agriculture and Food industry, The Bank of Investments, Savings and Checks), to a system structured on two levels: The Central Bank and the Commercial Banks founded as joint stock companies, with the right to perform a large number of operations, with the condition of respecting the requirements established by the National Bank of Romania in the regulatory fields and the surveillance ones. The stages of evolution of the Romanian banking system can be summarized as it follows:

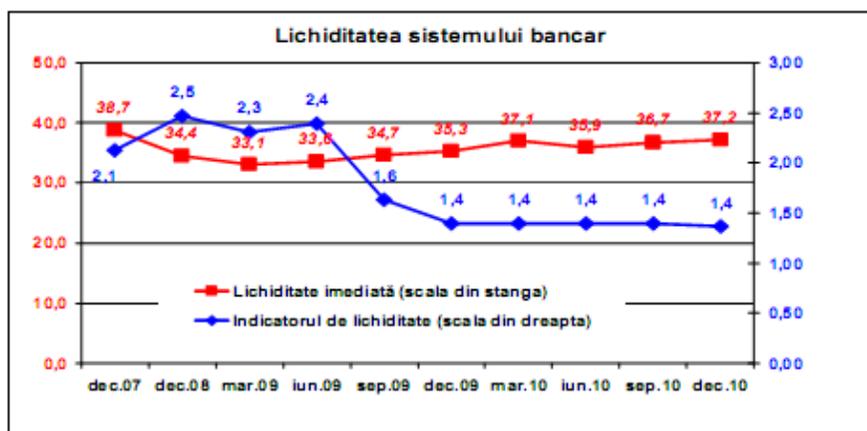
First of all, it's the period between 1990 and 1997, when the foundations of the two-level system were laid in accordance with the specificity of the market economy characteristics. At that time, three important laws were issued: the Banking Act, the Act on the Central bank's status and by the end of the period, it was the Law on the privatization of the banks in which the State is a shareholder. In the second stage, after 1997 the central bank acted to improve its banking laws in harmony with European standards. Also, it initiated a process of improving and strengthening the banking system. This was an essential process needed indeed after the serious problems which existed during 1998-1999, when economic recession hit the banking system weak links. The third step can be assimilated into the European Union integration and it reveals the impact it had on the banking sector. The forth period is represented by the influence of the financial crisis on the Romanian banking system. We aim at presenting in synthesis these aspects and to emphasize the development perspectives of the Romanian banking system.

2.The reform of the Romanian banking system

According to the opinions expressed in the specialized literature, both in country and abroad (Corriga, 1982:24), the role of the banks is if not unique, at least a special one, in comparison with other economic agents from the banking industry, the financial development assuring, at last, the necessary structure for the market economy. The transition of Romania, to the market economy, in 1990, generated important changes of the banking industry, these having a significant impact on all the other fields of activity. Until 1997, in terms of the structure of assets, the banking system is characterized by a pronounced focus on the four main state banks - Agricultural Bank, the Romanian Commercial Bank , the Romanian Bank for Foreign Trade (Bancorex) and the Romanian Bank for Development (BRD). This has been a tendency to blur, however, due to the emergence of new private banks. Thus, as a percentage of total assets at a system level, the balance of the four banks decreased from 83 percent in 1991 to 62 percent in 1998. Another feature of the banking system during 1990-1997 has been maintaining a high degree of segmentation - reflected by a priority guidance of the state banks to finance the public sector, of the ones with Romanian private equity, to finance domestic private economic agents while foreign banks worked mainly with large foreign companies which were present in our country. The reform moved on and the transformations were consistent. In order to ensure a healthy economic base of the banking system and its functioning on a competitive basis, the Central Bank adopted a policy of cautious approval, which was a favorable setting to a relatively small number of banks. Even though these banks weren't many, they were strong, with solid capital. The general enthusiasm towards establishing new banks should be taken into consideration when assessing accurately the position of the Romanian National Bank in the issue (a phenomenon recorded in other post-communist countries), and on the other hand, the insufficient knowledge of the risks of the banking industry within Romanian societies. In the

90's, the experience has shown that, apart from the existence of an adequate framework for prudential regulation and supervision, the health of the banking system requires mainly the proper functioning of the economy in general. Structural failures, recorded in the real sector of the economy - especially the high degree of indebtedness to state of a large number of enterprises and service providers and the decline of 1997-1999 period were reflected in the quality impairment of the banks' loan portfolio, especially of those banks of large exposure. The cases of the Agricultural Bank, the Bancorex Bank and the Column Bank became notorious-like. The solution to protect banks from such influences and to ensure sound corporate governance was provided by privatization. Although through the stand-by agreement for the period 1994-1995, the Romanian authorities have already pledged to the IMF to privatize the two companies with majority state-owned bank within a year, actual results have only appeared a few years later. The stagnation of the privatization process had as reason the interests previously mentioned. Since 1997, when this orientation was given up, the economic has led to substantial changes in the banking system. In the second stage, after 1997 the Central Bank acted to improve banking legislation and to align to the European standards. At this stage, the deed directions were influenced by two major moments: the banking crisis during the years 1998-1999 and the invitation of Romania in Helsinki (December 1999) to start EU accession negotiations. It initiated a process of strengthening and improving the banking system. This was absolutely necessary because of serious problems in the years 1998-1999, when economic recession hit the weak links in the banking system seriously. The main threat to the viability of a banking system was, at the time of 1998, the failure of large banks, the state capital (Bancorex and Agricultural Bank). In 1999, the National Agency for Bank Asset Recovery (AVAB) was founded and it took over the bad loans from these banks and off-balance sheet assets from the same category in order to successfully carry out the restructuring process. The improvement procedures on the banking system led finally to the elimination of nonviable entities, getting in time to a correct assumption of the intermediation function. Since the restructuring of the banking system outran, the restructuring of the real economy and banks, in a first stage (2000 - 2002) have adopted a reserved attitude towards lending to the economy which has drawn complaints from the authorities and the public. The Central Bank intervened in this situation trying to explain that the prudential attitude they have shown is due to the large volume of bad loans accumulated by 1998. Subsequently, the lending activity has evolved both qualitatively and quantitatively. The restructuring activity, which has as purpose to clean up the banking system, was based on the banking supervision function and it was conducted from various points of view: legal regulatory, organizational and from the point of view of the efficiency in checking and sanctioning banks. Despite all this, banks remained the most important financial mediators. In the late 2000's, the Romanian banking system held more than 90% of total assets of domestic financial system. After BRD, Bancpost, the Agricultural Bank and the Commercial Bank of Romania have been successfully privatized by the taking over of the majority shareholding by foreign financial institutions with enhanced reputation, the foreign capital has become dominant in the Romanian banking market. Romania thus falls under the globalization trend although, in this case, "regionalization" would be a more correct term to use because the foreign capital currently in the Romanian banking market comes from European Union countries. From this perspective we can say that we are more integrated than other countries such as Sweden, Ireland, where more than 50% of the banking system is national property. European financial market trends begin to make their presence felt on the national banking market. Also, it is very important the fact that once with the accession to the EU and the market liberalization, a number of 207 foreign institutions have notified their intention to provide and conduct banking business in Romania. The percentage of assets held by banks with majority private capital in the Romanian banking system in the total assets at the end of 2009, 92.7%, while banks with majority state owned or held a share of only 7.3%. After the accession to the EU, the link with modern banking practices

provided by the banks with foreign capital together with the increasing customer requirement led to rapid uptake and development of services involving advanced technology. Due to technical progresses, Romania has been able to overcome relatively quickly the period of checks and paper-based instruments and to subscribe to the phase of the electronically processed tools, phase that took decades to other countries. The influence of the process of regionalization is the trend of innovation shown by local banks, reflected in the continued diversification of product range offered to customers, either by opening branches with a distinct profile (insurance, brokerage, leasing), or by providing new products (credit property, credit for vacations, etc..). At the moment, we notice that banks perform very complex activities and this is the reason why the management of the risk tends to perform “crossover” both in the type of the transactions and in the stored portfolio and the credits managed by the bank. This approach of the risks is familiar for both the banks which perform activities at a national level and the banks which perform activities internationally (Breban, 2006:23). The global economic and financial crisis, manifested intensively in 2009 represented the main negative context in which both the real and the financial sectors operated, in Romania. Due to stable levels of liquidity and solvency indicator, the banking sector has absorbed these shocks better, but the financial performance was much reduced and the risk of growth of bad loans was emphasized. The changes arose in 2009 in the field of the prudential regulatory background, had as goal not only to sort out the immediate effects of the crisis but also to assure long-term stability for the financial system. Therefore, The National Bank changed the manner through which it calculates the liquidity indicator. The methodology issued by the Norma NBR nr. 7/ 2009 determines for 31st of December, 2012 a decrease of the liquidity indicator. This is calculated as a report between the effective liquidity and the necessary liquidity, which records the value of 1,38 in comparison with the level of 2,47, corresponding to the year 2008, superior to the minimal limit(1)., trend influenced mostly by the new methodology of calculation.



Source: NBR

At the end of June, 2011, according to the Report of Stability published by NBR, the liquidity indicators reveal appropriate values. Hence, the liquidity indicator calculated in accordance with the actual regulations had the level of 1,37 being superior to the minimum value of 1. As far as the immediate liquidity is concerned, its value is 36,6% in decrease in comparison with the one existent in December, 2010, when it was of 0,6%. In analytic purpose, the National Bank uses the leverage effect as a measure of the degree in which the resources of the credit institutions finance the banking activity. According to capital requirements Basel III, the indicator was included in the prudential regulatory framework, being applicable at a community level. The analysis of this indicator on groups of banks depending on the criteria of the held assets' size reveals the following: the maintenance of a lower auto-finance degree in the case of large banks(7,1% in

June, 2011); equalization in the case of average and small banks (approximately 10% during the current year).

The evolution of the indicator was influenced among others even by the increase of proper funds of level 1 and the restraint of the volume of the banking assets in the case of many banks from the system because of keeping unsure conditions in the analyzed period. As far as the tendency of globalization is concerned, even though the term of regionalization would be more adequate as the foreign capital existent at the moment on the Romanian banking market comes from countries found in the EU, we can state that we are more integrated than other countries, the foreign shareholding within the structure of the Romanian credit institutions was of 76,9%, at 31.12.2010. In conditions of risk and incertitude manifested abroad, the following conclusions can be reached: in Romania the financial stability remained robust and the levels of capitalization, provisioning and liquidity were maintained at adequate levels by the exclusive effort of the banks. The testing to stress indicates resistance on the behalf of the credit institutions to important economic and financial shocks.

3. Discussions

Looking ahead, the development of the Romanian banking system has some predictable ways and others in which developments may be less reliable. In the category of predictable falls the significant reduction of the bank intermediation costs. First of all, I refer to the reduction of the cost for transfer payments, once with the introduction of the Electronic Payment System (EPS) in order to get an approach of these costs to the level of costs in the European Union. As far as the cost of the large payments is concerned,, it will cut several times per unit of payment. Another measure is related to the obligatory minimal reserves in lei. The fight against inflation had to be led through diverse instruments, which the NBR had to use at a full extent, but with high unavoidable costs, generally for financial consulting, especially for crediting the national currency. The reduction of reserve requirements is a process that has already been initiated, it will continue in the next period and it will result in both cost savings and commercial banks to avoid a dangerous mismatch between main savings in lei and the majority credit still in currency. Within the category of evolutions less certain is the number of banks that will be operating in Romania during 2012-2015. There are contradictory views regarding this issue. On one hand, they say the number of banks will be reduce and this is supported by the argument that, at the moment, half of the existing banks in Romania, have less than 10 percent of assets. It is obvious that something needs to happen here. They will either increase their market share or merge or be acquired. It is less certain that this will reduce the number of banks, as it happened in 2004, there may be new categories of banks (banks specialized in house acquisitions, car purchases). On the other hand, those who believe that banks will not decrease the number come with the argument that the degree of financial intermediation (number of inhabitants per one unit banking) is still small. For example, in Switzerland, there is a bank to 1500 people. This argument is not sufficient because the number of banks may fall, but their territorial network (branches, agencies) can expand strongly. As for the number of banks in Romania, during 2012-2014 (when the euro will be adopted), this will be the result of complex processes in which, not least, the competition among banks as well as the major policy market players will play an important role on the development of regional networks and their credit profile. In the future, quality of service offered by the Romanian banking system will be more important than the number of banks. As far as the next period is concerned, the NBR has as main objective the stability of the prices respectively the reduction of the inflation at a comparable level with the EU member status of the European System of Central Banks. In order to assure a discount of the inflation while maintaining the sustained economic growth, the NBR experts, diverse specialists and independent analysts calculated that the Romanian economy can maintain the accelerated growth in the conditions of the decrease of an inflational pressure, even with a current account deficit of 8-10% from the

PIB. (Dumiter, 2011). Both in present and in the previous periods, the NBR policy assured an appropriate level of the inflation rate, as this is at the moment at a level of 2,59% in comparison with 3%, the estimated level. Another important objective of Romania is to adopt the euro currency. In accordance with the NBR's governor Mugur Isarescu, as far as the economic situation of Romania and the role that the banking system has in the economic development of the country are concerned, the authorities established as strategic purpose of economic politics to achieve an economic long-term increase through which to "recover rapidly the disparities of socio-economic development in comparison with the UE", one of the goals being to fulfill those conditions which allow the adoption of the euro as national currency in 2014. This is one objective which can be achieved with the condition to adopt and maintain a coherent mix of economic policies, capable to support both the nominal convergence and the real convergence with the countries in the Euro Zone. Reaching nominal levels and framing into the convergence criteria established by the Maastricht Treaty (the stability of the course, low inflation, interest rates similar to the ones of the countries from the Euro Zone, moderate budget deficit and the balances of the public duty) represent at the moment objectives difficult to be reached in the context of the economic crisis which has already affected the Romania economy. Also, the year 2014 shall be discussed about, even in the situation in which the levels stipulated by the Maastricht Treaty, it is possible to resize, as a consequence of the crisis.

4. Conclusions:

In order for the Romanian Banking System to be functional and to contribute to the development of the economy as a whole, we have to take into consideration the following aspects:

- Supervising the financial stability in order to: enhance the capacity of efficient allocation of the resources, the absorption of possible shocks on the real economy;
- The growth of the banking system's administrative capacity which will assure the main objective of this one of assuring the stability of the prices;
- Qualitative study of the surveillance process through: the adaptation of the NBR's regulations to the risk profile specific to each credit institution, giving a greater importance of the role that the management of the institutions has it in managing the bank's risks;
- Managing the contagion risk which manifested due to the evolution of international markets as a consequence of the supreme debt crisis;
- Improving the quality of the banking assets;
- The balance of the on coins structure of the crediting;
- The perspectives of the banking industry and of the national financial system depend mostly on the remaking the trust, on the success of a sustainable release of the economy and not at last on the international evolutions.

5. Acknowledgments

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THE IMPACT OF THE FINANCIAL CRISIS ON THE EUROPEAN BANKS

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The fast innovations existent on financial markets and the internationalization of cash-flows in the last decade led to changes within the banking industry making it unrecognised. The financial innovation within the banking industry, especially the one regarding the off-balance-sheet instruments has effects as the risk focus and the increase of volatility within the entire banking industry. As it is proved by the economic crisis, the financial stability plays an important role within the financial system as well as within the economy as a whole. At the moment, as the number of active financial institutions is getting higher and higher in one or more countries or on one or more continents, the financial stability at a worldwide level became even more important. The objective of this work is to emphasize the way in which the European banks were affected once with the global financial crisis. The economic crisis was triggered by the bankruptcy of the Lehman Brothers ' Investment Bank, in the autumn of 2008 and its effects were felt at the level of the European financial markets, a series of cross-border groups claiming interventions of the state in order for them to be saved. The intensity of the crisis was felt and it affected many states, the impact of these ones being influenced by a series of specific factors which outlined the situation of their financial system, at the moment of the crisis release. At the level of the European Union, a series of measures have been established in order to extinguish the identified dysfunctions at a financial field level, among which we mention: the improvement of the surveillance framework of those financial institutions having cross-border activity, the expansion of the communication and cooperation among the EU surveillance authorities and the ones outside the Union, etc. The conclusions of the study of this paper work in regards to the activity of the main European banks, especially to the ones from Western Europe, is the fact that during the crisis period, they intensified their cross-border activities and increased their incomes. The increase of incomes was generated by both the fast efficient measures taken by the state and the volatility of the emergent markets. All these aspects were detailed in the content of this paper work. As far as this work is concerned, the method used here consist in a deductive-type research, which means that the starting point is represented by general facts in order to get to particular ones, starting from a theory that has as purpose the application of that certain prediction, assuring a wider knowledge area and being more operational. The selection of the pieces of information was done through different methods, as are the quantitative and the qualitative research types. The pieces of information presented here were picked up from different sources, as published articles and specialized books, all being from the financial field.

Keywords: financial crisis, European banks, cross-border activity, the analysis of the indicators, banking activity

JEL Classifications : G01, G21, G28

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1.Introduction

The actual economic crisis took place at two distinct levels: one characterized by tumults and their limited spread, between 2007 and the 15th of September, 2008, and the subsequent period characterized by a complete failure regarding the reliability on the financial system, fact which contributed to a global propagation of the crisis. The first phase arose when the average correction of the prices of the USA's Real Estate generated a slight increase of the delinquency regarding the mortgage and at the same time it generated the bankruptcy of the financial institutions which held toxic and complex financial instruments, based on "sub-prime" mortgages. The autumn of 2008 brought itself the increase of crisis' propagation velocity as well as a sequence of the financial institution's bankruptcies, a notable one being the bankruptcy of the Lehman Brothers' investment bank. This marked a turning point where financial tumults started a year earlier transformed into the most severe crisis recorded since the one from 1933. Its effects hit European financial markets, a series of cross-border banking groups claiming interventions of the state in order to be saved. As a result of this, at the UE level, it was necessary to adopt a focused action plan, having as main elements: to facilitate funding for banks by different means; injecting extra capital into the financial institutions; recapitalization of the problematic banks, etc. At the same time, this established common rules which the central banks and their governments were supposed to promote within the context of accessing packages of anti-crisis measures, so that, the demarches adopted at a national level don't induce side effects within the functioning of the Unique Market and of the other member states. In the context of this reality (Georgescu, 2010: 35), it was configured the perception of the banking industry in regards to the risks that this confronts with).The magnitude of the crisis was felt and it affected states differently, the impact on these being influenced by a series of specific factors which outlined the situation of the financial system, at the moment of the crisis release. According to the specialized literature (Schildbach , 2010:67), we can talk about the existence of three categories of states whose financial systems were strongly affected by the global financial crisis:

- States as the USA, the UK, and Ireland, in which banks confronted with a drastic cut within the balance sheet asset value as a result of the diminishment of the collateral and of losses in the granted credits before 2007.
- States as Belgium, Holland, Switzerland and Island, in which the local market was insufficient for the ambition of the financial institutions, which, in consequence built great exposures in products which have been previously structured in other jurisdictions.
- The case of Germany, in which a significant percentage from the banking industry didn't have sustainable business patterns and sufficiently productive, at which is added the employment of banks as "Landesbanks" in transactions with substitutes to credit (example: purchasing secured credits instead of direct crediting).

The banking system of the market economy represents all the banks which perform in a period of time being an interconnected assembly of autonomous banks, authorized and specialized in the circulation of the capital available for lending and they have as target of their activity to achieve profit. (Bercean et all, 2004:73). Unfortunately, as a reason of a tough competition, some of the bankers and some banks tend not to take into consideration the risks which they expose to and the main question regarding risks ("Which is the payment capacity of this client?") isn't asked any longer and it shows up the probability of losing enormously much.(The banks which succeeded in controlling the risks which they are exposed to, reached the conclusion that this process is in tight correlation with their profitability. In order to get higher incomes, a bank needs to assume higher risks, to increase its exposure towards risk and to diminish the operational costs (which leads to increase risks) (Breban , 2006 :23). The losses existent in the banking industry were borne initially by the profit of the banks without being converted to costs borne by the public sector. The profitability of the banks deteriorates fast in case of a systemic crisis governments' need of fiscal support, in order to restructure the financial sector which was strongly affected.

Even though there are still debates on the contribution of the crisis to the first recession of the global economy after World War II and on the increase of the budget deficits respectively of the public debts, it is still unquestionable the fact that this had a determinant role. In a surprising manner, the economic crisis released in 2007 ended up being ‘the cheapest’, at least in relative terms. The fiscal costs attributed to the financial crisis until 2009 represented, on average, 5% of the PIB, in comparison with 15% in the case of the previous crisis. The adopted politics with the purpose of supporting the good assets and maintaining losses at a low level, as well as high value and the high speed of the private recapitalization, did so that the public recapitalization to take place at a moment when the banking solvability was much stronger than in the case of the previous crisis. The total value of the capitalization from public sources (Claessens et al, 2011:53) got to be of 441 milliards of USD, from which 245 milliards of USD in the USA, within TARP (the Trouble Asset Relief Program) and 196 milliards of USD in the UE, which, at an average of only 5% from PIB of these, represent approximately one third from the amount involved in the previous crisis (the Nordic crisis: Finland, Norway and Sweden(all in 1991); the crisis from Latin America: Brazil (1994), Mexico(1994) and Jamaica(1996); The Asian crisis: Indonesia, Japan, Korea, Malaysia and Thailand (all in 1997); the crisis of the emergent markets: Columbia(1998), Ecuador(1998), Russia(1998), Turkey(2000), Argentina(2001) and Uruguay (2002). Even though the crisis was released in the USA, it propagated rapidly hitting most of the worldwide economy, respectively the UE. The typology of the most important causes which contributed to the release of the economic crisis can be grouped as it follows:

1) Basic deficiencies of the regulatory framework. As the framework for prudential regulation existent at the moment when the crisis was released didn't succeed to assure solidity and the health of the credit institutions at a level which doesn't put in danger the financial stability of the system, it was necessary to go for the Program of Reform, in which qualified authorities were involved, its main purpose being to create a regulatory framework which allows the financial system and the banking one to act as a stabilizing force of the real economy. Important elements were put in, among which we mention the following (Georgescu, 2009: 25) :

- Inappropriate macro-prudential surveillance;
- Inefficient early warning mechanisms;
- Minuses related to surveillance practices at a cross-border level;
- Insufficient cooperation and the lack of trust among supervisors;

2) Dysfunctions within the cooperation mechanisms. The existence of significant deficiencies in the cooperation field was revealed, of coherent application of the Union Law and of trust among the surveillance authorities. The system of cooperation between the surveillance authorities, existent at the moment of the crisis release whose competences were limited at an individual level, nationally it was proved that they were inefficient.

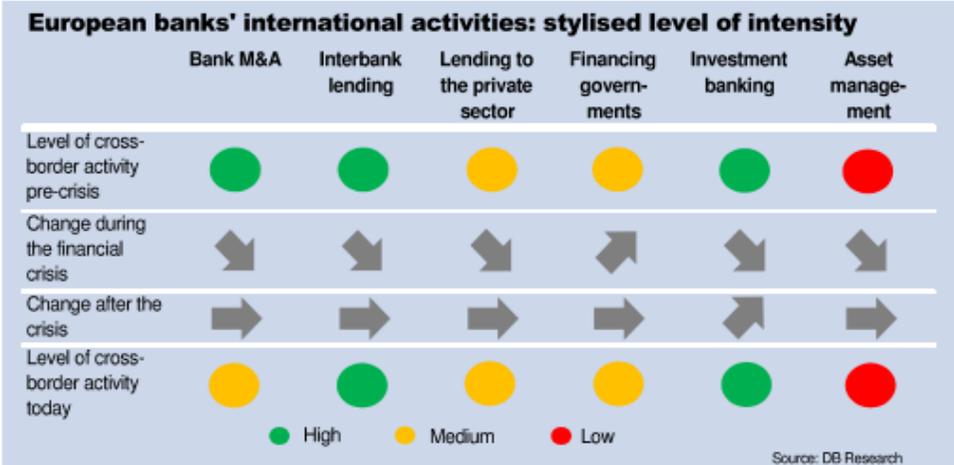
Taking into consideration the deficiencies identified above, measures waiting to be taken were outlined in order to eliminate dysfunctions regarding the improvement of the achievement framework of the cooperation between these, in both normal conditions for performing the activity as well as for a crisis situation. Among such measures, we remind the following:

- The improvement of the surveillance framework of the financial institutions which work at a cross-border level;
- The assurance of convergence in the prevention field, managing and sorting out crisis situations; the improvement of the well functioning of the surveillance authorities' network by the delegation of tasks and responsibilities;
- The expansion of dialog and of cooperation between the EU surveillance authorities with the ones out of the EU; the increase of the responsibilities belonging to the EU surveillance authorities in managing coordinates of the crises, as well as in the maintenance process for the financial stability in crisis situations.

The globalization of the financial markets and of nations within a global economy will lead to even a bigger economic interdependence; in this situation it would be inappropriate for the institutional and political agreements not to be exposed to changes in order to accommodate to power and of the different preference of the entities existent on financial markets. (Dumiter, 2011:12). We aim at emphasizing the impact suffered by European banks as a consequence of the global crisis' release in 2007.

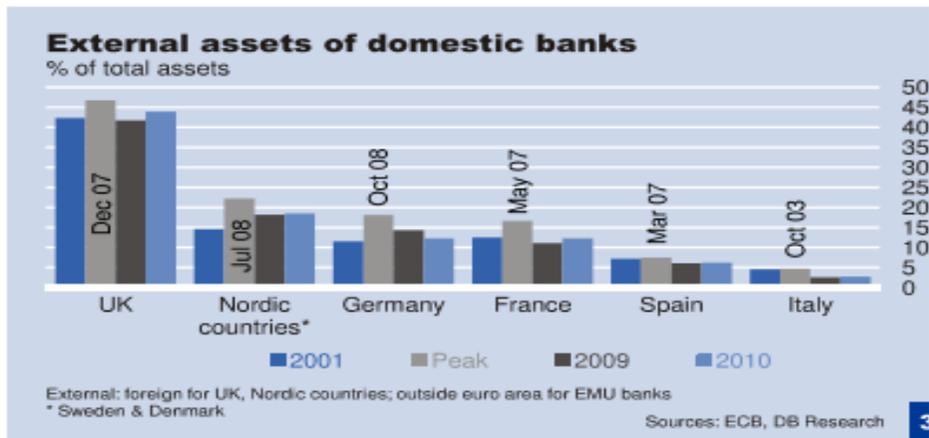
2. The effect of the global financial crisis on European Banks

At the moment of the economic crisis' release, the European Banks had already manifested the tendency for internationalization of their activity, the level of this one showing an insignificant variation between countries. It is worthy of remark the fact that the influences on foreign investments had also an important impact on the development of the Romanian economy. According to a study made in June, 2011 by Deutsche Bank, the degrees of evolution regarding the activity of the banks existent in Top 20 European Banks before the moment of the crisis release and until present time are outlined in the following table:



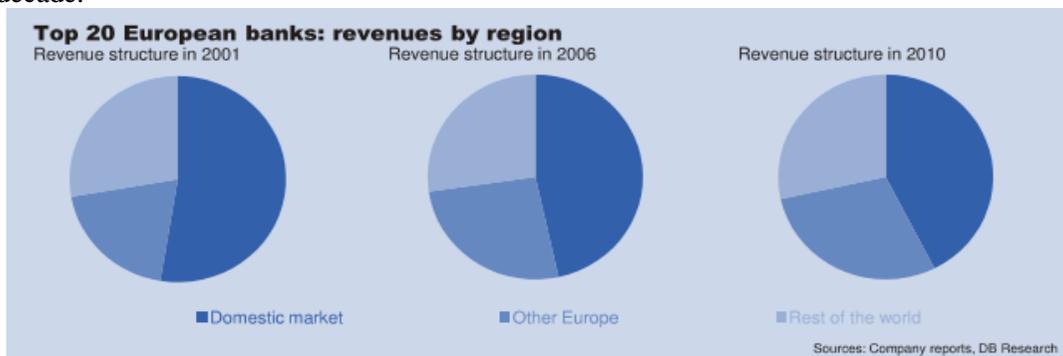
Source : Schildbach, Jan "Home, sweet home? International banking after the crisis," Deutsche Bank Research, June 2011

Even though during the economic crisis the activity of the banks suffered, at the moment it recovered as the level of the cross-border investments having high rates. The same study reveals that the majority of the European banking institutions reached the maximum degree of exposure on the external market between 2007, respectively 2008. This low level went down substantially having a stable value in 2010. Despite this, the evolution of the cross-border activity belonging to European banks proved not to be everywhere the same. According to the graphic presented below, certain countries reached the maximum level of exposure in a previous level, reactive in 2003. The share of the external assets in the total assets for the banks found in Top 20 European Banks is presented in the table below:



Source : Schildbach, Jan "Home, sweet home? International banking after the crisis," Deutsche Bank Research, June 2011

This situation is the result of the following: the expansion of the cross-border activity, the purchase of foreign banks and also non-profitable investments in securities guaranteed by the USA's subprime mortgage credits. In 2008, the external claims of the European banks suffered a decrease while the banking sectors left behind fighting with the crisis (the case of the Irish and German banks) continued their stabilization process. At the moment, the banks found in top 20 European Banks reported a significant increase of the incomes obtained by performing cross-border activities, especially of the ones done in European countries. These incomes recorded values never recorded before not only for the activities performed in European countries, but also internally. These incomes recorded internally surpassed with almost 30% the course of the last decade.



Source : Schildbach, Jan "Home, sweet home? International banking after the crisis," Deutsche Bank Research, June 2011

The question in such a situation is: which are the factors that determined the increase of incomes? Mainly, it was about the stabilization of the financial markets which took place earlier than it was estimated due to the massive and rapid intervention of the state, short periods of recession by adopting appropriate fiscal measures by the developed countries, the volatility of the emergent markets whose phenomenal increase rate attracted again the banks from Western Europe.

The tendencies of the European banks for intensifying their cross-border activity depend on the following aspects:

- The longer the huge differences between the industrialized states and the emergent ones will idle, the more irresistible will become the need to get a consolidation of the position in regions

with high increase. The Western European banks will continue to expand their operations in Asia and Latin America;

-The regulatory measures imposed by the Central Banks of the countries;

-Fiscal regulations showed up after the financial crisis show up in Europe and in the entire world. In case the measures imposed by the regulatory authorities prove to be too tough for banks and that it forces them to take back their loan policy (increase) this could lead to a discrimination of the foreign creditors. Confronted with the situation of choosing between activating abroad and submitting to a long term partnership risking to devolve its image, a bank would go for the first alternative. It will depend on politicians and other factors of decision in which new regulations will impede a future cross-border integration of the financial markets;

-In the countries with emergent economy, the entire concept for opening the internal market for foreign financial institutions could be questionable in case the authorities of these foreign countries will use the financial crisis as an argument to block the access of the Western European Banks.

The Western banks had a stabilizing effect on Central Europe and the Eastern Europe and most probably will continue to invest and to expand abroad, especially on emergent markets. Anyway, there will be a higher risk degree because of the dependence of the banking system way of working, of the adopted measures and policies. Despite these aspects, there's no way to go back for the banks and that's because these, resembling other industries which preceded them, underline their certain tendency to become a truly international sector, respectively a global one. Another problem could be the measure in which the European banks are affected by a potential bankruptcy of Greece. The new president of Bundesbank, Jens Weidmann thinks that "the euro could surpass without problem a possible bankruptcy of Greece" and it refers to the fact that Greek banks have high market rates only in Romania and Bulgaria. We can deduce from this assertion that due to the weak presence of the Greek banks on the banking market of the other European states, the impact could be a minor one. Even though there are Western banks which have exposure on Greece, the biggest part of the Greek crisis stopped to the doors of the Euro area where the Greek banks have the highest rates.

3. Conclusions:

As we can notice from the analysis done above, the European banks, especially the ones from Western Europe recorded increases in incomes from the activity performed during economic crisis, which were obtained as a result of the intensification of the cross-border activity. The reasons of this increase are on one side fast measures and on the other side efficient on the behalf of the state and the volatility of the emergent markets. This volatility allowed banks to have earnings as a consequence of the speculative operations which were performed. Also, the surveillance authorities, at the level of the European Union, regarding the activities from the financial market, adopted a series of measures regarding the improvement of the legislative framework for the banks which perform cross-border activities, as well as the expansion of the communication and cooperation between the EU surveillance authorities with the ones outside the union. The improvement of the legislative framework but also the expansion of the communication between the EU surveillance authorities and the ones outside the union represents important elements when assuring financial stability at the level of the European banking industry.

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COMMERCIAL INDICATORS USED IN THE RELATIONSHIP OF THE SHOPPING MALL MANAGEMENT AND RETAIL TENANTS MANAGEMENT

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The shopping malls intended for retail commerce have at the base a complex dynamic, a tridimensional character, which includes as main parties the owners, the tenants and the consumers, who have to become constant clients of the tenants' shops in order the process to function. The complexity mark results from the additional requirements related to the presence of the appropriate variety of tenants (or shopkeepers), who can attract in an efective way enough consumers in order to sustain the business plan.

The retail dynamic imposes the cooperation between the owner and the shopkeeper, in order to achieve success, with the third party, the consumers. Usually, the shopping mall management is formed for satisfying the demands stated by the third party.

From a broader perspective, the paper proposes to offer solutions for the researchers and the organizations involved in a segment very well delimited from the retail field, respectively shopping malls.

The paper has a practical character because wants to offer argumentatively economical explanations in order to take decisions by the people who represent the shopkeepers from the shopping malls. Exactly, the paper has as main objectives offering the solutions for shopkeepers when they determine the measure of the trader's markups, of the rebates and discounts or the stocks volume.

The research has as support general economical indicators (trader's markups, stocks rotation) and indicators specific to retail management (the start-up margin, the constant margin, the gross margin, the percentage rebate etc.).

The problems related to the trader's markups, the rebates, the discounts, the volume and the stocks rotation which the tenants of a shopping mall have to confront need to be known not only by them, but also by the manager of that shopping mall.

The manager of the shopping mall has to understand aspects related to the stocks rotation, but also those related to the level of the trader's markups for each products category. This knowledge will help the manager to evaluate the business of the shopkeepers and their ability to afford a certain place, of a particular size in the shopping mall.

It's useful for the manager of the shopping mall to know the stock rotation for different kinds of retail goods. He can obtain this useful information by talking with his tenants who sell different goods, looking into the shopkeeper's trade records and reading speciality reports.

Key words: Shopping mall, tenant, management

JEL Codes: (M31-marketing; M39-Others)

Research Methodology

The methodology used in research is supported by two categories of indicators, namely:

- General economic indicators (gross margin, the speed of stock rotation);
- Specific indicators in retail management (start-up margin, constant margin, gross margin, percentage rebate etc).

Objectives of this Paper

This paper has a practical nature because it has proposed to offer economically argued reasons to support decision-making by those representing retailers placed in shopping centers. Concretely, this paper has as main objective providing solutions for retailers

when determining the size of the gross margin, the rebates and the price discounts or the stock volume.

Research Results

The shopping malls intended for retail commerce have at base a complex dynamic, a tridimensional character, which includes as main parties the owners, the tenants and the consumers, who have to become constant clients of the tenants' shops in order the process to function. The complexity mark results from the additional requirements related to the presence of the appropriate variety of tenants (or shopkeepers), who can attract in an efective way enough consumers in order to sustain the business plan (Shopping Center Marketing, 2001).

The retail dynamic imposes the cooperation of the owner and the shopkeeper, in order to achieve success, with the third party, the consumers. Usually, the shopping mall management is formed to satisfy the demands stated by the third party (Prada S., 2005).

1. Commercial mathematics at the retailer's level

A. The Gross Margin

The gross margin is the difference between the retailer's selling price for goods and the cost of the goods. The margin can be directly expressed in monetary units or in percentages (Dictionary of retailing, 1995). It will be calculated as follows:

$$\text{Selling Price (SP)} = \text{Gross margin (GM)} + \text{Price of cost (PC)}$$

$$\text{Gross Margin} = \text{Selling price} - \text{Price of cost}$$

$$\text{Price of Cost} = \text{Selling price} - \text{Gross margin}$$

When the margin is determined as a percentage, it can be expressed as a percentage of the retail price or of the price of cost. Almost all retailers express the margin percentage based on retail prices. The form of the equation is:

$$\text{GM\% for the selling price} = (\text{SP} - \text{PC}) / \text{SP} \times 100$$

The manager of a property must understand both the issues of stock rotation and the gross margin level for each category of products. This knowledge will help the manager to assess the business of the traders and their possibility to afford a certain space, of a certain size in the shopping mall.

The owners of small shops often struggle to compete with big retailers that can have lower margins due to a larger volume of business and to the lower prices they pay suppliers, over which the apply pressure. However, the trader who starts its activity by applying a too small margin, of 30% for example (based on price) and not of 50%, might fail to deal with costs.

Low prices may beat the competition, but other costs, such as discounts, advertising or scraps, will put the owner in financial difficulty.

My opinion is that if unable to compete with large shops through prices, small owners must focus on the quality of their services and must quickly respond to market requirements.

A1. The Start-Up Margin

The gross margin is affected by reductions, such as discounts for employees, lack of stock and discounts lower as the normal price, and the costs of reductions and cash discounts. Increasing the initial addition concerns all these factors as well as the operating costs and the desired net profit. It is the first increase of the addition made to an item and it is used to calculate the initial selling price at which the merchandise would be sold. The form of the equation is (Dollars and Cents of Shopping Centers, 1995):

$$\text{Start-up Margin (SM)} = (\text{Operating costs} + \text{net profit} + \text{change costs} + \text{price reductions} - \text{cash discounts}) / \text{net sales.}$$

A2. The Constant Margin

This represents the difference between the net sales and the gross costs of the sold merchandise through net sales:

$$\begin{aligned} \text{Constant Margin (CM)\%} &= \text{SM\%} * (100\% + \text{reductions\%}) - \text{reductions\%} \\ \text{Constant Margin (CM)\% (Ai)\%} & * (\text{net sales} + \text{reductions}) - \text{reductions} \end{aligned}$$

A3. Price Reduction

In determining the percentage of reduction in price that a retailer can get in order to achieve a gross margin, if the start-up margin was established, the retailer uses the following formula (Dollars and Cents of Shopping Centers, 1995):

$$\text{Reductions\%} = (\text{SM\%} - \text{CM\%}) / (1 - \text{SM\%})$$

A4. The Gross Profit Margin

The gross profit margin (GpM) is the final gross margin, which is obtained by the retailer from the sale of inventory merchandise. The form of the equation is (Dollars and Cents of Shopping Centers, 1995):

$$\text{GpM} = \text{CM} - (\text{change costs} + \text{cash discounts})$$

B. Commercial Rebate

Rebates for cash payments or for quick-payments of bills are the way to convince the retailer to pay promptly. Commercial rebates may be composed of the following (The SCORE-ICSC's Handbook on Shopping Center Operations, Revenues and Expenses, 1995):

- Percentage rebate;
- The period of time when the rebate is applied;
- The net period that establishes the date when the entire amount of the bill has to be paid.

The dating can be calculated based on three time-elements (ICSC Keys to Shopping Center Management Series. Retail Activities, 1996):

➤ Mentioning the billing date (BD): BD indicates not only the discount period for downpayment of the bill, but also the due date for the entire amount of the bill starting with the first day after the billing date.

➤ The date of the receipt of goods (ROG): ROG indicates the fact that the discount period for the downpayment of the bill and the due date of the entire amount of the bill starts the day of the receipt of goods.

➤ End of the month dating (EMD): EMD shows the fact that the discount period for the downpayment of the bill and the due date of the entire amount of the bill starts on the 1st of the next month. If the bill is dated after the 25th of the month, the discount period begins on the 1st of the next month.

C. Price Reduction of Retailers

One of the most difficult decisions a trader has to make refers to the price reduction of the goods he/she would like to sell. Obviously, when the dealer has purchased the goods he/she was convinced that customers would buy them and even if they don't sell, he/she wouldn't believe that things are any other way (Prada S., 2005).

But if he/she keeps the old, hard-selling merchandise in the store, this may harm his/her business because it immobilises capital and offers clients old, unattractive goods. If goods are not sold within a reasonable period of time (time varies depending on the nature of the goods), the operator should reduce their prices, free the cash flow and buy other goods that can be successful.

Alexander and Muhlebach believe that a systematic approach of reduction releases the pressures of price-setting, therefore it is advisable for them to be established scientifically (Alexander A., Muhlebach R., 1997).

2. The Stock Problem at the Retailer's Level

A measure of success of a trader is his/her ability to rotate his/her stocks quickly. In general, the domain experts have the opinion that a 3-4 times rotation of stocks a year is good. Very expensive goods, such as jewelry, may have a rotational speed of two times a year and yet the business can be considered a successful one (Alexander A., R. Muhlebach, 1997).

To achieve a maximum stock rotation, traders bring new goods and expose them together with their prices. If not sold, in what the dealer considers a reasonable time, he/she reduces the price to sell them quicker.

A shopping mall manager that understands the concept of stock rotation can use this information when assessing the possibility of a tenant to be successful. It is useful for the property manager to know the rotation speeds for different categories of goods in the retail trade. He may obtain such information by talking to its tenants who sell various goods, by studying the books of various traders and by reading speciality reports (The Trimestrial research magazine of ICSC, 1996).

I am convinced that, in most cases, traders are reluctant to provide financial information (results) on their business, even if it comes to the shopping mall manager. If there is no clear stipulation in the leasing contract on the obligation of providing certain financial information, the manager will find it very difficult to convince the traders to offer this information.

A. The Stock Rotation Speed

Stock turnover measures not only the balance level between the inventory and the sales of the retailer, but also the speed with which goods enter and exit in a store or a department (Irwing R., 1996).

Stock turnover is expressed in value or in quantity, in physical units (pieces) or in monetary units (lei, euro, dollars), as follows (The Retail Challenge Clip Tips, 1996):

Unitary Stock Turnover = number of units sold / the average stock for the time period in physical units

or

The Stock Turnover at Retail Price = net retail sales / the average inventory in value units

or

The Stock Turnover at Cost Levelled Prices = net cost levelled price sales / the average inventory at cost levelled prices in value units.

1. The Average Inventory

To calculate the value of the stock turnover, the monthly average inventory has to be determined. The form of the equation is (Shopping Center Study Lease, 1994):

The Average Inventory = (SBM (the value of the stock at the beginning of the month) + SEM (the value of the stock at the end of the month)) / 2

In order to find out the average inventory for a season the SBM indicators (the values at the beginning of the month) have to be added up and then divided by the number of SBM indicators of a season. The fact that a six month season has seven SBM indicators must be taken into consideration.

2. The Impact of the Stock Turnover Indicator over Sales and Results

The relationship between the stock turnover and the sales can be determined as follows: (*ICSC Keys to Shopping Center Leasing*, 1998):

The Stock Turnover = the net sales / the stock average

or

The Stock Average = net sales / the stock turnover

or

The Net Sales = the stock average * the stock turnover

The values of the number that indicates how many times the merchandise changes has a dramatic impact on overall profits. Another change can be the difference between profit and loss. Changing an additional lot can still translate into the existence of an item sold to each customer.

B. Stock Volume

The retailers' slogan "You cannot sell if you do not have goods" means in fact that a retailer cannot have sales if his/her shelves are almost always empty. A shop which reduces its stocks and has empty shelves is likely to have problems, the volume of sales dropping more than surely.

Traders buy goods generally depending on the retail selling price, which makes the comparison between sales and stocks as well as calculating amounts available for new acquisitions easier. To determine the average stock of a store within a certain period of time, the retailer adds the stock value from the beginning of period to the stock value from the end of the period, then divides the sum by two.

If the dealer can not deal with rent, the property manager should see if the stocks increase or decrease in volume and why. If the stocks rise, but sales are weak, the trader lacks of liquidities. On the other hand, sales are weak because he/she may not have enough goods - so he/she has too little to sell.

Conclusions

The issues relating to the gross margin, commercial rebates, discounts, volume and speed of stock rotation that tenants of a shopping mall are facing should be known not only by them, but also by the manager of that certain shopping mall.

The property manager must understand the issues related to stock rotation and those concerning the level of the gross margin for each category of products. This knowledge will help the manager assess the business of traders and their ability to afford a certain space, of a certain the size in the shopping mall.

It is useful for the property manager to know the rotation speeds for different categories of goods in the retail trade. He may obtain such information by talking to his/her tenants who sell various goods, by studying the books of various traders and by reading speciality reports.

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